

Consolidated Financial Statements of

**CANLAN ICE SPORTS CORP.**

Years ended December 31, 2006 and 2005



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Canlan Ice Sports Corp. as at December 31, 2006 and 2005 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Vancouver, Canada

March 1, 2007

# CANLAN ICE SPORTS CORP.

Consolidated Balance Sheets  
(Expressed in thousands of dollars)

December 31, 2006 and 2005

	2006	2005
<b>Assets</b>		
Current assets:		
Cash	\$ 4,820	\$ 1,172
Accounts receivable	1,822	1,424
Inventory	1,186	1,051
Prepaid expenses	362	513
Future income taxes (note 12)	2,140	1,950
	<u>10,330</u>	<u>6,110</u>
Properties:		
Ice rinks (note 4)	100,464	92,215
Held for ice rink development	856	856
	<u>101,320</u>	<u>93,071</u>
Other assets	553	611
	<u>\$ 112,203</u>	<u>\$ 99,792</u>

## Liabilities and Shareholders' Equity

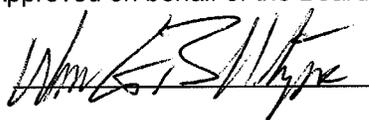
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,250	\$ 4,215
Deferred revenue and customer deposits	10,430	7,806
Current portion of:		
Obligations under capital leases	288	150
Debt on ice rinks	2,747	2,434
Preferred shares	1,000	-
Notes payable (note 8)	-	750
	<u>19,715</u>	<u>15,355</u>
Long-term liabilities:		
Obligations under capital leases (note 5)	584	277
Debt on ice rinks (note 6)	50,448	46,710
Preferred shares (note 7)	2,650	-
	<u>53,682</u>	<u>46,987</u>
	<u>73,397</u>	<u>62,342</u>
Shareholders' equity:		
Share capital (note 9)	63,109	63,109
Contributed surplus (note 10)	543	541
Deficit	(24,846)	(26,200)
	<u>38,806</u>	<u>37,450</u>
	<u>\$ 112,203</u>	<u>\$ 99,792</u>

Future operations (note 2)

Commitments and contingencies (note 11)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director



Director

# CANLAN ICE SPORTS CORP.

Consolidated Statements of Earnings and Deficit  
(Expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

	2006	2005
Revenue:		
Ice rinks (note 16)	\$ 55,231	\$ 48,768
Expenses:		
Ice rinks	43,107	37,607
Ice rinks operations	12,124	11,161
General and administration expenses	2,775	2,764
Earnings before the undernoted	9,349	8,397
Other expenses (income):		
Amortization	3,888	3,687
Interest	3,955	3,477
Loss (gain) on foreign exchange, net	358	(14)
Gain on sale of properties	(17)	-
	8,184	7,150
Earnings from continuing operations before income taxes	1,165	1,247
Income taxes (note 12):		
Current	1	184
Future (recovery)	(190)	(182)
	(189)	2
Earnings from continuing operations	1,354	1,245
Loss from discontinued operations (note 15)	-	(205)
Net earnings	1,354	1,040
Deficit, beginning of year	(26,200)	(27,240)
Deficit, end of year	\$ (24,846)	\$ (26,200)
Basic and fully diluted earnings per common share		
Earnings from continuing operations:	\$ 0.01	\$ 0.00
Earnings for the year	0.01	0.00
Weighted average common shares issued for basic and diluted earnings per share calculations	266,747,663	266,747,663

See accompanying notes to consolidated financial statements.

