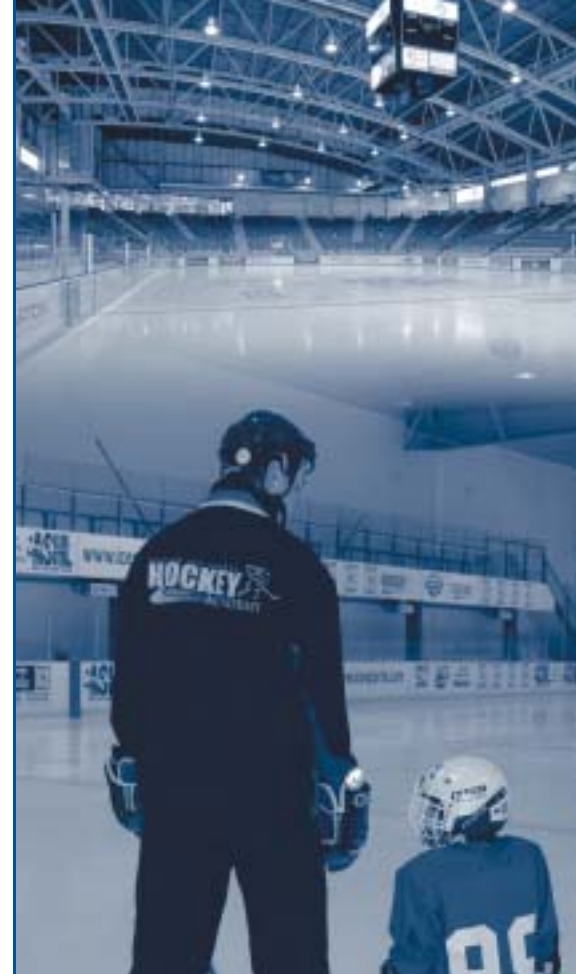


ANNUAL REPORT 2004

CANLAN
ICE
SPORTS

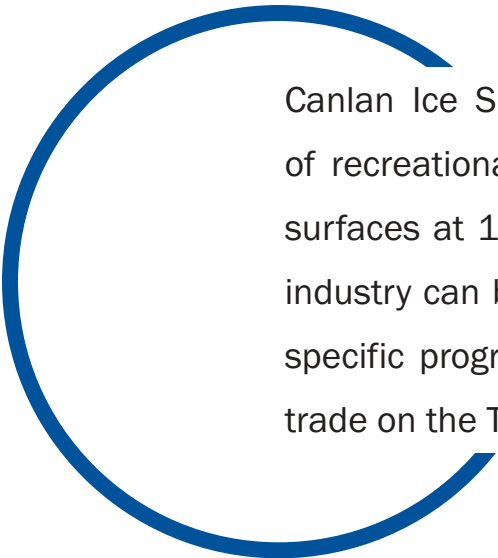




Mission Statement:

“Canlan Ice Sports Corp., world leader in the development, operation and ownership of ice arenas, commits to providing services of exceptional quality to our customers and to continuously improve our people, facilities and programs; resulting in superior returns for our investors.”





Canlan Ice Sports is one of the largest private sector operators of recreational ice sports facilities in North America, with 54 ice surfaces at 19 facilities. The Company’s success in the recreation industry can be attributed to a combination of innovative, location-specific programming and world class facilities. Shares of Canlan trade on the Toronto Stock Exchange under the symbol ISE.

Message to Shareholders	1
Financial Highlights	2
Facility Locations	3
Management’s Discussion & Analysis	4
Management’s Responsibility for Financial Statements	15
Auditors’ Report to the Shareholders	16
Consolidated Financial Statements	17
Five Year Review	31
Corporate Information	33

Fiscal 2004 marked a year of considerable success for Canlan Ice Sports Corp. as the Company achieved the significant financial milestone of restoring operations to profitability for the first time since transitioning its business focus from real estate development to that of a developer, owner and operator of recreational ice sports facilities. The Company attained a net profit from continuing operations of \$704,000 in 2004, up \$1.9 million over the loss of \$1.2 million incurred in 2003. The Company enjoyed continued internal growth from existing facilities in both revenues and earnings before interest, taxes and amortization (EBITA) achieved by the organization over the last 5 years. Compound average annual growth in revenues and EBITA since 2000 is 3.9% and 13.9% respectively. Net earnings after tax recoveries were \$1.9 million compared to a loss of \$1.5 million in the prior year.

This growth to profitability has been, and will continue to be, the result of a shared commitment by Canlan management and staff to a core operating philosophy of providing our customers with a high quality entertainment experience through the ongoing development and delivery of quality, branded, in house leagues, schools and other programs. This focus has resulted in growth in revenues since 2000 in our adult leagues of \$3.5 million (37%) and in our youth programming of \$3.3 million (273%). A substantial portion of this growth has been through increased ice utilization in the summer months, traditionally the slowest and most difficult operating period for ice rink operations.

Our revenue and profit growth could also not have been achieved without the buy-in and focused execution of our operating plans and philosophy by Canlan employees. Canlan continues to invest in training programs to ensure our employees are properly prepared to provide the quality of service our customers expect from them and the Company. We also work to provide a stable environment where our employees can learn and advance their careers. The internal management training program implemented in 2000 has ensured that Canlan has knowledgeable leaders at all levels in the organization and is positioned for future growth.

In May 2004 the Company negotiated the acquisition of the minority interests in our four owned facilities in the Toronto area for \$7.9 million of which \$4.6 million was paid on closing in November with the balance to be paid semi-annually over three years to 2007. As a result, Canlan now owns 100% of its most profitable operations and all future earnings growth. It has also been able to better manage its cash resources and reorganize its operations on a more tax efficient basis to absorb tax loss carry forwards available from prior years.

The acquisition of the Ontario minority interests was financed by means of a rights offering also completed in November. Through the rights offering Canlan raised net proceeds of \$8.1 million and issued 173.4 million shares. The proceeds were used for the down payment on the acquisition of shares, the repayment of \$3 million in debt and the balance of \$542,000 for working capital.

During 2005 we will continue to expand the revenue and profit base of our existing facilities and focus on increasing the number of facilities we manage for municipalities and third party investors. We continue to believe that given the significant ice capacity currently available across Canada and in many U.S. cities, the best course for expansion for Canlan is in the area of management of facilities for third parties. In 2005 we have also entered into two long term operating leases with third party owners that provide Canlan the benefits of ownership without the substantial capital cost to buy or construct a facility. We see this as another area of opportunity for growth going forward.

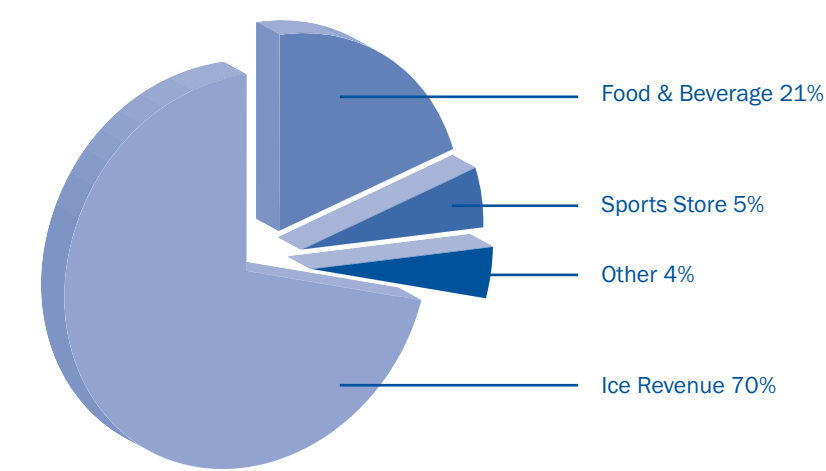
We want to thank our employees for their commitment to our goals and success, and our shareholders and financial partners for their continued support. We are confident that we can continue to build on the profitability achieved during 2004.

