

Canlan Ice Sports Corp.

where the experience is everything

ANNUAL REPORT

two thousand and five



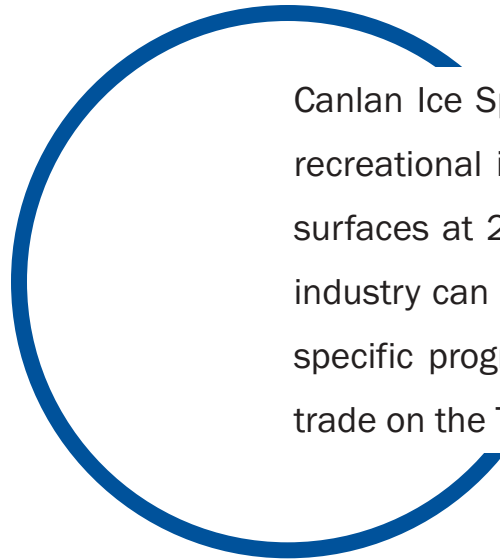


Mission Statement:

“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 North Shore



Canlan Ice Sports is one of the largest private sector operators of recreational ice sports facilities in North America, with 55 playing surfaces at 20 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.

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Facility Locations

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

MICHIGAN

Monroe Multi-Sports Complex, 2-Rink Complex

MANITOBA

Canlan Ice Sports Winnipeg, 4-Rink Complex

KANSAS

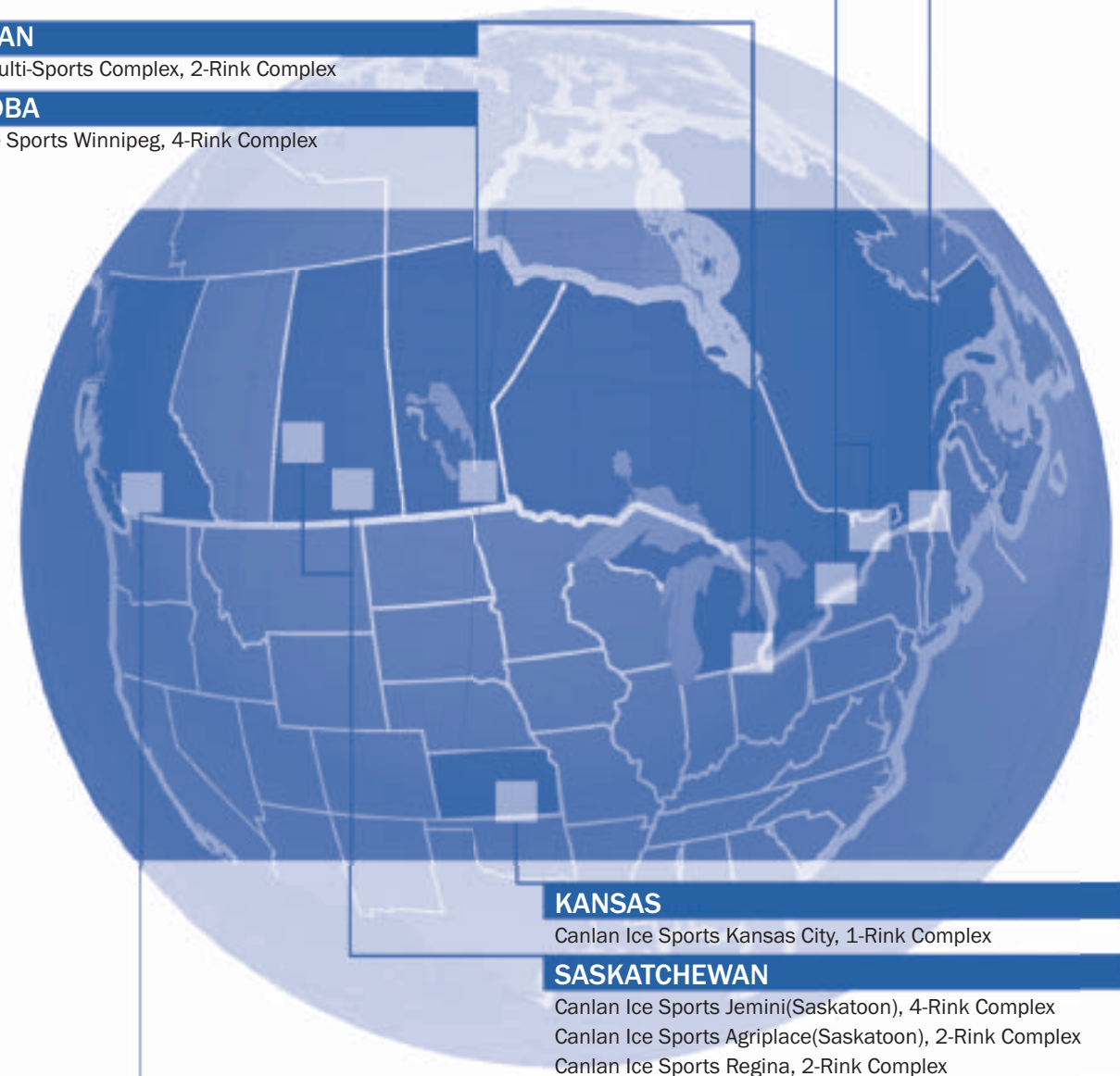
Canlan Ice Sports Kansas City, 1-Rink Complex

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
 Armstrong/Spallumcheen Parks & Recreation 1-Rink Complex



Fiscal 2005 built on the profitability achieved in 2004. The Company continued the trend of revenue growth to \$48.8 million, an increase of \$2.7 million and increased earnings from continuing operations before taxes to \$1.2 million an increase of \$543,000 over the \$704,000 achieved in the prior year.

These increases were not without significant challenges. The first half of the year was marked by the absence of NHL hockey as the league resolved its season long player lockout. The lockout resulted in declining interest in hockey and reduced our restaurant revenues. We offset these first half issues through strong growth in our leagues, camps and programs for youth in August and September.