# CANLAN ICE SPORTS CORP.

Consolidated Statements of Cash Flows  
(Expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings	\$ 1,354	\$ 1,040
Items not involving cash:		
Stock-based compensation	2	8
Amortization	3,888	3,687
Gain on sale of properties	(17)	-
Foreign exchange loss on sale of assets	378	-
Future income taxes	(190)	(182)
Net change in non-cash working capital (note 17(a))	3,277	125
	8,692	4,678
Financing:		
Principal repayments of debt on ice rinks	(3,949)	(47,094)
Increase in debt on ice rinks	8,000	49,000
Principal repayments on obligations under capital lease	(273)	(227)
Repayment of notes payable	(750)	(4,971)
Net proceeds from issuance of preferred shares	3,650	-
	6,678	(3,292)
Investments:		
Proceeds on sale of properties	1,192	-
Expenditures on ice rink properties	(12,732)	(911)
Other assets	(182)	(478)
	(11,722)	(1,389)
Increase (decrease) in cash	3,648	(3)
Cash, beginning of year	1,172	1,175
Cash, end of year	\$ 4,820	\$ 1,172

Supplemental cash flow information (note 17(b)).

See accompanying notes to consolidated financial statements.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

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## 1. General:

Canlan Ice Sports Corp. (the Company) focuses on the acquisition, development and operation of full service ice rink facilities primarily in Canada.

## 2. Future operations:

These financial statements are prepared on the basis that the Company will continue to operate throughout its next fiscal period subsequent to December 31, 2006 as a going concern.

The Company is dependent upon the continued support of its controlling shareholder in providing seasonal financing and, ultimately, upon its ability to generate continuing profitable operations.

Management continues to review the Company's revenue generating activities and its expenditure levels to increase net cash flows. Management believes that these actions, in conjunction with the expected revenue growth and continued expansion of ice rink management and consulting activities, make the use of the going concern basis appropriate; however, it is not possible at this time to predict the outcome of these matters. If the going concern basis is not appropriate, adjustments would be necessary to the carrying amounts and/or classification of assets, liabilities and expenses in these consolidated financial statements, and the adjustments could be material.

## 3. Significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and the following subsidiaries:

P.C. Development Inc.  
Ormskirk Investments Ltd.  
Les Quatre Glaces (1994) Inc.  
Iceplex 2000 Ltd.  
Canlan Ice Sports (USA) Corp.  
Canlan Management Services Ltd.

### (b) Inventory:

Inventory consists of hockey equipment, supplies and sportswear held for sale, and food and beverage supplies. Inventory is recorded at the lower of cost, determined on a first-in first-out basis, and estimated net realizable value.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

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### 3. Significant accounting policies (continued):

(c) Long-lived assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets are tested and measured for impairment at the individual ice rink property level, the lowest level for which identifiable cash flows are largely independent.

A two-step process is used to assess the impairment of long-lived assets held for use, with the first step determining whether impairment needs to be recognized, and the second step measuring the amount of the impairment. Impairment losses are recognized when the carrying amount of long-lived assets exceeds the sum of the undiscounted cash flows expected to result from their use and eventual disposition. An impairment loss is determined as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Ice rink properties are amortized on a straight-line basis over the estimated useful lives of the respective assets, which are as follows:

Assets	Rate
Buildings	40 years
Machinery and equipment	10 years
Computers, furniture and fixtures	5 years
Ice resurfacing equipment	5 years

(d) Revenue recognition:

Revenue from ice contracts and leagues is recorded as earned. Deferred revenue represents payments received in advance for events which have not yet occurred, and services which have not yet been performed. These amounts are recorded in revenue as earned.

(e) Management contracts:

The Company's financial results include the revenue and expenses of facilities operated under management contracts where the Company's return is subject to the risks and rewards of operation. For facilities where this is not the case, the Company records only the revenue received in the form of fixed management fees.

(f) Other assets:

Included in other assets are deferred financing charges, which are amortized over the minimum term of the related debt.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

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### 3. Significant accounting policies (continued):

(g) Foreign currency:

Monetary items denominated in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date, and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in operations.

(h) Financial Instruments:

The preferred shares issued by a wholly owned subsidiary of the Company are presented in accordance with CICA Handbook section 3861 "Financial Instruments - Disclosure". As a result, the preferred shares are presented as liabilities and dividends accrued are included in interest expense.