Wm. A. B. Ballantyne

W. Grant Ballantyne
President & CEO

	2004	2003
Revenue	\$46,138,000	\$44,959,000
Earnings before interest, taxes and amortization	\$8,287,000	\$7,162,000
Net earnings (loss) from continuing operations	\$1,998,000	(\$1,437,000)
Net earnings (loss)	\$1,944,000	(\$1,516,000)
Total assets	\$101,545,000	\$103,021,000
Shareholders equity	\$36,402,000	\$26,309,000
Earnings (loss) per common share	\$0.02	(\$0.02)
Shareholders equity per share	\$0.14	\$0.28
Average number of common shares outstanding	109,955,402	93,325,920
Number of common shares outstanding	266,747,663	93,325,920

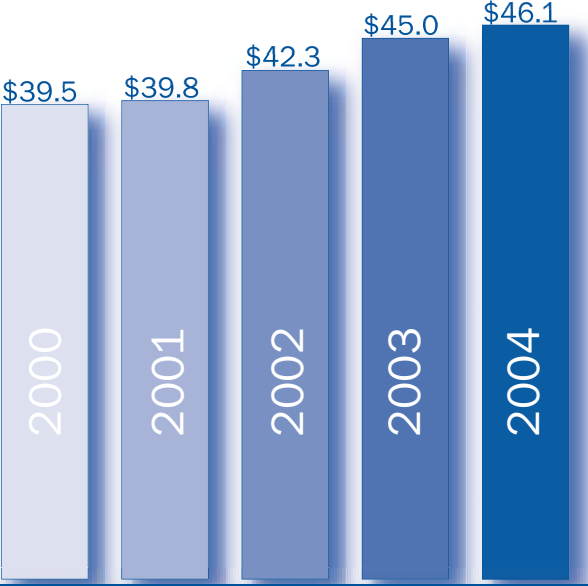
Sources of Revenue



Earnings Before Interest, Taxes and Amortization (in millions)



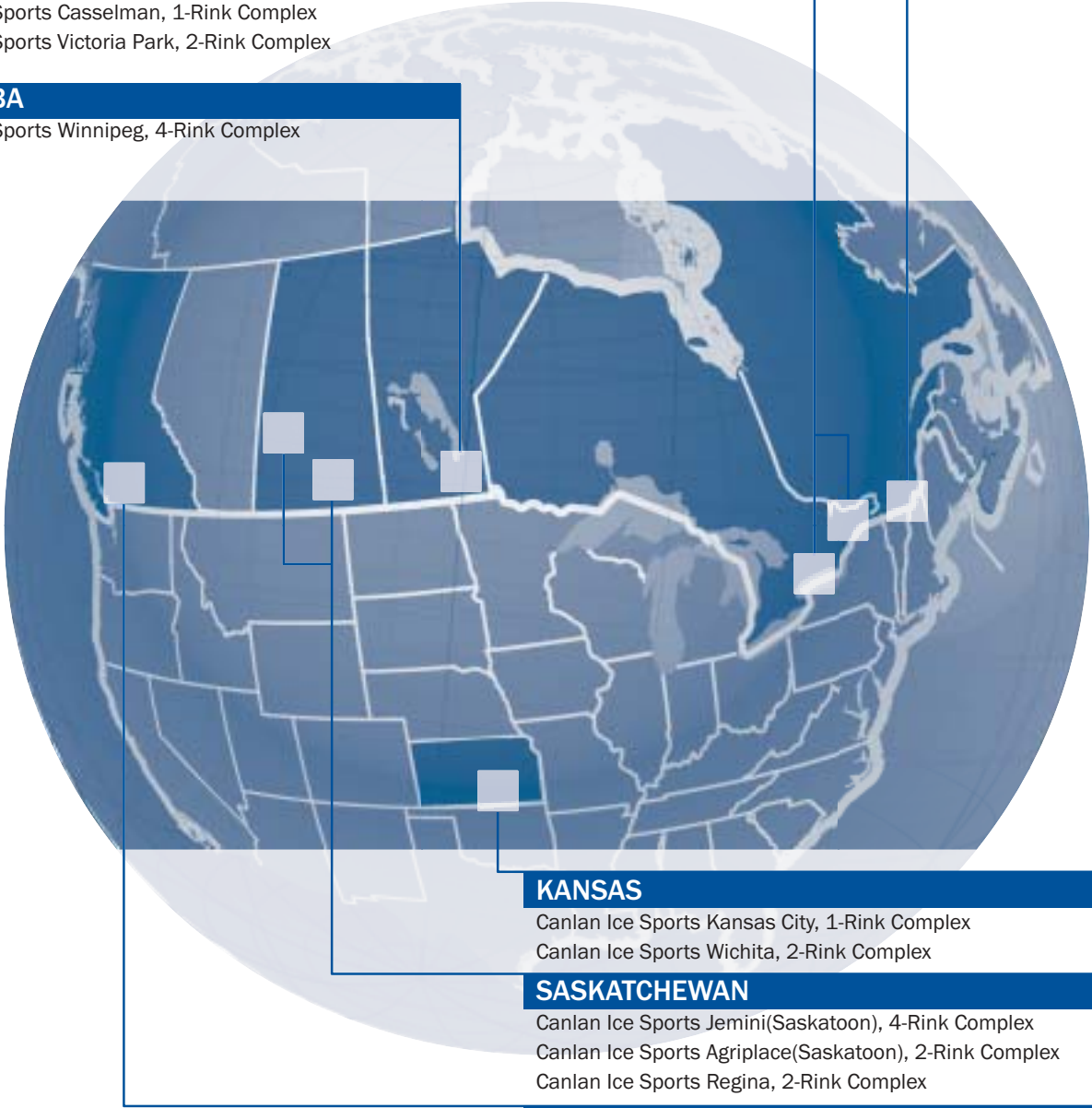
Gross Revenue (in millions)



QUEBEC
Canlan Ice Sports Les 4 Glaces (Brossard), 4-Rink Complex
Canlan Ice Sports Les 2 Glaces(Candiac), 2-Rink Complex

ONTARIO
Canlan Ice Sports Oakville, 4-Rink Complex
Canlan Ice Sports Etobicoke, 4-Rink Complex
Canlan Ice Sports Scarborough, 4-Rink Complex
Canlan Ice Sports Oshawa, 2-Rink Complex
Canlan Ice Sports Casselman, 1-Rink Complex
Canlan Ice Sports Victoria Park, 2-Rink Complex

MANITOBA
Canlan Ice Sports Winnipeg, 4-Rink Complex



KANSAS
Canlan Ice Sports Kansas City, 1-Rink Complex
Canlan Ice Sports Wichita, 2-Rink Complex

SASKATCHEWAN
Canlan Ice Sports Jemini(Saskatoon), 4-Rink Complex
Canlan Ice Sports Agriplace(Saskatoon), 2-Rink Complex
Canlan Ice Sports Regina, 2-Rink Complex

BRITISH COLUMBIA
Canlan Ice Sports 8-Rinks, 8-Rink Complex,
Canlan Ice Sports North Shore, 3-Rink Complex
Canlan Ice Sports Langley Twin Rinks, 2-Rink Complex
Canlan Ice Sports Prospera Centre Chilliwack, 2-Rink Complex
Canlan Ice Sports South Cariboo Rec. Centre, 1-Rink Complex

The following management’s discussion and analysis (“MD&A”) should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2004 and accompanying notes, all of which are included with this MD&A. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars.

In the following discussion EBITA (earnings before interest, taxes and amortization) is often used as a measure of financial performance. However, EBITA is not a term that has specific meaning in accordance with GAAP, and may be calculated differently by other companies.

Additional information relating to our Company, including our annual information form, is filed on SEDAR and can be viewed at www.sedar.com.

The date of this MD&A is March 14, 2005.

Overview of the Company

Canlan Ice Sports Corp. (“Canlan” or “the Company”) is a leading operator of recreational and leisure facilities. Currently we have a network of 19 facilities in Canada and the United States containing 53 full sized ice sheets, 1 indoor soccer field and 3 curling surfaces. The Company owns 13 facilities, manages 5 on behalf of third party owners and leases 1 under a long-term lease arrangement.

Canlan is a publicly traded Canadian Company with its shares listed on the Toronto Stock Exchange using the trading symbol **ISE**. The Company’s head office is located in Burnaby, B.C. adjacent to Burnaby 8 Rinks, the Company’s largest facility. There are currently 267 million shares outstanding that have recently traded in the \$0.04 to \$0.06 range.

The Company derives revenue from four primary sources: The operation of in-house programs including the sale of ice time to third parties, food and beverage operations, sports stores and other. Other revenue includes management fees, consulting, advertising, space rental and sponsorship. Programs and ice sales accounted for 70% of the Company’s total revenue in 2004 or \$32.5 million compared \$30.9 million (68%) in 2003, a year over year increase of 5.2%. The majority of the Company’s ice revenues are generated through in-house programs, the largest of which is the Adult Safe Hockey League (“ASHL”).

The ASHL generated \$13.3 million in total registration revenue in 2004, which accounts for 41% of the Company’s total ice sales. In 2003 the league contributed \$12.3 million in total revenue or 40% of total ice sales. The league continues to grow year over year, as the demand for well-run adult hockey leagues remains strong in all our Canadian markets. The total number of adult hockey players registered in our winter league was 37,000, an increase of 12%, from 2003.

Revenue from our various restaurant operations was \$9.4 million unchanged from the prior year. Food and beverage sales accounted for 21% of total revenue, which is consistent with prior years. As a result of the National Hockey League labour disruption we have experienced a 15% reduction in volume in our restaurants since October 2004, as our adult customers are spending less time in our sports bars. We have developed marketing plans, which include loyalty programs and incentives to capture a higher percentage of customer spending.

Our sports stores generated \$2.2 million in gross sales in 2004, or 5% of total revenue. In 2003 the stores contributed \$2.4 million in revenue. During the year we leased out 3 of our sports stores to third party operators. As a result we were able to stabilize profitability in this department and reduce sports store inventory and the related financing costs.

Other sources of revenue totaled \$2.0 million in 2004 (2003 - \$2.1 million), or 4% of total revenue. Major components of other revenue include space rental, vending, sponsorship, and management services revenue. Management services revenue is comprised of fees for managing ice rink facilities on behalf of owners and municipalities and one time consulting engagements. In 2004 the Company generated \$0.4 million in fees compared to \$0.7 in 2003.