The Adult Safe Hockey League, our principal brand and the largest adult recreational league in North America, continued to grow during the year but at lower than expected levels also due to the interruption in NHL operations.

During the year the Company expanded its operations, for the first time, through long term leases. Two long term leases were entered into during the year, one in Toronto, ON and one in Langley, BC. Both properties had previously been managed by Canlan for third parties. Leasing provides Canlan the benefits of ownership without the substantial capital cost of ownership and does not increase existing ice capacity. We see leases as another area of opportunity for growth.

We continued to expand the number of facilities we operate under management contracts with the addition of two contracts with municipalities. The first, in Armstrong, BC where, in addition to the ice arena, we operate the swimming pool, fairgrounds and local parks, another potential area for growth. The second is a twin pad arena in Monroe, Michigan.

As a result of the improving financial condition of the Company and with the support of Canlan's major shareholder we refinanced all of our debt, previously held by multiple lenders, with HSBC Bank Canada based in Vancouver. This new, largely fixed rate financing, provides a solid financial base for future growth.

One of Canlan's greatest strengths is its employees and their commitment to providing the high quality of service our customers expect. We continue to invest in and to develop training programs for all levels of the organization. We have recently introduced a four week Management Development Program to develop Canlan's leadership for future growth. We continue to expand our successful Customer Service Training program to all levels of the organization. We are confident these initiatives will continue to strengthen our shared commitment to customer service excellence.

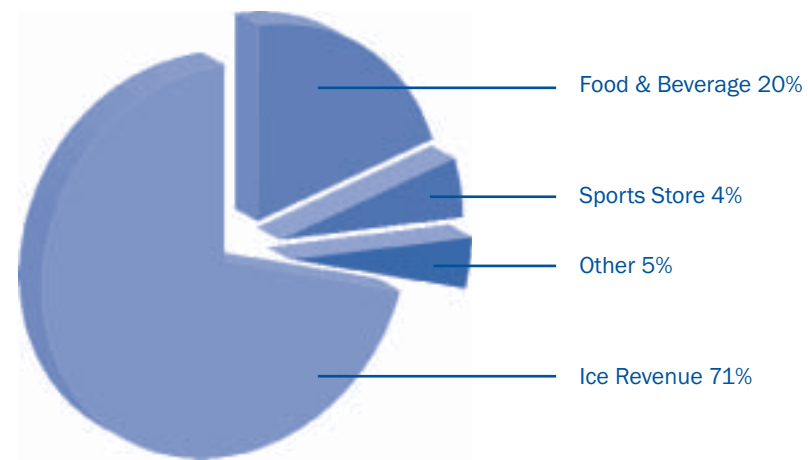
We thank our employees for their commitment to our goals and success, and our shareholders and financial partners for their continued support. We are confident that we will continue to build profitability in the years to come.

W. Grant Ballantyne
 President & CEO

Financial Highlights

	2005	2004
Revenue	\$48,768,000	\$46,138,000
Earnings before interest, taxes and amortization	\$8,397,000	\$8,287,000
Net earnings before tax	\$1,247,000	\$704,000
Net earnings	\$1,040,000	\$1,944,000
Total assets	\$99,792,000	\$101,545,000
Shareholders equity	\$37,450,000	\$36,402,000
Earnings per common share	\$0.00	\$0.02
Shareholders equity per share	\$0.14	\$0.14
Weighted average number of common shares outstanding	266,747,663	109,955,402
Number of common shares outstanding	266,747,663	266,747,663

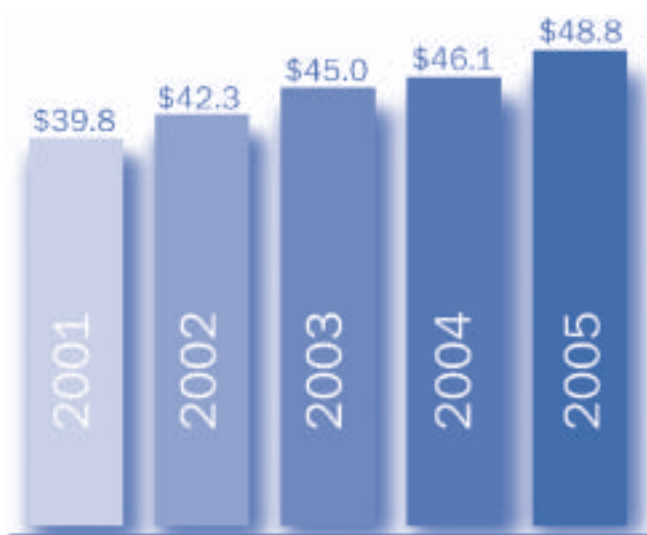
Sources of Revenue



Earnings Before Interest, Taxes and Amortization (in millions)



Gross Revenue (in millions)



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Management's Discussion & Analysis

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, 2005 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 10, 2006.

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 20 facilities in Canada and the United States containing 54 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 2 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. at Burnaby 8 Rinks, the Company's largest facility. There are 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 advertising, space rental and sponsorship. Programs and ice sales accounted for 71% of the Company's total revenue in 2005 or \$34.7 million compared \$32.5 million (70%) in 2004, a year over year increase of 6.7%. 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 \$14.7 million in total registration revenue in 2005, which accounts for 42% of the Company's total ice sales. In 2004 the league contributed \$13.3 million in total revenue or 41% 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 and summer leagues was 38,000, up slightly from 2004. Revenue earned from Management services is also included in this category.

Management services revenue is comprised of fees for managing ice rink facilities on behalf of owners and municipalities and one time consulting engagements. In 2005 the Company generated \$0.3 million in fees compared to \$0.4 million in 2004.

Revenue from our thirteen restaurant operations was \$9.8 million, an increase of \$0.4 million from last year. Food and beverage sales accounted for 20% of total revenue, which is consistent with prior years. The Company has developed marketing initiatives, which include draw prize promotions and loyalty programs for our adult league members, which are designed to increase traffic in our restaurants.