(i) Earnings per share:

Earnings per share have been calculated using the weighted average number of common shares outstanding.

(j) Stock-based compensation plan:

Stock option plans are accounted for using the fair-value based method of accounting for stock options, with a resulting compensation expense being charged to operations and an increase to contributed surplus.

Stock appreciation rights (SARs) are settled in cash and are recognized over their vesting period and remeasured at each reporting period, until settlement, using quoted market values. SARs are accounted for as compensation expense and recorded in accounts payable and accrued liabilities.

(k) Measurement uncertainty:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported balances. In determining estimates of net recoverable amounts for its ice rinks and net realizable values for accounts receivable, inventory and other assets, management makes assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated net recoverable amounts and net realizable values may change, and the amount of the change may be material.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

### 3. Significant accounting policies (continued):

(l) Income taxes:

Incomes taxes are accounted for by the asset and liability method. Under this method, future income tax assets and liabilities are determined on temporary differences (differences between the tax basis and accounting basis of assets and liabilities) and are measured using the enacted, or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. A valuation allowance is recorded against any future income tax asset to reduce it to an amount that management considers is more likely than not to be realized.

### 4. Properties:

<b>2006</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Ice rinks:			
Land	\$ 14,616	\$ -	\$ 14,616
Buildings	105,547	23,579	81,968
Machinery and equipment	5,317	3,130	2,187
Computers, furniture and fixtures	3,714	2,598	1,116
Ice resurfacing equipment	2,220	1,643	577
	<b>\$ 131,414</b>	<b>\$ 30,950</b>	<b>\$ 100,464</b>
<b>2005</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Ice rinks:			
Land	\$ 15,014	\$ -	\$ 15,014
Buildings	95,336	21,319	74,017
Machinery and equipment	4,636	2,711	1,925
Computers, furniture and fixtures	3,029	2,282	747
Ice resurfacing equipment	2,054	1,542	512
	<b>\$ 120,069</b>	<b>\$ 27,854</b>	<b>\$ 92,215</b>

On August 1, 2006, the Company purchased an ice rink facility in Toronto, Ontario. The purchase price was \$11,250,000 and the assets purchased have been recorded in the appropriate classes of ice rink properties shown above.

Included in properties are assets under capital leases with a cost of \$1,490,000 (2005 - \$1,405,000) and accumulated amortization of \$533,000 (2005 - \$897,000).

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

## 5. Obligations under capital leases:

Total minimum lease payments are as follows:

2007	\$	352
2008		299
2009		229
2010		126
2011		50
		1,056
Interest (rates vary from 4% to 8%)		184
Present value of minimum capital lease payments		872
Current portion		288
Long-term portion	\$	584

Lease obligations are secured directly by the leased assets.

Interest of \$57,700 (2005 - \$59,600) relating to capital lease obligations has been included in interest expense.

## 6. Debt on ice rinks:

	Weighted average interest rates	2006	2005
Fixed	2006 - 5.85% (2005 - 5.86%)	\$ 41,296	\$ 44,144
Variable	2006 - prime + 1.00% (2005 - prime + 1.00%)	11,899	5,000
		53,195	49,144
Current portion		2,747	2,434
Long-term portion		\$ 50,448	\$ 46,710

Debt on ice rinks is secured by first mortgages, demand debentures, general security agreements, general assignments of book debts, assignments of rents and insurance, and specific pledging of title to and interest in the respective land and buildings.

Based on terms and conditions in existence at December 31, 2006, principal repayments are as follows:

2007	\$	2,747
2008		50,448
		\$ 53,195

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

## 7. Preferred shares:

On August 1, 2006, a wholly owned subsidiary of the Company issued 3,650,000 preferred shares to an affiliate of the Company's controlling shareholder for proceeds of \$3,650,000. The preferred shares carry a cumulative annual dividend rate of 12% payable quarterly, and will be redeemed on specific dates as follows:

July 31, 2007	\$	1,000
July 31, 2008		1,250
July 31, 2009		1,400

In accordance with CICA accounting standards regarding financial statement presentation of certain financial instruments, such as these preferred shares, the net book value of the shares outstanding are presented as a liability in these consolidated financial statements.