During the year the Company did not purchase any new facilities, but did acquire two new management contracts, one in Chilliwack B.C. and a second in Casselman, Ontario. A contract in Michigan was terminated due to the sale of the facility by the owner, and the Vacaville management contract was terminated on November 30, 2004. In April 2004, the Company completed its obligations on a five-year management contract to manage two one-pad ice arenas in Langley B.C. A previously managed twin pad facility in Langley, B.C. was converted to a ten-year lease effective January 1, 2005. By leasing the facility, the Company will accept the operating risk rather than earning a fixed monthly fee.

On May 1, 2004 the Company leased the single-rink facility it owns in Kansas City, Kansas to a local group of investors for a term of 24 months. The lease includes provision for an option to purchase the facility for \$1.2 million less all payments applied against the principal amount of the mortgage.

Our total facility count, including all owned, leased and managed properties, is as follows:

	Number of Facilities	Number of Ice sheets
2004	19	54
2003	19	55
2002	20	56
2001	20	56
2000	18	53

	Number of Facilities	Number of Ice sheets
Canada:		
British Columbia	5	16
Saskatchewan	3	8
Manitoba	1	4
Ontario	6	17
Quebec	2	6
TOTAL	17	51
USA:		
Kansas	2	3
	2	3
TOTAL	19	54

Significant Transactions

The Company completed three significant transactions during the year, which have improved its corporate and capital structure. They are summarized as follows:

- Purchased minority interest of two Ontario subsidiaries
- Raised new capital by way of rights offering.
- Amalgamated Ontario subsidiaries into Canlan.

Purchase of minority interest

In May 2004 the Company successfully negotiated the acquisition of the minority interests in our two Ontario subsidiaries, Adult “Safe-Hockey” Leagues Ltd (“ASHL”) and O & O Development Corporation (“O&O”). These companies owned four Ice Sports facilities operating in the Toronto area. Prior to the transaction, Canlan directly owned 75% of the outstanding shares of ASHL and indirectly owned 56.25% of the outstanding shares of O & O.

The total purchase price was \$7.9 million, of which \$4.6 million was paid on completion and the remaining \$3.3 million is to be paid by making 6 semi-annual installments, beginning January 1, 2005.

The four Toronto area facilities are the most profitable in the Company’s portfolio and the acquisition will allow us to better manage our cash resources and establish a more effective corporate structure.

Rights Offering

In November 2004 the Company completed a rights offering and issued 173.4 million shares. One right gave each shareholder the opportunity to purchase two shares of Canlan at a price of \$0.05 each. Total proceeds raised, net of transaction costs of \$0.5 million, was \$8.1 million. Canlan’s controlling shareholder subscribed for 150 million shares.

Net proceeds were used as follows:

Down payment on minority interest purchase	\$4,586,000
Repayment of debt owing to controlling shareholder	3,000,000
Working Capital	542,000
Net proceeds	\$8,128,000

Amalgamation

In December 2004, the Company amalgamated the two Ontario subsidiaries into Canlan Ice Sports Corp. The amalgamation will allow us to structure the Company in a more tax efficient manner.

Review of Fiscal 2004 Operations

Total revenue from continuing operations reached \$46.1 million compared to \$45.0 million in 2003, an increase of \$1.1 million or 2.4%. Our strategy is to continue to grow revenue through superior programming and customer service, while maintaining operating costs. The management services division is expected to expand its portfolio of managed rinks, which currently has 5 facilities under contract.

A summary of the revenue by business segment and geographic region is summarized as follows:

	2004		2003	
in thousands	Sales	%	Sales	%
Ice Sales	\$32,490	70%	\$30,948	68%
Restaurant and Lounge	9,437	21%	9,450	21%
Sports Store	2,197	5%	2,425	6%
Other	2,014	4%	2,136	5%
	\$46,138	100%	\$44,959	100%

	2004		2003	
in thousands	Sales	%	Sales	%
Canada:				
British Columbia	\$10,590	23%	\$10,558	24%
Saskatchewan	5,416	12%	5,222	12%
Manitoba	2,981	6%	2,678	6%
Ontario	21,523	47%	20,448	45%
Quebec	5,082	11%	4,631	10%
	45,592	99%	40,414	97%
USA	546	1%	1,422	3%
	\$46,138	100%	\$44,959	100%

Total ice rink operating costs remained unchanged from the prior year at \$35.3 million. In 2004, operating costs represented 77% of revenue, compared to 79% in 2003. Despite experiencing increased volumes in all markets, costs were maintained by appropriately managing labour costs and procurement of supplies.

Earnings before interest, taxes and amortization (“EBITA”) was \$8.3 million in 2004 compared to \$7.2 million in 2003, an improvement of \$1.1 million, or 15%. EBITA is calculated after head office overhead expenses, which totaled \$2.5 million in both years. As a percentage of revenue, EBITA grew to 18% in 2004 compared to 16% in 2003.

On a same store basis all geographic regions experienced increased volumes. Our two facilities in Quebec led the way with a 9.7% increase in revenue over the previous year. The other three regions, Ontario, Western Canada and B.C. experienced increased volumes of 4.5% to 7.0%.

The Company is pleased to report that net earnings before taxes and discontinued operations was \$704,000 in 2004, our first annual net profit since entering the ice rink industry on a full time basis in 1999. The Company has shown steady and consistent revenue growth, which, together with a diligent cost control program has produced a net profit. This compares to a net loss

before taxes and discontinued operations reported in 2003 of \$1.2 million (\$0.02 per share), a year over year improvement of \$1.9 million.

Total federal capital taxes totaled \$245,000 unchanged from 2003. In addition, the Company has recorded income taxes in an Ontario subsidiary Company in the amount of \$230,000; these taxes arose prior to an amalgamation, which was effective December 23, 2004. Total income and capital taxes for the year was \$474,000, compared to \$248,000 in 2003.

The Company has recorded a future tax benefit in the amount of \$1.8 million, as we have determined that it is more likely than not that the Company will benefit from its non-capital loss carry forwards in 2005. Management has taken a conservative approach and did not record its full tax benefit relating to the use of non-capital loss carry forwards beyond 2005, as it is prudent to first establish a track record of profitability.

The Company recorded an additional tax expense in the amount of \$54,000 related to discontinued operations.

Net income after tax and discontinued operations for the year ended December 31, 2004 was \$1.9 million, or \$0.02 per share, compared to a net loss of \$1.5 million in 2003, or (\$0.02) per share.

Contract Management, Consulting and Development Services

The Company operates a Management Services Division to capitalize on our industry expertise and operating knowledge. The Division offers various services to investors and municipalities, from one time consulting engagements to long-term management contracts. During fiscal 2004 the Company added three new management contracts and terminated three others. We are currently managing five facilities under contract with various terms and conditions. In addition, the Company has entered into a management contract with respect to a facility in Edmonton Alberta, which is scheduled to open in spring 2006. Total revenue generated from long-term management contracts and consulting engagements was \$0.4 million, compared to \$0.7 million in the previous year.

in thousands	2004				
	Q1	Q2	Q3	Q4	Total
Gross revenue	\$13,984	\$10,015	\$8,767	\$13,372	\$46,138
Operating costs	(\$9,465)	(\$8,889)	(\$7,956)	(\$9,007)	(\$35,317)
	\$4,519	\$1,126	\$811	\$4,365	\$10,821
General & administration	(\$596)	(\$741)	(\$612)	(\$585)	(\$2,534)
EBITA	\$3,923	\$385	\$199	\$3,780	\$8,287
Interest	(922)	(906)	(925)	(928)	(3,681)
Depreciation	(902)	(901)	(879)	(908)	(3,590)
Other	(428)	4	70	42	(312)
Net earnings (loss) before taxes and other	1,671	(1,418)	(1,535)	1,986	704
Income taxes and other	(114)	(76)	(54)	1,484	1,240
Net earnings (loss)	\$1,557	(\$1,494)	(\$1,589)	\$3,470	\$1,944
Earnings (loss) per share	\$0.01	(\$0.01)	(\$0.01)	\$0.03	\$0.02

in thousands	2003				
	Q1	Q2	Q3	Q4	Total
Gross revenue	\$13,667	\$9,429	\$8,540	\$13,323	\$44,959
Operating costs	(\$9,420)	(\$8,658)	(\$7,863)	(\$9,358)	(\$35,299)
	\$4,247	\$771	\$677	\$3,965	\$9,660
General & administration	(\$623)	(\$718)	(\$533)	(\$624)	(\$2,498)
EBITA	\$3,624	\$53	\$144	\$3,341	\$7,162
Interest	(1,002)	(1,095)	(1,095)	(1,307)	(4,499)
Depreciation	(897)	(894)	(888)	(901)	(3,580)
Other	(296)	241	78	(295)	(272)
Net earnings (loss) before taxes and other	1,429	(1,695)	(1,761)	838	(1,189)
Taxes and other	(115)	(56)	(115)	(41)	(327)
Net income (loss)	\$1,314	(\$1,751)	(\$1,876)	\$797	(\$1,516)
Earnings (loss) per share	\$0.01	(\$0.02)	(\$0.02)	\$0.01	(\$0.02)

Earnings before interest, taxes, and amortization, by quarter

Last year we reported that we had achieved positive operating earnings in all four quarters, for the first time. The Company has once again made significant progress in the difficult summer months. Our summertime EBITA has increased from \$197,000 in 2003 to \$584,000 in 2004, a 196% improvement. This achievement was a result of the continued expansion of the summer programming initiatives, which are now operating in all Canlan facilities. The Company’s branded youth hockey programs such as the Youth 3 on 3 Leagues and the Youth Hockey League (YHL) have shown increases from the previous year. In 2004, our enrollment for these youth programs exceeded 8,000 registrations.

