


Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Canlan Investment Corporation have been prepared by management in accordance with generally accepted accounting principles.

Canlan'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. Further, 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 have been appointed by the shareholders of Canlan and serve as the Company's external auditors. They have examined the consolidated financial statements of the Company for the year ended December 31, 1998.

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 Canlan which are contained in this annual report.



*(signed) Frank D. Barker, President & Chief Executive Officer
Vancouver, British Columbia, April 3, 1999*



(signed) Michael F. Gellard, Controller

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Canlan Investment Corporation as at December 31, 1998 and 1997 and the consolidated statements of operations and deficit and changes in financial position 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 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, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act (British Columbia) we report that, in our opinion, these principles have been applied on a consistent basis.



*KPMG, (signed) Chartered Accountants
Vancouver, Canada, March 12, 1999 except as to note 21, which is as of April 30, 1999*

C o n s o l i d a t e d S t a t e m e n t s o f
O p e r a t i o n s a n d D e f i c i t

Canlan Investment Corporation

Years ended December 31, 1998 & 1997 (in thousands of dollars, except per share amounts)

	1 9 9 8	1 9 9 7
Revenue		
Ice rinks	\$ 35,825	\$ 28,931
Other	473	512
	36,298	29,443
Expenses		
Ice rinks	28,633	23,529
Other	132	117
	28,765	23,646
Earnings from operations	7,533	5,797
General and administration expenses	2,776	2,863
Earnings before the undernoted	4,757	2,934
Other expenses		
Interest on debt on ice rinks	5,152	3,957
Other interest	1,513	1,166
Depreciation and amortization	3,593	2,444
Non-controlling interest	(344)	(259)
Write-down of marketable securities	131	302
	10,045	7,610
Loss from continuing operations before income taxes	(5,288)	(4,676)
Income taxes <i>[note 13]</i>	386	605
Loss from continuing operations	(5,674)	(5,281)
Loss from discontinued operations <i>[note 19]</i>	(21,747)	(4,662)
Net loss	(27,421)	(9,943)
Interest on convertible debenture capital	(864)	(792)
Retained earnings, beginning of year	6,829	17,564
Retained earnings (deficit), end of year	\$ (21,456)	\$ 6,829
Loss per common share		
Loss from continuing operations	\$ 0.50	\$ 0.50
Net loss	\$ 2.18	\$ 0.88

See accompanying notes to consolidated financial statements

C o n s o l i d a t e d B a l a n c e S h e e t s

Canlan Investment Corporation

December 31, 1998 & 1997 (in thousands of dollars)

	1 9 9 8	1 9 9 7
Assets		
Current Assets		
Cash [note 5]	\$ 4,714	\$ 4,085
Accounts receivable	2,418	1,158
Inventory	1,318	1,126
Prepaid expenses	1,352	2,098
Discontinued operations assets [note 19]	44,633	93,586
	54,435	102,053
Properties		
Ice rinks [note 3]	107,343	97,311
Other revenue [note 4]	1,627	1,849
Held for ice rink development	515	681
	109,485	99,841
Deferred financing and other charges	1,339	2,702
	\$ 165,259	\$ 204,596
Liabilities, shareholders' and debenture holders' equity		
Current liabilities		
Bank indebtedness [note 9]	\$ 3,650	\$ 3,649
Accounts payable and accrued liabilities	7,912	5,950
Deferred revenue and customer deposits	4,726	3,549
Current portion of		
Obligations under capital lease [note 7]	1,145	1,042
Debt on ice rinks [note 6]	9,283	1,787
Debt on other revenue property	128	64
Discontinued operations liabilities [note 19]	34,405	54,071
	61,249	70,112
Long term liabilities		
Notes and agreements payable [note 8]	5,750	5,750
Obligations under capital lease [note 7]	1,912	1,794
Due to joint venture partners	1,413	1,444
Convertible debenture liability [note 10]	7,841	8,704
Debt on properties		
Ice rinks [note 6]	49,951	51,510
Other revenue property	-	373
	66,867	69,575
Non controlling interest [note 11]	1,848	2,192
	129,964	141,879
Shareholders' and debenture holders' equity		
Convertible debenture capital [note 10]	12,159	11,296
Share capital [note 12]	44,592	44,592
Retained earnings (deficit)	(21,456)	6,829
	35,295	62,717
Commitments and contingencies [note 14]		
Subsequent event [note 21]		
	\$ 165,259	\$ 204,596