Our sports stores generated \$1.9 million in gross sales in 2005, or 4% of total revenue. In 2004 the stores contributed \$2.2 million in revenue. The Company operates ten retail operations and leases the remaining four locations to third party operators. This decrease in retail revenue is principally due to the outsourcing of three stores to third party operators in 2004.

Other sources of revenue totaled \$2.3 million in 2005, unchanged from the prior year, or 5% of total revenue. Major components of other revenue include space rental, vending and sponsorship.

During the year the Company did not purchase any new facilities, but did acquire two new management contracts, one in Armstrong, B.C. and a second in Monroe, Michigan in the USA. Two previously managed twin-pad facilities, one in Langley, B.C. and a second in Toronto, Ontario were converted to long term leases during the year. By leasing the facility, the Company will accept the operating risk and rewards rather than earning a fixed monthly fee.

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

	Number of Facilities	Number of playing surfaces
2005	20	55
2004	19	54
2003	19	55
2002	20	56
2001	20	56
	Number of Facilities	Number of playing surfaces
Canada:		
British Columbia	6	17
Saskatchewan	3	8
Manitoba	1	4
Ontario	6	17
Quebec	2	6
	18	52
USA:		
Kansas	1	1
Michigan	1	2
	2	3
TOTAL	20	55

Significant Transactions

The Company completed various significant transactions during the year. They are summarized as follows:

- Completed a significant refinancing and debt consolidation.
- Entered into two long term operating leases.
- Entered into two new management contracts.

Refinancing

On September 30, 2005 the Company completed a significant refinancing and consolidated its mortgage debt, notes payable to third parties and operating line of credit into one new loan with a single financial institution. The new \$49.0 million loan matures in three years and is being amortized over fifteen years. The loan replaces eight separate loan facilities with four different lending institutions and two separate notes with our former minority partners in Ontario. A portion of the loan is fully guaranteed by an affiliated company of the Company's majority shareholder.

Management's Discussion & Analysis

Proceeds from the transaction were used as follows:

In thousands	
Pay out existing mortgage debt	\$44,394
Pay out notes payable to former minority partners	2,125
Pay out bank credit facility	1,760
Transaction costs	517
Working capital	204
	\$49,000

Long term operating leases

After managing a two-pad facility in Langley, B.C. since April 2002, the Company entered into a ten year operating lease effective January 1, 2005 with the owner. As a result of operating two other facilities in this market for five years, we have acquired valuable knowledge of the local market conditions and expect this property to contribute to the overall profitability of the Company.

In addition we entered into a second long term lease arrangement for a two-pad facility in an east Toronto suburb, effective February 1, 2005 for fifteen years. Canlan had managed this property for 10 months before entering into this long term arrangement. We operate four other facilities in the Greater Toronto Area, therefore, adding one more in the region will allow us to take advantage of numerous synergies.

The long term lease option allows the Company to take advantage of benefits of ownership without committing the required significant capital. We do however accept the added operating risk which is not present in a fixed fee management contract.

Management Contracts

The Company entered into two new management contracts during the year. Both contracts are with local municipal governments, one in central B.C. and a second contract in Michigan U.S.A.

Review of Fiscal 2005 Operations

Total consolidated revenue from operations reached \$48.8 million compared to \$46.1 million in 2004, an increase of \$2.7 million or 5.9%. The two leased facilities previously described contributed \$3.0 million in total revenue compared to a management fee of \$137,000 in 2004. Therefore on a same store basis, total revenue was \$45.8 million, a slight reduction from 2004.

The slight decrease in same store revenue was a result of a general decline in tournaments and third party contract customers which maybe linked to the absence of NHL hockey in the first half of 2005. Same store food and beverage sales were down by \$300,000 or 2.8%. However the Company was able to offset some of these factors with strong growth in camps and programs in August and September and a strong registration drive in the Adult Safe Hockey League in the fall of 2005. Currently, registration for our adult leagues is at very high levels across the country. A summary of the revenue by business segment and geographic region is summarized as follows:

in thousands	2005		2004	
	Sales	%	Sales	%
Ice Sales	\$34,665	71%	\$32,490	70%
Restaurant and Lounge	9,850	20%	9,437	21%
Sports Store	1,910	4%	2,197	5%
Other	2,343	5%	2,014	4%
	\$48,768	100%	\$46,138	100%

in thousands	2005		2004	
	Sales	%	Sales	%
Canada:				
British Columbia	\$12,551	26%	\$10,590	23%
Saskatchewan	5,501	11%	5,416	12%
Manitoba	3,125	6%	2,981	6%
Ontario	22,188	45%	21,523	47%
Quebec	5,155	11%	5,082	11%
	\$48,520	99%	\$45,592	99%
USA	248	1%	546	1%
	\$48,768	100%	\$46,138	100%

Total ice rink operating costs increased to \$37.6 million compared to \$35.3 million in 2004. On a same store basis operating costs were \$34.7 million, down slightly from 2004 as a result of lower variable costs related to programs and lower costs related to our restaurants due to lower volumes. We include lease payments related to our long term leases in operating costs, which has the effect of producing lower than normal margins on those properties. On a same store basis we spent \$4.3 million on electricity, gas and water in 2005, compared to \$4.2 million in 2004. The Company was successful in managing its energy costs in 2005 by using purchase contracts and pooling our consumption with other large users to get better rates. Many of these purchase contracts will be renewed and will likely reflect higher market energy prices in 2006. Operating costs represented 77% of revenue in 2005, unchanged from 2004.

Earnings before interest, taxes and amortization ("EBITA") were \$8.4 million in 2005 compared to \$8.3 million in 2004, a slight improvement. EBITA is calculated after head office general and administration expenses, which totaled \$2.8 million compared to \$2.5 million in 2004. EBITA was 17% of revenue in 2005 and 18% in 2004. The increase in administration expense was primarily due to the reallocation of some executive compensation from facilities to the corporate level.

The Company is pleased to report that net earnings before taxes and discontinued operations were \$1.2 million in 2005, compared to \$0.7 million in 2004, an improvement of \$0.5 million. While our operating profit remained relatively unchanged from the prior year we reduced our borrowing costs by \$0.2 million and eliminated non-controlling interest as a result of the 2004 purchase of minority partners' interest in our four Ontario facilities. Non-controlling interest expense was \$0.4 million in 2004.