As demonstrated by the quarterly earnings schedule above the Company has been successful in increasing revenue while holding costs constant. Total ice rink operating costs have been reduced to 77% of revenue from 79% in the 2003. Total labour costs in owned facilities and head office wages, which represent 35% of total costs, increased 8% to \$13.6 million for the year. A portion of the increase can be attributed to the employee incentive program, which is calculated on a facility basis for over-achieving EBITA targets. Eight of the Company’s owned facilities exceeded pre-established targets. The company currently has 800 full time and part time employees, or 400 full time equivalents.

Ice production costs and repairs and maintenance accounted for 20% of the total operating costs of the Company, or \$7.0 million. Utility costs for 2004 totaled \$4.6 million, compared to \$3.8 million in 2003, a 21% increase. When available, the Company utilizes various strategies with its suppliers to reduce the risk of price fluctuations. The other significant operating costs include property taxes and insurance.

Review of 2004 Corporate Expenses

Interest Expense

The Company incurred total interest costs on debt related to ice rinks of \$2.9 million (2003 - \$3.7 million) plus \$0.8 million of interest was paid to service the Company’s credit lines, capital leases and other non-mortgage financing activities, for a total interest cost of \$3.7 million (2003 – \$4.5 million), a reduction of \$0.8 million from 2003 or 18%.

At year-end, the Company had interest bearing debt totaling \$53.4 million (2003 – \$59.7 million). Virtually all the Company’s debt is based on variable interest rates. The Company benefited from the low interest rate environment in 2004, as prime rates varied between 3.75% and 4.25%. The Company has started mortgage renewal discussions with current lenders that will include fixing the interest rates on a significant portion of its ice rink debt.

Amortization

The Company’s amortization policy was unchanged during the year, which calls for straight-line amortization of its ice rink assets over periods ranging from 5 years to 40 years. Amortization expense for the year of \$3.6 million was relatively unchanged from the prior year.

General and Administration

Administrative expenses incurred by the ice rink facilities are included in ice rink operating costs. In 2004, this totaled \$3.7 million or 8% of total facility revenue, compared to \$3.4 million or 7% respectively in 2003.

Corporate general and administration expenses were \$2.5 million, unchanged from 2003. The Company maintains a satellite office in Toronto at its Etobicoke facility. Included in corporate overhead are costs related to management support services to all Ice Sports facilities, including accounting, marketing, IT support, payroll and human resources services in addition to costs related to the management services division. Costs related to maintaining Canlan’s public listing and provincial capital taxes are also included in general and administration expenses.

Property Taxes

The Company pays property taxes to various municipalities where its ice rinks are located. Property tax is a significant expense to the Company and is included in operating expenses. In 2004, the Company paid \$1.8 million in property taxes, relatively unchanged from 2003.

Non-controlling Interest

Non-controlling interest expense of \$420,000 represents the interest of minority shareholders’ allocation of the net income of the Company’s two Ontario subsidiaries prior to the share purchase, which was effective October 1, 2004. Subsequent to the purchase, Adult “Safe-Hockey” Leagues Ltd. and O & O Development Corporation become wholly owned subsidiaries of Canlan and were amalgamated with Canlan on December 23, 2004.

Income Taxes

Canlan and its subsidiaries were subject to both capital tax and income tax during the year. Federal capital taxes totaled \$245,000 (2003 - \$248,000) and provincial capital taxes amounted to \$205,000 (2003 - \$243,000), totaling \$450,000 (2003 - \$491,000).

In regards to income taxes, an Ontario subsidiary produced taxable income prior to its amalgamation into Canlan on December 23, 2004 and has recorded an income tax expense of \$230,000.

The Company has accumulated non-capital loss carry forwards of approximately \$32 million and has now determined that it is more likely than not to benefit from a portion of these losses in the future, prior to them expiring. The Company has taken the conservative approach to recording this asset, and has therefore recorded only one year of the potential three-year benefit. The expected tax benefit to be realized in 2005 is \$1,768,000 and has been recorded as a future income tax asset, in the fourth quarter.

Summary of Operations

in thousands	2004	2003	2002
Revenue			
Ice rinks and management contracts	\$46,138	\$44,959	\$42,307
Expenses			
Ice rinks	35,317	35,299	33,613
General & administration	2,534	2,498	2,458
	37,851	37,797	36,071
EBITA	8,287	7,162	6,236
Interest	3,681	4,499	4,247
Depreciation	3,590	3,580	3,598
Loss (gain) on sale of properties	(52)	(22)	(71)
Other expenses	364	294	316
	7,583	8,351	8,090
Net earnings (loss) before taxes	704	(1,189)	(1,854)
Taxes, net of future tax benefit	(1,294)	248	234
Net earnings (loss) from continuing operations	\$1,998	(\$1,437)	(2,088)
			14.7%
EBITDA as a percentage of revenue	18.00%	15.90%	
General & administration as a percentage of revenue	5.50%	5.50%	5.8%

2004 Fourth Quarter Results

Revenue for the fourth quarter of 2004 was \$13.4 million, a small increase when compared to 2003. As a result of a \$0.5 million reduction in operating and administration costs in the quarter, EBITA for the fourth quarter of 2004 was \$3.8 million compared to \$3.3 million in 2003, a 15% improvement.

In addition to the improved EBITA, the Company experienced lower interest costs: \$0.9 million compared to \$1.3 million in 2003, a \$0.4 million reduction.

As a result of the purchase of the interest of our minority shareholders in our Ontario subsidiaries, which was effective September 30, 2004, the Company did not record a minority interest expense in the fourth quarter. In 2003 minority interest in the fourth quarter was \$0.3 million.

The Company recorded a capital tax assessment in the quarter totaling \$54,000, which is related to the discontinued operations of an inactive subsidiary.

The Company is pleased with its performance in the last fiscal quarter and achieved net income before taxes and other of \$2.0 million, compared to \$0.8 million in 2003, a significant improvement.

Review of Assets

Total book value of the Company’s assets decreased to \$102 million at December 31, 2004 from \$103 million at December 31, 2003. The table below summarizes the Company’s asset base.

in thousands	2004	2003
Ice rink facilities	\$94,670	\$94,547
Accounts and notes receivable	1,431	1,510
Cash	1,175	4,144
Inventory	966	1,279
Land held for ice rink development	856	856
Prepaid expenses and other assets	679	685
Future income taxes	1,768	-
	\$101,545	\$103,021

During the year the Company spent \$0.7 million (2003 - \$1.6 million) net of leased equipment on capital expenditures. Larger projects include replacing refrigeration equipment in Saskatoon, and continuing the refurbishment of ice pads in both Winnipeg and Brossard.

The Company purchased one new ice resurfacers during the year (six in the previous year) to replace a unit that was near the end of its useful life; a capital lease financed this machine.

As discussed earlier in this MD&A the Company recorded a future income tax benefit in the amount of \$1.8 million, which is expected to be utilized in 2005.

The Company did not make any rink property acquisitions during the year.

Review of Liabilities

The table below summarizes the Company’s capital structure:

in thousands	2004	2003
Mortgages payable	\$47,238	\$50,842
Deferred revenue and customer deposits	6,997	7,142
Notes payable	5,721	8,796
Accounts payable	4,707	4,845
Capital leases	480	661
Bank indebtedness	-	2,901
Non controlling interest	-	1,525
Shareholders equity	36,402	26,309
	\$101,545	\$103,021

Total interest bearing debt, which includes notes payable, mortgages payable, capital leases and credit lines totaled \$53.4 million as at December 31, 2004, a decrease of \$6.3 million from 2003. Mortgages payable was reduced by \$3.6 million as a result of scheduled monthly mortgage payments and capital lease balances were decreased by \$0.2 million

As at December 31, 2004, the Company’s balance sheet indicates a working capital deficiency of \$55.8 million (2003 \$14.5 million), this large increase over 2003 is a result of the reclassification of the Company’s mortgage debt, which is maturing in October 2005. The Company is in process of refinancing these mortgages but as of the date of this MD & A we have not entered into a financing agreement with any lender. Pursuant to accounting standards, it is required that the debt be classified as a current liability if the debt is due on demand within one year. The Company fully expects to refinance its mortgage debt in the coming months.

As a result of the acquisition of the minority interests in our Ontario subsidiaries the Company has the ability to apply cash reserves on hand against bank indebtedness. In previous periods cash on deposit in the Ontario subsidiary companies was not applied to bank indebtedness due to the presence of minority interests.

Liquidity and Capital Resources

The Company’s debt to equity ratio has decreased in 2004 to 1.79:1 from 2.86:1 in 2003.

The Company generated cash flow from operations before interest, principal, capital expenditures and federal capital taxes totaling \$8.3 million. After providing for interest and capital taxes of \$3.9 million, a \$4.4 million positive cash flow resulted before principal repayment and capital expenditures. Principal repayments for the mortgages were \$3.6 million (2003 - \$3.1 million) and capital leases were \$0.3 million, totaling \$3.9 million in 2004. In addition, investments in capital assets required \$0.6 million (net of disposals). The result is that the Company was cash flow neutral for the year ended December 31, 2004 compared to a cash flow deficit of \$2.6 million in the prior year. This was a major accomplishment.