On behalf of the Board:



(signed) Frank D. Barker, Director



(signed) W.G. Ballantyne, C.A., Director

See accompanying notes to consolidated financial statements

C o n s o l i d a t e d S t a t e m e n t s o f
C h a n g e s i n F i n a n c i a l P o s i t i o n

Canlan Investment Corporation

Years ended December 31, 1998 & 1997 (in thousands of dollars)

Cash provided by (used in)	1 9 9 8	1 9 9 7
Operations		
Loss from continuing operations	\$ (5,674)	\$ (5,281)
Depreciation and amortization	3,593	2,444
Write-down of		
Property held for ice rink development	306	-
Marketable securities	131	302
Non-controlling interest	(344)	(259)
Changes in non-cash working capital		
Accounts receivable and due to joint venture partners	(1,291)	(21)
Accounts payable and accrued liabilities	1,962	2,424
Deferred revenue and customer deposits	1,177	2,844
Inventory	(192)	(446)
Other assets	1,664	(606)
	1,332	1,401
Financing activities		
Increase in debt on ice rinks, net of repayments	5,937	6,992
Increase in obligations under capital lease, net of repayments	221	867
Decrease in debt on other revenue property	(309)	(58)
Interest on convertible debenture capital	(864)	(792)
Issuance of:		
Subordinated debentures	-	3,562
Common shares and special warrants	-	7,992
	4,985	18,563
Investing activities		
Additions to properties		
Ice rinks	(13,349)	(18,548)
Held for ice rink development	(140)	-
Insurance proceeds	340	-
Acquisition of subsidiary <i>[note 18]</i>	-	(637)
	(13,149)	(19,185)
Increase (decrease) in cash position from continuing operations	(6,832)	779
Increase in cash position from discontinued operations <i>[note 19]</i>	6,311	1,953
Cash position, beginning of year	(1,253)	(3,985)
Cash position, end of year	\$ (1,774)	\$ (1,253)
Represented by		
Cash from continuing operations	\$ 4,714	\$ 4,085
Bank indebtedness of continuing operations	(3,650)	(3,649)
Bank indebtedness of discontinued operations <i>[note 19]</i>	(2,838)	(1,689)
	\$ (1,774)	\$ (1,253)

See accompanying notes to consolidated financial statements

1 Continuing operations

Since July of 1997, Canlan Investment Corporation (the "Company") has focused on its Ice Sports Division involving the acquisition, development and operation of full service ice rink facilities across North America. Prior to that time, the Company also acquired, developed and operated real estate and other revenue property. The common shares of the Company are listed on The Toronto Stock Exchange.

Effective December 31, 1998, the Company adopted formal plans to discontinue its real estate activities. Subsequent to year end, the Company sold its most significant development and other revenue properties (note 21).

2 Significant accounting policies

These financial statements are prepared in accordance with recommendations of The Canadian Institute of Chartered Accountants.

(a) Principles of consolidation:

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

P.C. Development Inc.	100%
Ormskirk Investments Ltd.	100%
Adult "Safe Hockey" Leagues Ltd.	75%
Les Quatre Glaces (1994) Inc.	100%
Iceplex 2000 Ltd.	100%
Columbia Medical Building Ltd.	0% (1997-100%)
Candev Inc.	100%
O&O Development Corporation	56%
The Hockey Training Institute Ltd.	0% (1997 - 51%)
Rivcan LLC	50%

The accounts of all incorporated and 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, revenues and expenses.