The proceeds from this issuance were used to purchase an ice rink facility in Toronto, Ontario (note 4).

## 8. Note payable:

	2006	2005
Note payable to an affiliate of the controlling shareholder	\$ -	\$ 750

At December 31, 2005, the note payable was due to an affiliate of the controlling shareholder. It was a non-revolving loan facility that accrued interest at prime plus 2% per annum, payable monthly in arrears. No amount was outstanding at December 31, 2006.

## 9. Share capital:

The common shares of the Company are listed on the Toronto Stock Exchange.

	Shares	Amount
(a) Authorized: 500,000,000 common shares of no par value		
(b) Issued and outstanding: Balance, December 31, 2005 and 2006	266,747,663	\$ 63,109

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

## 10. Stock-based compensation:

On April 1, 2006, the Company's Stock Option plan granted under the terms of the Canlan Ice Sports Corp. Employee and Director Stock Option Plan (2002) was cancelled.

The following table summarizes the continuity of the Company's stock options:

	Number of shares	Weighted average exercise price
Outstanding, December 31, 2005	8,550,000	\$ 0.06
Forfeited	-	-
Granted	-	-
Cancelled	(8,550,000)	0.06
Balance, December 31, 2006	-	\$ -

During the year ended December 31, 2006, \$2,000 in stock-based compensation costs were recognized in the statements of operations and credited to contributed surplus in relation to this stock option plan and the accumulated amount credited to contributed surplus in relation to the stock option plan is \$543,000.

On April 1, 2006, the Company established a Stock Appreciation Rights plan (the "SAR Plan ") granted by the Company's Board of Directors subject to terms and conditions of the Canlan Ice Sports Corp. Director and Employee Stock Appreciation Rights Plan (2006). The SAR Plan provides eligible directors and employees of the Company with the right to receive cash equal to the appreciation of the Company's common shares subsequent to the date of grant. The stock appreciation rights granted under the SAR Plan vest in equal installments over a three year period commencing in November 2006. All unexercised stock appreciation rights expire five years from the grant date.

The SAR Plan resulted in the Company issuing 14,400,000 stock appreciation rights at an exercise price of \$0.06. During the year, no compensation expense has been recorded relating to the SAR Plan as none of the SARs were in the money at December 31, 2006.

The following table summarizes the Company's Stock Appreciation Rights Plan:

	Number of rights	Weighted average exercise price
Number of rights issued during 2006	14,400,000	\$ 0.06
Forfeited	-	-
Balance, December 31, 2006	14,400,000	\$ 0.06

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

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## 11. Commitments and contingencies:

- (a) At December 31, 2006, the Company has lease agreements with third parties under the terms of which the Company leases and operates certain ice rink facilities. The Company assumes the financial risks and rewards of the facilities' operations, but there will be no transfer of ownership. Accordingly, the lease agreements have been accounted for as operating leases. The remaining lease terms, at December 31, 2006, range from 7 to 12 years and total minimum lease payments are as follows:

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2007	\$	475
2008		498
2009		500
2010		534
2011		535
Thereafter		3,278

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- (b) On August 1, 2006, the Company purchased an ice rink facility in Toronto, Ontario (note 4). Upon purchase, the Company assumed a forty-nine year land lease agreement related to the land on which the facility is situated. The land lease agreement is with a third party and ends on October 30, 2044. The annual lease cost is \$297,600.
- (c) Various lawsuits involving the Company are pending. The financial impact of these lawsuits is not determinable, but management believes, based on counsels' opinions, that the outcome will not materially affect the Company's financial position.