The following table provides a reconciliation of EBITA to cash flow from operations for the last two years:

in thousands	Year ended December 31/04	Year ended December 31/03
Earnings before Interest, Taxes and Amortization (EBITA)	\$8,287	\$7,162
Changes in working capital items	(\$127)	\$1,521
Interest expense	(\$3,681)	(\$4,499)
Other	(\$396)	(\$76)
Cash flow from operations	\$4,083	\$4,108

On an annual basis the Company was cash flow neutral but the seasonal nature of the business requires financial support in the second and third quarters. While we improved our operating performance in the summer, we were still cash flow negative from April to September in the amount of \$2.9 million.

Funds for this seasonal shortfall were funded by a pre-established lending agreement with an affiliate of the Company’s controlling shareholder and by changes in working capital items.

Customer deposits and deferred revenue represent a significant source of working capital. As at December 31, 2004 customer deposits and deferred revenue totaled \$7.0 million, (2003 - \$7.1 million).

As at the year end the Company has outstanding loans to an affiliate of the Company’s controlling shareholder totaling \$2.3 million compared to \$5.2 million as December 31, 2003. During the year, total advances increased to \$7.7 million at the end of the third quarter. Scheduled repayments in the fourth quarter totaled \$2.5 million; an additional payment of \$3.0 million was made with the proceeds from the rights offering, which completed in November 2004. The remaining balance is due over the next 12 months.

As at December 31, 2004 the Company had unused revolving credit facilities available totaling \$3.0 million, which are secured by guarantee by an affiliate of the Company’s controlling shareholder.

The company has also arranged seasonal financing for the upcoming summer period. We believe that these credit facilities, combined with cash on hand and cash generated from operations are adequate to finance our seasonal cash needs.

Share capital

The Company has the following shares outstanding:

	2004	2003
Shares issued and outstanding	266,747,663	93,325,920
Options outstanding	8,550,000	8,550,000
	275,297,663	101,875,920
Weighted average number of shares outstanding	109,955,402	93,325,920

On November 24, 2004 the Company completed a rights offering by issuing 173,421,743 shares at a price of \$0.05 per share, raising total gross proceeds of \$8.6 million. Costs related to the transaction were \$0.5 million, leaving net proceeds of \$8.1 million. The Company’s controlling shareholder subscribed for 150,000,000 shares, the remaining 23,421,743 shares were purchased by other shareholders.

Net proceeds from the share issuance were used as follows:

in thousands	
Down payment on minority interest purchase	\$4,586
Repayment of debt owing to controlling shareholder	3,000
Working Capital	542
Net proceeds	\$8,128

The Company used the amount available for working capital to pay all property taxes in arrears.

Transaction with Related Parties

Currently, Canlan’s controlling shareholder owns 201 million shares of the Company, or 75% of the outstanding shares.

An affiliate of the Company’s controlling shareholder has provided seasonal financing, in addition to providing various forms of loan guarantees on the line of credit and three mortgages.

During 2004 the Company paid \$0.5 million in interest charges and \$0.1 million in loan guarantee fees to an affiliate of its controlling shareholder.

Risk Management

The Company is engaged primarily in the operation of multi-pad ice rink facilities throughout North America, and is exposed to a number of risks that can affect operating performance. These risks and management’s action taken to minimize the Company’s exposure are summarized below.

Seasonality of operations

The Company’s business cycle is highly seasonal with 60% of the revenues and nearly all of the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating results for any particular quarter is not necessarily a good indicator of operating results for the other fiscal quarters or the entire fiscal year. As a result of the seasonality, the highest cash flow period for the Company is in the fourth quarter when customer deposits for future ice contracts are received, and the lowest cash flow is in the summer months, when traffic is reduced. Mitigating factors and strategies:

- Hockey programs are developed to increase traffic during the summer period.
- Variable operating costs are reduced during the summer period.
- Seasonal financing is secured.

Competition

The ice rink industry is highly competitive and Canlan competes with other private operators in its three major markets, B.C., Ontario and Quebec, as well as Municipal Governments that have different mandates and usually operate with significant losses. Other private operators may have more resources and less debt than Canlan, and municipal operators can operate at a loss for an indefinite period without the same negative consequences such losses would have on private companies.

Mitigating factors and strategies:

- Canlan has developed customer loyalty by providing superior customer service and facilities.
- The ice rink industry is capital intensive and has high start up expenses, therefore barriers to enter the business are present.
- We have developed expertise in all aspects of the ice rink development and operations.

Insurance

The Company develops and organizes adult hockey leagues to play in the facilities it owns and manages. Due to the nature of the sport, injuries occur. The Company purchases liability and accident insurance, the cost of which is dependant upon the history of the number of claims and the quantum of such claims. There is always a risk that the cost of acquiring sufficient insurance to cover any such injury claims will become prohibitive or that such insurance will become unavailable.

Mitigating factors and strategies:

- Company maintains its facilities to high standards and continually monitors league activities and enforces a strict set of rules.
- Company has developed risk management procedures and emergency preparedness guides at all of its locations.
- Management works closely with insurance providers.

Interest Rate Risk

The Company has loans subject to variable rates totaling \$52.3 million, which represents 98% of total interest bearing debt. The Company is therefore susceptible to interest rate fluctuations. The majority of the loans mature in 2005 and there is no assurance that the Company will be successful in renewing the loans with favourable terms.

Mitigating factors and strategies:

- The Company carefully monitors interest rate movements.
- The Company has started renewal negotiations and intends to fix the interest rates on the majority of the loans.

Loans Renewal Risk

The Company currently has outstanding loans to five financial institutions; these loans are secured by mortgage charges on various properties. As a result of the October 2000 consensual restructuring of the Company’s debts, the majority of the debt will come due in October 2005. Although the Company has commenced negotiations with respect to refinancing these loans, there is a risk that one or more of these financial institutions will not renew or will renew on terms less favourable to the Company, which may have an adverse impact on the Company’s business, financial condition, results from operations and cash flow.

Mitigating factors and strategies

- The Company has commenced debt renewal negotiations.

Critical Accounting Policies and Estimates

Canlan’s critical accounting policies are described in Note 3 to the consolidated financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent liabilities. The most critical of these policies are those related to ice rink properties and revenue recognition.

Revenue recognition

Revenue from ice rink operations and management services is recognized as the product or service is supplied. Deferred revenue relates to amounts received in advance for our adult hockey leagues; revenue is recognized as games are played. A certain amount of judgment is required in the determination of revenue recognition based on our estimates. Any differences are recognized upon completion of the season.

Valuation of future income tax assets

In determining our income tax provision, the Company is required to make assumptions about expected timing of the reversal of our future tax asset. In the event that our assumptions differ from those of the tax authorities or that the timing of the reversals were not as anticipated, the tax provision could increase or decrease.

Long-lived assets

Effective January 1, 2004, the Company was required to adopt the new recommendations of CICA 3063 “Impairment of Long-Lived Assets.” The adoption had no impact on the consolidated financial statements for the year ended December 31, 2004.

Stock-based compensation

Effective January 1, 2004, the Company adopted the revised recommendations of the CICA with respect to stock-based compensation using the fair value based method of accounting for all options, with a resulting compensation expense being charged to operations. As permitted by the transitional provisions, this change in accounting policy has been applied retroactively without restatement of prior periods, and resulted in a charge to deficit as at January 1, 2004 of \$512,000 and a corresponding increase to contributed surplus of \$512,000.

Outlook for 2005 and Beyond

In 2004, Canlan produced its first profit since 1996. We have experienced excellent growth across all our markets by increasing ice utilization and keeping a watchful eye on operating costs. From an operating perspective the Company has improved its results consistently quarter over quarter for the last three years. Our objective for 2005 is to continue to grow our business and improve cash flow through our existing facilities and to acquire management contracts and long-term leases to grow our business outside of our own properties.

We have improved our capital structure by raising equity and using the proceeds to acquire minority interests in our most successful operations and reduce corporate debt. Our mortgage debt is being reduced by \$3.5 million per year, and our lending covenants were all exceeded in 2004, for the first time. While still highly levered, our balance sheet is improving and we expect to be announcing details of a new mortgage refinancing package in the coming months.

We are expecting continued growth in ice utilization and related segments, and marketing efforts for the summer of 2005 have been expanded to increase revenue from our internally branded programs. Overall, we are optimistic about the prospects for another successful year.



Michael F. Gellard
Senior Vice President, Finance & CFO

Useful lives of depreciable assets

Ice rink properties and administrative assets, such as furniture, computer equipment and software are depreciated on a straight-line basis over the estimated useful life of the asset. A large proportion of our total assets are comprised of our ice rink properties, (2004 - 95%). The selection method of depreciation and length of the depreciation period could have a material impact on depreciation expense and the net book value of our assets. Assets may become obsolete or require replacement before the end of their estimated useful lives, in which case any remaining undepreciated costs would be written off.

The accompanying consolidated financial statements of Canlan Ice Sports Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Company’s accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these consolidated financial statements have been prepared accordingly and within reasonable limits of materiality. Furthermore, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the consolidated financial statements.