Total federal capital taxes totaled \$0.2 million unchanged from 2004 but this was offset by a net future tax recovery of \$0.2 million. The net future tax recovery comprises a tax expense of \$1.7 million related to a future tax asset recognized in 2004 and a future tax recovery of \$1.9 million. Similar to the prior year, the Company has recorded a future tax benefit as we have determined that it is more likely than not that the Company will benefit from its non-capital loss carry forwards in 2006. The expected future tax benefit for utilizing available tax loss carry forwards is \$1.9 million.

The Company recorded an additional net expense in the amount of \$205,000 related to discontinued operations. This amount

includes a settlement of outstanding litigation related to a property Canlan developed 16 years ago. Net income after tax and discontinued operations for the year ended December 31, 2005 was \$1.0 million, or \$0.005 per share, compared to a net income of \$1.9 million in 2004, or \$0.02 per share, based on a weighted average number of shares outstanding of 267 million in 2005 and 110 million in 2004.

Contract Management, Consulting & 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 2005 the Company added two new management contracts, both with municipal governments. One is located in central B.C. with the Armstrong/Spallumcheen Parks & Recreation Commission and the second is located in Monroe, Michigan with the City of Monroe. Both are five year contracts. We are currently managing five facilities under contract with various terms and conditions. Two properties which were previously managed by Canlan were converted to long term leases at the beginning of 2005.

In May 2005 following several years of declining revenues the City of Wichita terminated its management contract with Canlan. Canlan had managed the property for ten years and had five years remaining on the contract. A settlement is currently being sought by the Company regarding the remaining contract term.

In addition, the Company has entered into two other management contracts which are scheduled to be operational in the summer of 2006. Currently the facilities are under construction and we are providing consulting services during the construction and start up stages. These two-pad facilities are located in Edmonton, Alberta and Romeoville, Illinois.

Total revenue generated from long-term management contracts and consulting engagements was \$0.3 million, compared to \$0.4 million in the previous year.

Earnings by quarter

With the addition of the two leased facilities to the Company's operations, effective in the first quarter of 2005, we experienced the effects of expensing premises lease payments throughout the year. As expected, the first and fourth quarters remained strong, and for the first time in any quarter the Company exceeded \$4.0 million in EBITA in Q4 of 2005.

As a result of a lower than expected tournament activity, fewer ice contracts to third parties and the accounting treatment of

our premises lease payments we experienced a small negative EBITA in the third quarter. This is our first negative quarter since 2002. Some of the reduced activity in the summer months can be attributable to the work stoppage of the NHL, which has since been settled. We are expecting to return to positive results in the summer of 2006.

The Company's branded youth hockey programs, which operate in the spring and summer, such as the Youth 3 on 3 Leagues and the Youth Hockey League (YHL) and ringette leagues, did show increases from the previous year. In 2005, our enrollment for these youth programs exceeded 10,000 registrations, compared to 8,000 in 2004.

Earnings by quarter (continued)

in thousands	2005				
	Q1	Q2	Q3	Q4	Total
Gross revenue	\$14,238	\$10,671	\$9,248	\$14,611	\$48,768
Operating costs	(9,660)	(9,366)	(8,659)	(9,922)	(37,607)
	4,578	1,305	589	4,689	11,161
General & administration	(684)	(891)	(629)	(632)	(2,764)
EBITA	3,894	486	(40)	4,057	8,397
Interest	(781)	(799)	(894)	(1,003)	(3,477)
Amortization	(913)	(883)	(889)	(1,002)	(3,687)
Other	(6)	(8)	31	(\$3)	14
Net earnings (loss) before taxes and other	2,194	(1,204)	(1,792)	2,049	1,247
Income taxes and other	(550)	221	471	(349)	(207)
Net earnings (loss)	\$1,644	(\$983)	(\$1,321)	\$1,700	\$1,040
Earnings (loss) per share	\$0.01	(\$0.01)	(\$0.01)	\$0.01	\$0.00

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)
Amortization	(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

Review of 2005 Corporate Expenses

Interest Expense

The Company incurred total interest expense on debt related to ice rinks of \$2.9 million which is unchanged from prior year. Interest expense on ice rink debt did not decline despite reduced debt levels because the prime interest rate increased during the year; the majority of the Company's interest bearing debt was on variable rate loans up to September 30, 2005. Other interest was reduced to \$0.6 million (2004 - \$0.8 million); this includes interest paid to service the Company's credit lines, capital leases and other non-mortgage financed debt. Total interest expense for the year was \$3.5 million compared to \$3.7 million in 2004, a reduction of \$0.2 million or 5.5%.

At year-end, the Company had interest bearing debt totaling \$50.3 million (2004 - \$53.4 million). Virtually all the Company's debt was based on variable interest rates up to September 30,

2005. As a result of a \$49.0 million debt refinancing, which was effective October 1, 2005 the Company has now fixed the interest rate on 90% of its debt.

Amortization

The Company's amortization policy was unchanged during the year. The policy calls for straight-line amortization of its ice rink assets over periods ranging from 5 years to 40 years. Costs related to the refinancing, which totaled \$0.5 million, will be amortized over 3 years. Amortization expense for the year of \$3.7 million was relatively unchanged from the prior year.

General and Administration

Administrative expenses incurred by the ice rink facilities, which are included in ice rink operating costs, totaled \$3.7 million in 2005 or 8% of total facility revenue, relatively unchanged from the prior year.

Non-controlling Interest

As a result of the acquisition of the minority interest in our two former Ontario subsidiaries effective October 1, 2004, non-controlling interest expense has been eliminated. The Company recorded an expense of \$420,000 in 2004 which represented the interest of minority shareholders' allocation of the net income up to September 30, 2004.

Income Taxes

Canlan and its subsidiaries were subject to both capital tax and income tax during the year. Federal capital taxes totalled \$185,000 (2003 - \$245,000) and provincial capital taxes amounted to \$141,000 (2003 - \$205,000), totaling \$326,000 (2004 - \$450,000).