## 12. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined federal and provincial income tax rate of 35% for 2006 (2005 - 36%) were as follows:

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	2006	2005
Statutory rate applied to earnings from continuing operations before income taxes	\$ 431	\$ 461
Large corporations tax	-	184
Recognition of future benefits related to loss carry forwards	(190)	(182)
Other	(430)	(461)
	\$ (189)	\$ 2

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# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

## 12. Income taxes (continued):

- (b) The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at December 31, 2006 and 2005 are presented below:

	2006	2005
Future income tax assets related to:		
Non-capital loss-carry forwards	\$ 2,618	\$ 10,360
Properties	537	-
Write-down of marketable securities for accounting	93	93
Financing fee deducted for accounting	15	15
	3,263	10,468
Less: valuation allowance	(1,123)	(8,256)
Net future income tax asset	2,140	2,212
Future income tax liabilities:		
Properties	-	262
Net future income tax asset	\$ 2,140	\$ 1,950

- (c) At December 31, 2006 the Company has non-capital loss carry forwards for income tax purposes of approximately \$7,542,000 (2005 - \$18,269,000) available to offset future taxable income through 2010. None of these losses carried forward (2005 - \$10,247,000) are restricted as to use.

## 13. Financial instruments:

- (a) Fair value:

The Company has the following financial instruments: cash, accounts receivable, accounts payable and accrued liabilities, obligations under capital leases, debt on ice rinks, preferred shares and notes payable. The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities are considered by management to approximate their fair values due to their short-term nature. Other financial instruments of a long-term nature may be impacted by changes in market yields, which can result in differences between their carrying values and their fair values. Management estimates that these differences are not material to the financial statements as at December 31, 2006.

- (b) Interest rate risk:

The terms of the Company's outstanding debt are described in notes 5, 6, 7 and 8. As certain of the Company's debt instruments bear interest at floating rates and are not hedged by interest rate swaps, fluctuations in these rates will impact the cost of financing incurred in the future.

- (c) Credit risk:

The Company does not face any material concentrations of credit risk.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

## 14. Related party transactions:

- (a) During the year, the Company incurred approximately \$226,000 (2005 - \$229,000) in interest expense related to the notes payable (note 8), preferred shares dividends of \$184,000 (note 7) and fees of approximately \$306,000 (2005 - \$176,000) related to loan guarantees provided by an affiliate of the controlling shareholder.
- (b) During the year, the Company paid \$55,000 (2005 - \$41,500) in directors' fees.

## 15. Discontinued operations:

Effective December 31, 1998, the Company adopted formal plans to discontinue its real estate activities. The real estate activities have been reflected in the consolidated financial statements and notes thereto on a discontinued basis.

The results of discontinued operations are as follows:

	2006	2005
Revenue:		
Development	\$ -	\$ 10
Expenses:		
Development	-	215
Loss from discontinued operations	\$ -	\$ 205

## 16. Segmented information:

The Company's continuing operations consist of full service ice rink facilities, primarily in Canada, which constitute a single operating segment.

Ice rink revenue by services provided are as follows:

	2006	2005
Facility operations	\$ 38,932	\$ 34,405
Restaurant and lounge	10,911	9,850
Sports store	2,148	1,910
Management and consulting fees	544	260
Other	2,696	2,343
	\$ 55,231	\$ 48,768

There is no single customer who accounts for 10% or more of the Company's revenue.

# CANLAN ICE SPORTS CORP.

Notes to Consolidated Financial Statements  
(Tabular amounts expressed in thousands of dollars)

Years ended December 31, 2006 and 2005

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## 17. Supplemental cash flow information:

	2006	2005
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ (398)	\$ 7
Inventory	(135)	(85)
Prepaid expenses	151	(114)
Accounts payable and accrued liabilities	1,035	(492)
Deferred revenue and customer deposits	2,624	809
	<hr/>	<hr/>
	\$ 3,277	\$ 125
(b) Supplemental cash flow information:		
Taxes paid	\$ 164	\$ 384
Interest paid	3,882	3,477
Non-cash transactions:		
Capital lease obligations	718	174

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