KPMG LLP has been appointed by the shareholders of the Company and serve as the Company’s external auditors. They have examined the consolidated financial statements of the Company for the year ended December 31, 2004.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements of the Company, which are contained in this annual report.



W. Grant Ballantyne
President & CEO



Michael F. Gellard
Senior Vice President, Finance & CFO



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC
V7Y 1K3
Canada

t · 604 · 691 · 3000
f · 604 · 691 · 3031
www.kpmg.ca

Auditors’ Report To The Shareholders

We have audited the consolidated balance sheets of Canlan Ice Sports Corp. as at December 31, 2004 and 2003 and the consolidated statements of operations 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, Canada
February 28, 2005

Consolidated Balance Sheets

December 31, 2004 and 2003

(Expressed in thousands of dollars)

	2004	2003
Assets		
Current assets		
Cash	\$ 1,175	\$ 4,144
Accounts receivable	1,431	1,510
Inventory	966	1,279
Prepaid expenses	399	310
Future income taxes (note 13)	1,768	-
	5,739	7,243
Properties:		
Ice rinks (note 5)	94,670	94,547
Held for ice rink development	856	856
	95,526	95,403
Other assets	280	375
	\$ 101,545	\$ 103,021
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	\$ -	\$ 2,901
Accounts payable and accrued liabilities	4,707	4,845
Deferred revenue and customer deposits	6,997	7,142
Current portion of:		
Obligations under capital leases	225	235
Debt on ice rinks	46,703	3,242
Notes payable	2,851	3,400
	61,483	21,765
Long-term liabilities:		
Obligations under capital leases (note 7)	255	426
Debt on ice rinks (note 8)	535	47,600
Notes payable (note 9)	2,870	5,396
	3,660	53,422
Non-controlling interest (note 4)	-	1,525
	65,143	76,712
Shareholders' equity:		
Share capital (note 10)	63,109	54,981
Contributed surplus (note 11)	533	-
Deficit	(27,240)	(28,672)
	36,402	26,309
	\$ 101,545	\$ 103,021

Future operations (note 2)

Commitments and contingencies (note 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Wm G B. Hyatt

Director

John

Director

Consolidated Statements of Operations and Deficit

Years ended December 31, 2004 and 2003

(Expressed in thousands of dollars)

	2004	2003
Revenue:		
Ice rinks (note 17)	\$ 46,138	\$ 44,959
Expenses:		
Ice rinks	35,317	35,299
Ice rinks operations	10,821	9,660
General and administration expenses	2,534	2,498
Earnings before the undernoted	8,287	7,162
Other expenses (income):		
Amortization	3,590	3,580
Interest on debt on ice rinks	2,869	3,644
Other interest (note 7)	812	855
Non-controlling interest (note 4)	420	466
Gain on foreign exchange	(56)	(172)
Gain on sale of properties	(52)	(22)
	7,583	8,351
Earnings (loss) from continuing operations before income taxes	704	(1,189)
Income taxes (note 13):		
Current	(474)	(248)
Future recovery	1,768	-
	1,294	(248)
Net earnings (loss) from continuing operations	1,998	(1,437)
Loss from discontinued operations (note 16)	(54)	(79)
Net earnings (loss)	1,944	(1,516)
Deficit, beginning of year:		
As previously reported	(28,672)	(27,156)
Change in accounting policy for stock-based compensation (note 3(i))	(512)	-
As restated	(29,184)	(27,156)
Deficit, end of year	\$ (27,240)	\$ (28,672)
Basic and fully diluted earnings (loss) per common share (note 10(c)):		
Earnings (loss) from continuing operations	\$ 0.02	\$ (0.02)
Earnings (loss) for the year	0.02	(0.02)

See accompanying notes to consolidated financial statements.

Years ended December 31, 2004 and 2003

(Expressed in thousands of dollars)

	2004	2003
Cash provided by (used in):		
Operations:		
Net earnings (loss) from continuing operations	\$ 1,998	\$ (1,437)
Items not involving cash:		
Stock-based compensation	21	-
Amortization	3,590	3,580
Non-controlling interest	420	466
Gain on sale of properties	(52)	(22)
Future income taxes	(1,768)	-
Net change in non-cash working capital (note 18(a))	(127)	1,521
	4,082	4,108
Investments:		
Proceeds on sale of properties	67	22
Proceeds from note receivable	-	1,000
Expenditures on ice rink properties	(636)	(1,562)
Purchase of non-controlling interest (note 4)	(4,586)	-
Other assets	(40)	(41)
	(5,195)	(581)
Financing:		
Repayments of bank indebtedness	(2,901)	(825)
Principal repayments on debt on ice rinks	(3,604)	(3,101)
Principal repayments on obligations under capital lease	(266)	(344)
Increase (decrease) in notes payable	(3,212)	973
Net proceeds from rights offering	8,127	-
	(1,856)	(3,297)
Increase (decrease) in cash from continuing operations	(2,969)	230
Increase (decrease) in cash from discontinued operations (note 16)	-	(79)
Cash, beginning of year	4,144	3,993
Cash, end of year	\$ 1,175	\$ 4,144

Supplemental cash flow information (note 18(b)).

19 See accompanying notes to consolidated financial statements.

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, 2004 as a going concern.

The Company has historically incurred losses from continuing operations and has a significant working capital deficiency. The working capital deficiency includes substantially all of the Company’s long-term debt, which matures within the next fiscal year. Accordingly, the Company is dependent upon the continued support of its banks, other lenders and its controlling shareholder in providing long term financing for certain rinks and, ultimately, its ability to continue to generate future profitable operations.

Management continues to review the Company’s revenue generating activities and its expenditure levels to increase net cash flows. In addition, management will seek various financing alternatives as considered necessary. 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 may 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 (note 4):

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

The accounts of all unincorporated joint ventures and partnerships are included in these consolidated financial statements to the extent of the Company’s

proportionate interest in their respective assets, liabilities, revenue and expenses.

(b) Inventories:

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

(c) Long-lived assets:

Effective January 1, 2004, the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) relating to CICA Handbook Section 3063 “Impairment of Long-lived Assets”. This standard requires that long-lived assets be 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.

Under the new standard, 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. The impairment loss is determined as the amount by which the long-lived assets’ carrying amount exceeds its fair value. Adoption of this new standard has had no impact on the Company’s financial position, results of operations or cash flows.

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 & equipment	10 years
Computers, furniture & 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 will be recorded in revenue as earned.

20

- (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.
- (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) Earnings per share:

Earnings per share have been calculated using the weighted average number of common shares outstanding.
- (i) Stock-based compensation plan:

Effective January 1, 2004, the Company adopted the revised recommendations of the CICA with respect to stock-based compensation, which requires the fair value based method of accounting for stock options, with a resulting compensation expense being charged to operations. As permitted by the transitional provisions, this change in accounting policy has been applied retroactively without restatement of prior periods, which resulted in an increase in the deficit as at January 1, 2004 of \$512,000 offset by a corresponding increase in contributed surplus.
- (j) Measurement uncertainty:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that can 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.

(k) 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. Purchase of non-controlling interest:

Effective October 1, 2004, the Company purchased the minority interests of two of the Company's subsidiaries. Specifically, the Company purchased Covington Fund I Inc.'s ("Covington") 25% interest in the Company's 75% subsidiary, Adult "Safe-Hockey" Leagues Ltd. ("ASHL"), and Ice Cold Enterprises Ltd.'s ("Ice Cold") 25% interest in O & O Development Corporation ("O & O"), for \$7.9 million. As a result, these companies became wholly owned subsidiaries of the Company, and on December 23, 2004 they were amalgamated into the Company. The book values of the assets acquired and liabilities assumed by the Company are as follows:

	O & O	ASHL	Total
25% of total assets	\$ 5,064	\$ 6,950	\$ 12,014
25% of total liabilities	2,519	4,402	6,921
Net assets purchased	2,545	2,548	5,093
Purchase price	3,200	4,700	7,900
Excess allocated to ice rink properties	\$ 655	\$ 2,152	\$ 2,807
Pursuant to the purchase agreements, \$2,742,000 was paid to Covington and \$1,844,000 was paid to Ice Cold as down payments including interest, with the remainder payable over the period from 2005 to 2007 (see note 9).			

5. Properties:

	Cost	Accumulated amortization	Net book value
2004			
Ice rinks:			
Land	\$ 15,011	\$ -	\$ 15,011
Buildings	95,236	18,826	76,410
Machinery and equipment	4,167	2,282	1,885
Computers, furniture and fixtures	2,746	1,982	764
Ice resurfacing equipment	1,881	1,281	600
	\$ 119,041	\$ 24,371	\$ 94,670
2003			
Ice rinks:			
Land	\$ 15,032	\$ -	\$ 15,032
Buildings	92,247	16,418	75,829
Machinery and equipment	3,917	1,876	2,041
Computers, furniture and fixtures	2,581	1,642	939
Ice resurfacing equipment	1,762	1,056	706
	\$ 115,539	\$ 20,992	\$ 94,547

Included in properties are assets under capital leases with a cost of \$1,592,000 (2003 - \$2,283,000) and accumulated amortization of \$740,000 (2003 - \$885,000).