The Company has accumulated non-capital loss carry forwards of approximately \$29.5 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. Management 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 2006 is \$1,950,000 and has been recorded as a future income tax asset, in the fourth quarter.

Corporate general and administration expenses were \$2.8 million in 2005, an increase of \$0.2 million from 2004. The two primary reasons for the increase were due to the reallocation of some executive compensation from the facility level to the corporate level and to professional fees related to amalgamating the Ontario subsidiaries into Canlan Ice Sports Corp.

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 in addition to all costs related to the management services division.

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 2005, the Company paid \$2.0 million in property taxes compared to \$1.8 million in 2004. On a same store basis, property taxes increased by \$0.1 million or 5%.

Summary of Operations

in thousands	2005	2004	2003
Revenue			
Ice rinks and management contracts	\$48,768	\$46,138	\$44,959
Expenses			
Ice rinks	37,607	35,317	35,299
General & administration	2,764	2,534	2,498
	40,371	37,851	37,797
EBITA	8,397	8,287	7,162
Interest	3,477	3,681	4,499
Amortization	3,687	3,590	3,580
Gain on sale of properties	0	(52)	(22)
Other expenses	(14)	364	294
	7,150	7,583	8,351
Net earnings (loss) before taxes	1,247	704	(1,189)
Taxes, net of future tax benefit	(2)	1,294	248
Net earnings (loss) from continuing operations	\$1,245	\$1,998	(\$1,437)
EBITA as a percentage of revenue	17.22%	17.96%	15.93%

2005 Fourth Quarter Results

Revenue for the fourth quarter of 2005 was \$14.6 million, compared to \$13.4 in 2004, an increase of \$1.2 million or 9%. However, on a same store basis revenue increased by only \$0.1 million over last year. EBITA for the fourth quarter of 2005 was \$4.1 million compared to \$3.8 million in 2004, the largest EBITA ever recorded by the Company on a quarterly basis. On a same store basis, EBITA for the quarter was unchanged from the prior year, which was \$3.8 million.

Net income before taxes and discontinued operations was \$2.0 million unchanged from 2004.

Subsequent to the year end the Company settled through mediation a lawsuit related to a real estate project that was developed 16 years ago. The Company's portion of the settlement was \$215,000 and has been accrued as at December 31, 2005 and recorded in discontinued operations.

Net income after a provision for taxes and discontinued operations was \$1.7 million in the quarter.

Review of Assets

Total book value of the Company's assets decreased to \$99.8 million at December 31, 2005 from \$101.5 million at December 31, 2004. The table below summarizes the Company's asset base.

in thousands	2005	2004
Ice rink facilities	\$92,215	\$94,670
Accounts and notes receivable	1,424	1,431
Cash	1,172	1,175
Inventory	1,051	966
Prepaid expenses and other assets	1,124	679
Land held for ice rink development	856	856
Future income taxes	1,950	1,768
	\$99,792	\$101,545

During the year the Company spent \$0.9 million (2004 - \$0.7 million) net of leased equipment on capital expenditures. Larger projects include replacing refrigeration equipment in Winnipeg, and continuing the refurbishment of ice pads in Brossard. In addition the Company is paying particular attention to energy saving programs such as high efficiency lighting systems and energy efficient electric motors used in our ice making plants. These new initiatives are expected to reduce energy consumption and control operating costs.

The Company purchased two new ice resurfacers during the year (one in 2004) to replace units that were near the end of their useful lives. Equipment lease financing was used to purchase these machines.

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	2005	2004
Mortgages payable	\$49,144	\$47,238
Deferred revenue and customer deposits	7,806	6,997
Accounts payable	4,215	4,707
Notes payable	750	5,721
Capital leases	427	480
	62,342	65,143
Shareholders equity	37,450	36,402
	\$99,792	\$101,545

Total interest bearing debt, which includes notes payable, mortgages payable, capital leases and credit lines totaled \$50.3 million as at December 31, 2005, a decrease of \$3.1 million from 2004. On September 30, 2005 the Company completed a \$49.0 million refinancing and consolidated all its mortgage debt and eliminated notes payable held by former minority interest holders and a \$3.0 million operating line of credit. The remaining note payable, due to the Company's majority shareholder, was paid on schedule subsequent to December 31, 2005.

As at December 31, 2005, the Company's balance sheet indicates a working capital deficiency of \$9.2 million (2004-\$55.8 million). The large decrease is a result of completing the mortgage refinancing which allowed us to reclassify the principal portion of the loan not due within the next twelve months to long term.

Liquidity and Capital Resources

The Company's debt to equity ratio has improved in 2005 to 1.66:1 from 1.79:1 in 2004.

The Company generated cash flow from operations before interest, principal, capital expenditures and federal capital taxes totaling \$8.4 million. After providing for interest and capital taxes of \$3.7 million, a \$4.7 million positive cash flow resulted before principal repayment and capital expenditures. Under the new financing arrangement, which has a fifteen year amortization period, normalized annual principal repayments

will be approximately \$2.5 million per year. Total debt service on the new loan is expected to be \$5.2 million. Expenditures on capital assets and by way of capital lease payments consumed \$1.1 million in 2005 (\$0.9 million in 2004) which is consistent with what we are projecting for 2006.

The Company did not generate any additional cash during the year from the sale of surplus assets.

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

in thousands	Year ended December 31/05	Year ended December 31/04
EBITA	\$8,397	\$8,287
Changes in working capital items	125	(127)
Interest expense	(3,477)	(3,681)
Other	(367)	(397)
Cash flow from operations	\$4,678	\$4,082

On an annual basis the Company is cash flow positive; however, due to the seasonal nature of the business the Company requires financial support in the second and third quarters. We were cash flow negative from April to September in the amount of \$3.3 million (2004-\$2.5 million). In prior years, the Company has had access to a \$3.0 million credit facility with a chartered bank and made arrangements with an affiliated Company to provide an additional credit facility in the amount of \$3.0 million. As part of the 2005 refinancing the Company fully repaid its bank credit facility and it was subsequently eliminated.