6. Bank indebtedness:

The Company has a \$3,000,000 operating line of credit which bears interest at prime plus 1%. This operating line of credit is secured by general security agreements and guaranteed by an affiliate of the Company's controlling shareholder.

7. Obligations under capital leases:

Total minimum lease payments are as follows:			
Year ending December 31:			
2005	\$	285	
2006		134	
2007		122	
2008		75	
2009		3	
		619	
Interest (rates vary from 7.25% to 12%)		139	
Present value of minimum capital lease payments		480	
Current portion		225	
Long-term portion	\$	255	

Lease obligations are secured directly by the leased assets.
Interest of \$57,200 (2003 - \$95,700) relating to capital lease obligations has been included in other interest expense.

8. Debt on ice rinks:

		Weighted average		
Maturity dates		interest rates	2004	2003
Fixed rate	2009	2004 – 4.75% (2003 - 7.25%)	\$ 636	\$ 5,065
Variable rate	2005	2004 - prime + 1.22% (2003 - prime + 1.14%)	46,602	45,777
			47,238	50,842
Current portion			46,703	3,242
Long-term portion			\$ 535	\$ 47,600

Debt on ice rink properties at December 31, 2004 includes \$636,000 (2003 - \$802,000) of debt repayable in US dollars.
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, 2004, principal repayments for the next five years and in aggregate are as follows:

Year ending December 31:	
2005	\$ 46,703
2006	102
2007	102
2008	102
Thereafter	229
	\$ 47,238

9. Notes payable:

	2004	2003
Note payable to an affiliate of the controlling shareholder	\$ 2,250	\$ 5,200
Notes payable to Ice Cold and Covington (note 4)	3,471	-
Amount due to minority interest of subsidiary company	-	235
ASHL subordinated debentures	-	813
O & O subordinated debentures:		
Interest at 8%	-	2,500
Interest at 16%	-	48
	5,721	8,796
Current portion	2,851	3,400
	\$ 2,870	\$ 5,396

As at December 31, 2004 the note payable to an affiliate of the controlling shareholder is a non-revolving loan facility that bears interest at prime plus 2%, payable monthly in arrears. \$1,500,000 is due in 2005 and the remainder is due in 2006.
The notes payable to Ice Cold and Covington are payable in six semi-annual instalments from January 1, 2005 to July 1, 2007, bearing interest at prime plus 2.25% per annum. The payment schedule is as follows:

Years ending December 31:	
2005	\$1,351
2006	1,351
2007	769
	\$3,471

10. Share capital:

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

- (a) Authorized:
500,000,000 common shares of no par value
- (b) Issued and outstanding:

	Shares	Amount
Balance, December 31, 2002 and 2003	93,325,920	\$ 54,981
Shares issued from rights exercised	173,421,743	8,671
Rights offering costs	-	(543)
Balance, December 31, 2004	266,747,663	\$ 63,109

On November 27, 2004, the Company completed an offering of rights that provided every shareholder the right to purchase two common shares for every common share held at the date of record at \$0.05 per share. A total of 173,421,743 shares were issued for rights exercised, and proceeds of \$8,671,000 were received. The rights offering was initiated to raise funds to purchase non-controlling interest of two of the Company’s subsidiaries (see notes 4 and 9).

- (c) Weighted average shares outstanding:

	2004	2003
Weighted average shares outstanding for basic per share calculation	109,955,402	93,325,920
Dilutive effect of options	-	-
Weighted average units used for dilutive per share calculation	109,955,402	93,325,920

11. Stock-based compensation:

Stock options are granted by the Company’s Board of Directors subject to the terms and conditions of the Canlan Ice Sports Corp. Employee and Director Stock Option Plan (2002). The plan has authorized 9,329,538 common shares. Options granted have a five-year term and an exercise price based on the market price of the stock at the time of grant. Options granted vest at dates determined by the Board of Directors.

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

	Number of shares	Weighted average exercise price
Balance, December 31, 2002	7,950,000	\$ 0.06
Forfeited	(500,000)	(0.06)
Granted	1,100,000	0.06
Balance, December 31, 2003	8,550,000	0.06
Forfeited	-	-
Granted	-	-
Outstanding, December 31, 2004	8,550,000	\$ 0.06

All of the stock options granted in 2002 have vested at December 31, 2003. 396,667 options granted in 2003 were vested at December 31, 2004.

The following table summarizes information about the stock options outstanding at December 31, 2004:

Options outstanding			Options exercisable		
Exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.06	8,550,000	29 months	\$ 0.06	7,816,667	\$ 0.06

The fair value of the options was estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	Interest rate	Options Term	Volatility
2004 and 2003	4.0%	42 months	150%

No options were granted in 2004. The weighted average fair value of options granted during 2003 was \$0.05 each at the grant date. During 2004, \$21,000 in stock-based compensation costs were recognized in the statements of operations and credited to contributed surplus.

11. Stock-based compensation (continued):

If fair value accounting for employee stock-based compensation plans adopted in the current year (note 3(i)) had been applied in the prior year, the Company's net loss and net loss per share would have been as indicated below:

	2003
Loss for the year:	
As reported	\$ 1,516
Pro forma	1,628
Basic and fully-diluted loss per share:	
As reported	\$ 0.02
Pro forma	0.02

12. Commitments and contingencies:

- (a) The Company is a defendant in a lawsuit relating to a development project where the damages claimed by the plaintiffs are still unknown. The litigation is in its preliminary stages and neither the outcome nor the potential liability, if any, is determinable at this time.
- (b) Various other 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.
- (c) Effective January 1, 2005, the Company entered into an agreement with a third party under the terms of which the Company will lease and operate an ice rink facility. The term of the lease agreement is for 10 years at a rate of \$200,000 per annum. Pursuant to the lease agreement, the Company assumes the risks and rewards of the facility's operations, but there is no transfer of ownership. Accordingly, the lease agreement will be accounted for as an operating lease.

13. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined federal and provincial income tax rate of 37% for 2004 (2003 - 37%) were as follows:

	2004	2003
Statutory rate applied to earnings (loss) from continuing operations before income taxes	\$ 260	\$ (440)
Large corporations tax	245	225
Non-controlling interest	155	172
Recognition of future benefits related to loss carry forwards	(1,768)	-
Benefit related to current year's losses not recognized	88	236
Utilization of prior years losses not previously recognized	(671)	(276)
Other	397	331

	\$ (1,294)	\$ 248
(b) The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at December 31, 2004 and 2003 are presented below:		

	2004	2003
Future income tax assets related to:		
Non-capital loss carry forwards	\$ 11,314	\$ 12,681
Write-down of marketable securities for accounting	93	93
Financing fee deducted for accounting	4	138
	11,411	12,912
Less: valuation allowance	(8,273)	(11,971)
Net future income tax asset	3,138	941
Future income tax liabilities:		
Properties	1,370	941
Net future income tax asset	\$ 1,768	\$ -

- (c) At December 31, 2004 the Company has non-capital loss carry forwards for income tax purposes of approximately \$32,266,000 (2003 - \$37,117,000), available to offset future taxable income through 2009 of which approximately \$25,743,000 (2003 - \$25,743,000) are of restricted use.

14. Financial instruments:

- (a) Fair value:
- The Company has the following financial instruments: cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, obligations under capital leases, debt on ice rinks, and notes and agreements payable. The carrying values of cash, accounts receivable, bank indebtedness 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, 2004.
- (b) Interest rate risk:
- The terms of the Company's outstanding debt are described in notes 7, 8 and 9. 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.

15. Related party transactions:

- (a) During the year, the Company incurred \$491,000 (2003 - \$375,000) in interest expense related to the notes payable to an affiliate of the controlling shareholder (note 8) and fees of \$139,000 (2003 - \$154,000) related to loan guarantees provided by an affiliate of the shareholder.
- (b) During the year, the Company paid \$41,500 (2003 - \$73,400) in directors' fees.

16. 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:

	2004	2003
Revenue:		
Development	\$ -	\$ -
Expenses:		
Development	54	79
Loss from discontinued operations	\$ (54)	\$ (79)

The cash flows from discontinued operations are as follows:

	2004	2003
Operations	\$ -	\$ (79)
Financing	-	-
	\$ -	\$ (79)

17. 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:

	2004	2003
Facility operations	\$ 32,490	\$ 30,948
Restaurant and lounge	9,437	9,450
Sports store	2,197	2,425
Other	2,014	2,136
	\$ 46,138	\$ 44,959

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

Approximately 2.1% (2003 - 2.8%) of revenue represents facilities operated under management contracts where the Company's return is subject to the risks and rewards of operation and a further 0.5% (2003 - 1.0%) represents fixed management fees on other third party facilities.