The Company has not yet accumulated sufficient cash reserves to fund the seasonal shortfall and therefore has established a \$4.7 million non-revolving credit facility with an affiliate of the Company's controlling shareholder. This credit facility will be drawn as needed during the year and fully repaid in the fourth quarter.

Customer deposits and deferred revenue represent a significant source of working capital. As at December 31, 2005 customer deposits and deferred revenue totaled \$7.8 million, (2004 - \$7.0 million); the increase is due to the addition of two leased facilities during the year.

As at the year end the Company has outstanding loans to an affiliate of the Company's controlling shareholder totaling \$750,000 compared to \$2.3 million as December 31, 2004. During the year, total advances increased to \$4.5 million at the end of the third quarter. Scheduled repayments in the fourth

quarter totaled \$3.7 million; the remaining balance of \$750,000 was paid on February 14, 2006.

Share Capital

The Company did not issue any shares during the year. The Company has the following shares outstanding:

	2005	2004
Shares issued and outstanding	266,747,663	266,747,663
Options outstanding	8,550,000	8,550,000
	275,297,663	275,297,663

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.

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.

During 2005 the Company paid \$0.2 million (2004 \$0.5 million) in interest charges and \$0.2 million (2004 - \$0.2 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 59% of the revenues and virtually all of the operating profit being generated in the first and last quarters. This seasonality of operations impacts reported quarterly earnings. The operating result 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

During 2005, the Company was successful in refinancing its debt. The interest rate on all but \$5.0 million of mortgage debt has been fixed for three years, which represents 90% of total interest bearing debt. By fixing the interest rate on the majority of total debt, the Company has reduced interest rate risk for three years.

However the current loan facility matures in September 2008; therefore, we could be susceptible to interest rate fluctuations leading up to maturity.

Mitigating factors and strategies:

- The Company carefully monitors interest rate movements.
- The Company will commence renewal negotiations well in advance of maturity.

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.

Useful lives of depreciable assets

Ice rink properties and administrative assets, such as furniture, computer equipment and software are amortized 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, (2005 - 92%). The selection method of amortization and length of the amortization period could have a material impact on amortization 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 unamortized costs would be written off.

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, 2005.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in filing made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrator's Rules and Forms. Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of December 31, 2005 and concluded that our current disclosure controls and procedures are effective.

Outlook for 2006 and Beyond

In 2005 we made significant progress towards improving our financial condition. The terms of the new financing package are favourable and will improve our annual cash flow in 2006 by \$2.8 million. As a result we will have the ability to build cash reserves to help offset the seasonality of our business cycle and will become less reliant on third parties. With the elimination of non-controlling interest in 2004 we improved our net earnings before taxes to \$1.3 million in 2005, compared to \$0.7 million in 2004. Canlan will continue to utilize available tax losses for another few years which will also help build cash reserves.

On a same store basis our operations did not grow in 2005 as planned. We believe that interest in hockey dropped as a result of the NHL work stoppage which eliminated the entire 2004 - 2005 season. This has been resolved and we are seeing an increase in hockey related activities. We also faced strong new competition in certain of our markets which reduced utilization as a result of an over supply. However we feel our superior customer service will draw back many of our customers. The addition of two facilities under long-term leases will also give us an opportunity to grow our revenue base.

The management services division will be very active in 2006. We have already signed two new management contracts for facilities currently under construction, and more contracts are expected. The division will also focus on creating new sponsorship opportunities in 2006.

We look forward to another successful year in 2006.



Michael F. Gellard
Senior Vice President, Finance and Chief Financial Officer

Management's Responsibility for Financial Statements

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, 2005.

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

Auditors' Report to the Shareholders



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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, 2005 and 2004 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, 2005 and 2004 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 24, 2006

Consolidated Balance Sheets

Years ended December 31, 2005 and 2004

(Expressed in thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash	\$ 1,172	\$ 1,175
Accounts receivable	1,424	1,431
Inventory	1,051	966
Prepaid expenses	513	399
Future income taxes (note 12)	1,950	1,768
	6,110	5,739
Properties:		
Ice rinks (note 5)	92,215	94,670
Held for ice rink development	856	856
	93,071	95,526
Other assets	611	280
	\$ 99,792	\$ 101,545
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,215	\$ 4,707
Deferred revenue and customer deposits	7,806	6,997
Current portion of:		
Obligations under capital leases	150	225
Debt on ice rinks	2,434	46,703
Notes payable	750	2,851
	15,355	61,483
Long-term liabilities:		
Obligations under capital leases (note 6)	277	255
Debt on ice rinks (note 7)	46,710	535
Notes payable (note 8)	-	2,870
	46,987	3,660
	62,342	65,143
Shareholders' equity:		
Share capital (note 9)	63,109	63,109
Contributed surplus (note 10)	541	533
Deficit	(26,200)	(27,240)
	37,450	36,402
	\$ 99,792	\$ 101,545

Future operations (note 2)

Commitments and contingencies (note 11)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Director

Director

Consolidated Statements of Operations and Deficit

Years ended December 31, 2005 and 2004

(Expressed in thousands of dollars)

	2005	2004
Revenue:		
Ice rinks (note 16)	\$ 48,768	\$ 46,138
Expenses:		
Ice rinks	37,607	35,317
Ice rinks operations	11,161	10,821
General and administration expenses	2,764	2,534
Earnings before the undernoted	8,397	8,287
Other expenses (income):		
Amortization	3,687	3,590
Interest on debt on ice rinks	2,907	2,869
Other interest (note 6)	570	812
Non-controlling interest (note 4)	-	420
Gain on foreign exchange	(14)	(56)
Gain on sale of properties	-	(52)
	7,150	7,583
Earnings from continuing operations before income taxes	1,247	704
Income taxes (note 12):		
Current	184	474
Future (recovery)	(182)	(1,768)
	2	(1,294)
Earnings from continuing operations	1,245	1,998
Loss from discontinued operations (note 15)	(205)	(54)
Net earnings	1,040	1,944
Deficit, beginning of year	(27,240)	(29,184)
Deficit, end of year	\$ (26,200)	\$ (27,240)
Basic and fully diluted earnings per common share		
Earnings from continuing operations:	\$ 0.00	\$ 0.02
Earnings for the year	0.00	0.02
Weighted average common shares issued for basic and diluted earnings per share calculations	266,747,663	109,955,402

See accompanying notes to consolidated financial statements.

Years ended December 31, 2005 and 2004

(Expressed in thousands of dollars)

	2005	2004
Cash provided by (used in):		
Operations:		
Earnings from continuing operations	\$ 1,040	\$ 1,998
Items not involving cash:		
Stock-based compensation	8	21
Amortization	3,687	3,590
Non-controlling interest	-	420
Gain on sale of properties	-	(52)
Future income taxes	(182)	(1,768)
Net change in non-cash working capital (note 17(a))	125	(127)
	4,678	4,082
Investments:		
Proceeds on sale of properties	-	67
Expenditures on ice rink properties	(911)	(636)
Purchase of non-controlling interest (note 4)	-	(4,586)
Other assets	(478)	(40)
	(1,389)	(5,195)
Financing:		
Repayments of bank indebtedness	-	(2,901)
Principal repayments of debt on ice rinks	(47,094)	(3,604)
Increase in debt on ice rinks	49,000	-
Principal repayments on obligations under capital lease	(227)	(266)
Repayment of notes payable	(4,971)	(3,212)
Net proceeds from rights offering	-	8,127
	(3,292)	(1,856)
Decrease in cash	(3)	(2,969)
Cash, beginning of year	1,175	4,144
Cash, end of year	\$ 1,172	\$ 1,175

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

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, 2005 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 (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) 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.

(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 assets 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 & 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 are recorded in revenue as earned.

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

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 was 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.

Under the fair value based method, compensation cost for stock options is measured at fair value at the grant date. Compensation cost is recognized in earnings on a straight-line basis over the relevant vesting period. The counterpart is recognized in contributed surplus. Upon exercise of a stock option, share capital is recorded at the sum of the proceeds received and the related amount of contributed surplus.

j) 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.

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 were 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 8).

5. Properties:

2005	Cost	Accumulated amortization	Net book value
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
	\$ 120,069	\$ 27,854	\$ 92,215

2004	Cost	Accumulated amortization	Net book value
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

Included in properties are assets under capital leases with a cost of \$1,405,000 (2004 - \$1,592,000) and accumulated amortization of \$897,000 (2004 - \$740,000).

6. Obligations under capital leases:

Total minimum lease payments are as follows:

Year ending December 31:	
2006	\$ 189
2007	158
2008	112
2009	44
2010	31
	534
Interest (rates vary from 4% to 8%)	107
Present value of minimum capital lease payments	427
Current portion	150
Long-term portion	\$ 277

Lease obligations are secured directly by the leased assets.

Interest of \$59,600 (2004 - \$57,200) relating to capital lease obligations has been included in other interest expense.

7. Debt on ice rinks:

	Weighted average interest rates	2005	2004
Fixed	2005 - 5.86% (2004 - 4.75%)	\$ 44,144	\$ 636
Variable	2005 - prime + 1.00% (2004 - prime + 1.22%)	5,000	46,602
		49,144	47,238
Current portion		2,434	46,703
Long-term portion		\$ 46,710	\$ 535

Debt on ice rink properties at December 31, 2005 includes \$515,000 (2004 - \$636,000) 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, 2005, principal repayments for the next five years and in aggregate are as follows:

Year ending December 31:	
2006	\$ 2,434
2007	2,565
2008	43,933
2009	212
	\$ 49,144

8. Notes payable:

	2005	2004
Note payable to an affiliate of the controlling shareholder	\$ 750	\$ 2,250
Notes payable to Ice Cold and Covington (note 4)	-	3,471
	750	5,721
Current portion	750	2,851
	\$ -	\$ 2,870

As at December 31, 2005 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. The balance outstanding is due in February 2006.

The notes payable to Ice Cold and Covington were repaid in full during the year.

Subsequent to year end, the Company completed a term sheet for a non-revolving demand loan facility of up to \$4,750,000 provided by an affiliate of the Company's controlling shareholder. Amounts can be drawn by the Company during fiscal 2006 as needed and the loan facility is to be fully repaid by December 15, 2006. A second charge on certain of the Company's properties has been pledged as security.

9. 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, 2003	93,325,920	\$ 54,981
Shares issued from rights exercised	173,421,743	8,671
Rights offering costs	-	(543)
Balance, December 31, 2004 and 2005	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 the non-controlling interest in two of the Company's subsidiaries.

10. 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, 2003 and 2004	8,550,000	0.06
Forfeited -	-	
Granted -	-	
Outstanding, December 31, 2005	8,550,000	\$ 0.06

All of the stock options have vested at December 31, 2005, except for 366,667 options granted in 2003.

The following table summarizes information about the stock options outstanding at December 31, 2005:

Exercise price	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.06	8,550,000	16 months	\$ 0.06	8,183,333	\$ 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:

Options		
Interest rate	Term	Volatility
4.0%	42	150%

No options were granted in 2005. During 2005, \$8,000 (2004 - \$21,000) in stock-based compensation costs were recognized in the statements of operations and credited to contributed surplus.

11. Commitments and contingencies:

- (a) At December 31, 2005, 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, 2005, range from 9 to 14 years and total minimum lease payments are as follows:

Year ending December 31:

2006	\$ 475
2007	475
2008	498
2009	500
2010	533
Thereafter	3,812

- (b) The Company is a defendant in a lawsuit relating to a development project where there were damages claimed by the plaintiffs. In February 2006, this claim was settled through mediation with the Company's portion of the settlement determined to be \$215,000. This amount has been accounted for in these consolidated financial statements and included in accounts payable and accrued liabilities, and loss from discontinued operations (see note 15).
- (c) 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.