18. Supplementary cash flow information:

	2004	2003
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ 79	\$ 197
Inventory	313	(225)
Prepaid expenses	(89)	153
Accounts payable and accrued liabilities	(285)	359
Deferred revenue and customer deposits	(145)	1,037
	\$ (127)	\$ 1,521
(b) Supplementary information:		
Taxes paid	\$ 216	\$ 555
Interest paid	3,681	4,360
Non-cash transactions:		
Capital lease obligations	85	487
Issuance of notes payable as consideration on acquisition of non-controlling interests	3,365	-
Issuance of notes payable as settlement of interest charged on minority interest acquisition	106	-

Five Year Review Balance Sheet

(expressed in thousands of dollars)	2004	2003	2002	2001	2000
Assets:					
Ice rink properties	95,526	95,403	96,757	99,122	98,897
Other	4,251	7,618	8,728	6,625	6,758
Future income tax benefit	1,768	-	-	-	-
Discontinued operations	-	-	-	1,041	5,697
	101,545	103,021	105,485	106,788	111,352
Liabilities:					
Ice Rink mortgages	47,238	50,842	53,943	55,539	55,177
Other	17,905	25,870	23,717	21,920	20,170
Discontinued operations	-	-	-	-	2,307
	65,143	76,712	77,660	77,459	77,654
Shareholders' Equity:					
Share capital	63,109	54,981	54,981	54,981	54,981
Contributed surplus	533	-	-	-	-
Retained earnings (deficit)	(27,240)	(28,672)	(27,156)	(25,652)	(21,283)
	36,402	26,309	27,825	29,329	33,698
Statistics:					
Debt to equity ratio	1.79:1	2.86:1	2.75:1	2.59:1	2.26:1
Issued shares at year end	266,748	93,326	93,326	93,326	93,326
Average shares outstanding	109,956	93,326	93,326	93,326	26,609
Earnings (loss) per common share:					
Loss from continuing operations:					
Basic	\$0.02	(\$0.02)	(\$0.02)	(\$0.04)	(\$0.14)
Fully diluted	n/a	n/a	n/a	n/a	n/a
Net loss:					
Basic	\$0.02	(\$0.02)	(\$0.02)	(\$0.05)	(\$0.18)
Fully diluted	n/a	n/a	n/a	n/a	n/a
Share price range	\$0.04-0.11	\$0.04-0.10	\$0.04-0.8	\$0.01-0.09	\$0.09-0.50

Five Year Review Statement of Operations

(expressed in thousands of dollars)	2004	2003	2002	2001	2000
Revenue:					
Ice rinks	\$46,138	\$44,959	\$42,307	\$39,753	\$39,080
Other	-	-	-	20	448
	46,138	44,959	42,307	39,773	39,528
Operating expenses:					
Ice Rinks	35,317	35,299	33,613	31,563	31,721
General and administrative	2,534	2,498	2,458	2,498	2,699
Other	-	-	-	-	186
	37,851	37,797	36,071	34,061	34,606
Earnings before interest, amortization and taxes	8,287	7,162	6,236	5,712	4,922
Other expenses:					
Interest	3,681	4,499	4,247	5,201	6,381
Amortization	3,590	3,580	3,598	3,638	3,765
Other	312	272	245	160	(1,851)
Taxes (recovery)	(1,294)	248	234	270	376
	6,289	8,599	8,324	9,269	8,671
Net earnings (loss) from continuing operations	1,998	(1,437)	(2,088)	(3,557)	(3,749)
Results from discontinued operations	(54)	(79)	584	(812)	(977)
Net earnings (loss)	\$1,944	\$(1,516)	\$(1,504)	\$(4,369)	\$(4,726)

Directors

D.C. Andrews
President
D.C. Andrews Corporation, Vancouver, BC

W. Grant Ballantyne
President & Chief Executive Officer
Canlan Ice Sports Corp., Vancouver, BC

Frank D. Barker
Partner
Kinetic Capital Partners
Vancouver, BC

Geoffrey J. Barker
Vice-President,
Properties & Development
Bartrac Holdings Ltd.
Vancouver, BC

Edwin Cohen
Private Investor
Toronto, ON

William B. Pattison
President
Pattison Information Inc.
Victoria, BC

Head Office

6501 Sprott Street, Burnaby, B.C. V5B 3B8
Tel. (604) 736-9152 Fax (604) 736-9170

Registered Office

19th Floor, 1040 West Georgia Street, Vancouver, BC V6E 4H3

Toronto Office

1120 Martin Grove Road, Etobicoke, ON M9W 4W1
Tel. (416) 247-5742 Fax (416) 247-9650

Solicitors

Edwards, Kenny & Bray LLP, 19th Floor, 1040 West Georgia Street, Vancouver, BC V6E 4H3

Officers

Frank D. Barker
Chairman

W. Grant Ballantyne
President & CEO

Arthur Dickson
Senior Vice-President
Marketing & Management Services

Michael F. Gellard
Senior Vice-President,
Finance & CFO

Joey St. Aubin
Senior Vice-President & COO

William Channing
Vice-President
Adult Safe Hockey League Operations

Mark Faubert
Vice -President
Western Operations

Ken Male
Vice-President
Eastern Operations

Mark E. Reynolds
Director Human Resources & Chief Privacy Officer

Ivan C. Wu
Controller

Auditors

KPMG LLP, 777 Dunsmuir Street, Vancouver, BC V7Y 1K3

Registrar & Transfer Agent

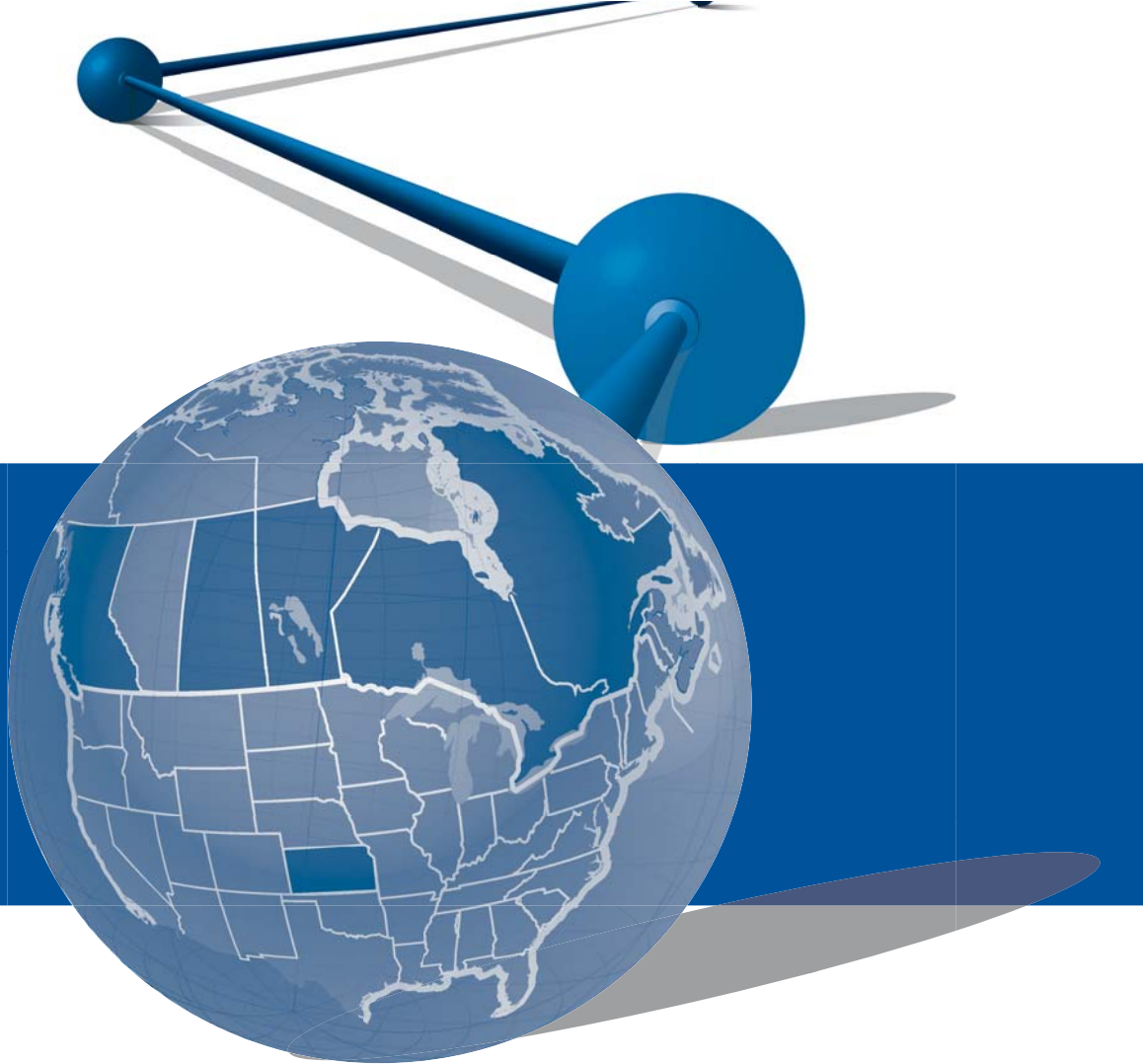
Computershare Investor Services, 8th Floor, 151 Front Street, Toronto, ON M5J 2N1 and
510 Burrard Street, Vancouver, BC V6C 3B9

Shares Listed

Toronto Stock Exchange, Symbol ISE

Web site

www.canlanicesports.com



CANLAN
ICE
SPORTS

www.canlanicesports.com

www.icesports.com

Head Office

6501 Sprott Street, Burnaby, B.C. V5B 3B8, t · 604 · 736 · 9152 f · 604 · 736 · 9170

Management Services Office

1120 Martin Grove Road, Etobicoke, ON M9W 4W1, t · 416 · 247 · 5742 f · 416 · 247 · 9650