12. Income taxes:

- (a) The major factors which caused variations from the Company's expected combined federal and provincial income tax rate of 36% for 2005 (2004 - 37%) were as follows:

	2005	2004
Statutory rate applied to earnings from continuing operations before income taxes	\$ 461	\$ 260
Large corporations tax	184	245
Non-controlling interest	-	155
Recognition of future benefits related to loss carry forwards	(182)	(1,768)
Benefit related to current year's losses not recognized	-	88
Other	(461)	(274)
	\$ 2	\$ (1,294)

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, 2005 and 2004 are presented below:

	2005	2004
Future income tax assets related to:		
Non-capital loss carry forwards	\$ 10,360	\$ 11,314
Write-down of marketable securities for accounting	93	93
Financing fee deducted for accounting	15	4
	10,468	11,411
Less: valuation allowance	(8,256)	(8,273)
Net future income tax asset	2,212	3,138
Future income tax liabilities:		
Properties	262	1,370
Net future income tax asset	\$ 1,950	\$ 1,768

- (c) At December 31, 2005 the Company has non-capital loss carry forwards for income tax purposes of approximately \$29,508,000 (2004 - \$32,266,000) available to offset future taxable income through 2009, of which approximately \$25,743,000 (2004 - \$25,743,000) 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, and notes and agreements 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, 2005.

- (b) Interest rate risk:

The terms of the Company's outstanding debt are described in notes 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.

14. Related party transactions:

- (a) During the year, the Company incurred approximately \$229,000 (2004 - \$491,000) in interest expense related to the notes payable to an affiliate of the controlling shareholder (note 8) and fees of approximately \$176,000 (2004 - \$139,000) related to loan guarantees provided by an affiliate of the shareholder.
- (b) During the year, the Company paid \$41,500 (2004 - \$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:

	2005	2004
Revenue:		
Development	\$ 10	\$ -
Expenses:		
Development (note 11(c))	215	54
Loss from discontinued operations	\$ (205)	\$ (54)

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:

	2005	2004
Facility operations	\$ 34,665	\$ 32,490
Restaurant and lounge	9,850	9,437
Sports store	1,910	2,197
Other	2,343	2,014
	\$ 48,768	\$ 46,138

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

Approximately 1.0% (2004 - 2.1%) 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% (2004 - 0.5%) represents fixed management fees on other third party facilities.

17. Supplementary cash flow information:

	2005	2004
(a) Net changes in non-cash working capital:		
Accounts receivable	\$ 7	\$ 79
Inventory	(85)	313
Prepaid expenses	(114)	(89)
Accounts payable and accrued liabilities	(492)	(285)
Deferred revenue and customer deposits	809	(145)
	\$ 125	\$ (127)
(b) Supplementary information:		
Taxes paid	\$ 384	\$ 216
Interest paid	3,477	3,681
Non-cash transactions:		
Capital lease obligations	174	85
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



“One of Canlan’s greatest strengths is its employees and their commitment to providing the high quality of service our customers expect. We continue to invest in and to develop training programs for all levels of the organization.”

Grant Ballantyne - CEO



Five Year Review Balance Sheet

(expressed in thousands of dollars)	2005	2004	2003	2002	2001
Assets:					
Ice rink properties	\$92,215	\$95,526	\$95,403	\$96,757	\$99,122
Other	5,627	4,251	7,618	8,728	6,625
Future income tax benefit	1,950	1,768	-	-	-
Discontinued operations	-	-	-	-	1,041
	99,792	101,545	103,021	105,485	106,788
Liabilities:					
Ice Rink mortgages	49,144	47,238	50,842	53,943	55,539
Other	13,198	17,905	25,870	23,717	21,920
	62,342	65,143	76,712	77,660	77,459
Shareholders' Equity:					
Share capital	63,109	63,109	54,981	54,981	54,981
Contributed surplus	541	533	-	-	-
Deficit	(26,200)	(27,240)	(28,672)	(27,156)	(25,652)
	\$37,450	\$36,402	\$26,309	\$27,825	\$29,329
Statistics:					
Debt to equity ratio	1.66:1	1.79:1	2.86:1	2.75:1	2.59:1
Issued shares at year end (in thousands)	266,748	266,748	93,326	93,326	93,326
Weighted average shares outstanding (in thousands)	266,748	109,956	93,326	93,326	93,326
Earnings (loss) per common share:					
Earnings (loss) from continuing operations:					
Basic	\$0.00	\$0.02	(\$0.02)	(\$0.02)	(\$0.04)
Fully diluted	n/a	n/a	n/a	n/a	n/a
Net earnings (loss):					
Basic	\$0.00	\$0.02	(\$0.02)	(\$0.02)	(\$0.05)
Fully diluted	n/a	n/a	n/a	n/a	n/a
Share price range	\$0.04-0.06	\$0.04-0.11	\$0.04-0.10	\$0.04-0.8	\$0.01-0.09

Five Year Review Statement of Operations

(expressed in thousands of dollars)	2005	2004	2003	2002	2001
Revenue:					
Ice rinks	\$48,768	\$46,138	\$44,959	\$42,307	\$39,773
Operating expenses:					
Ice Rinks	37,607	35,317	35,299	33,613	31,563
General and administrative	2,764	2,534	2,498	2,458	2,498
	40,371	37,851	37,797	36,071	34,061
Earnings before interest, amortization and taxes	8,397	8,287	7,162	6,236	5,712
Other expenses:					
Interest	3,477	3,681	4,499	4,247	5,201
Amortization	3,687	3,590	3,580	3,598	3,638
Other	(14)	312	272	245	160
Taxes (recovery)	2	(1,294)	248	234	270
	7,152	6,289	8,599	8,324	9,269
Net earnings (loss) from continuing operations	1,245	1,998	(1,437)	(2,088)	(3,557)
Results from discontinued operations	(205)	(54)	(79)	584	(812)
Net earnings (loss)	\$1,040	\$1,944	\$(1,516)	\$(1,504)	\$(4,369)

Corporate Information

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

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Chairman

W. Grant Ballantyne
President & CEO

Arthur Dickson
Senior Vice-President
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

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