(b) Revenue recognition:

Costs incurred on ice rinks and other revenue properties under development are capitalized net of related revenue until the facility is ready to commence operations. For ice rink properties, this occurs when the facility is ready to commence operations for its first hockey league season, after which revenue is recorded as earned. For other revenue properties, this occurs when a 75% level of occupancy is achieved, subject to this level being achieved within a reasonable time period, after which revenue is recorded as earned.

(c) Properties:

Ice rinks and other revenue properties are stated at cost less accumulated depreciation. Cost includes interest, property taxes, other carrying charges, and applicable general and administrative expenses incurred during the development and pre-operating periods.

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

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

(d) Other assets:

Deferred financing charges are amortized over the minimum term of the related debt.

(e) 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.

(f) Translation of accounts into Canadian currency:

Accounts in United States currency have been translated into Canadian currency as follows:

Monetary assets and liabilities at the rate prevailing at the balance sheet date;

Development property, revenue property and related depreciation at the rates as of the dates of acquisition; and

Revenue and expenses at the average rate for the year.

Translation gains and losses are included in the determination of operating results, except for those gains and losses arising on translation of long-term monetary items, which are deferred and amortized over the term to maturity of the respective item.

(g) Earnings per share:

Earnings per share has been calculated using the weighted average number of Common shares outstanding, which for 1998 was 12,957,476 shares (1997 - 12,193,092 shares).

Fully diluted and supplementary fully diluted earnings per share are not dilutive and, accordingly, have not been provided.

(h) Measurement uncertainty:

Financial statements prepared in conformity with generally accepted accounting principles require management to make estimates and assumptions which can effect the reported balances. In determining estimates of net recoverable amounts for its ice rinks and rental revenue properties and net realizable values for accounts receivable, inventory and other assets, the Company relies on 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.

(i) Comparative figures:

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

3 Ice rink properties

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>		
	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>
Land	\$ 14,896	\$ -	\$ 14,896
Buildings	93,526	5,004	88,522
Machinery and equipment	2,878	705	2,173
Computers, furniture and fixtures	1,376	360	1,016
Ice resurfacing equipment	1,162	426	736
	<u>\$113,838</u>	<u>\$ 6,495</u>	<u>\$107,343</u>

<i>(\$000s)</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>1997</i>
			<i>Net Book Value</i>
Land	\$ 14,531	\$ -	\$ 14,531
Buildings	82,082	2,797	79,285
Machinery and equipment	2,580	364	2,216
Computers, furniture and fixtures	573	149	424
Ice resurfacing equipment	1,084	229	855
	<u>\$100,850</u>	<u>\$ 3,539</u>	<u>\$ 97,311</u>

Included in properties are assets under capital leases, with a cost of \$4,530,000 (1997 - \$3,611,000) and accumulated depreciation of \$684,000 (1997 - \$329,000). Interest, during construction, of \$40,000 (1997 - \$381,000) has been capitalized during the year in building costs.

4 Other revenue property

<i>(\$000s)</i>	<i>1998</i>	<i>1997</i>
Land	\$ 257	\$ 257
Buildings, equipment and other	1,757	1,981
	2,014	2,238
Accumulated depreciation	(387)	(389)
	\$ 1,627	\$ 1,849

5 Cash

Cash includes amounts totalling \$802,000 (1997 - \$267,000) which are either to be applied to specific liabilities or which are held as collateral.

6 Debt on ice rinks

<i>(\$000s)</i>	<i>Maturity dates</i>	<i>Weighted average interest rates</i>	<i>1998</i>	<i>1997</i>
Fixed rate	1999 - 2003	1998 - 8.23% (1997 - 8.628%)	\$ 45,547	\$ 28,109
Variable rate	1999 - 2001	1998 - prime plus 1.38% (1997 - prime plus 1.43%)	13,687	25,188
			59,234	53,297
Less current portion			9,283	1,787
Long-term portion			\$ 49,951	\$ 51,510

Debt on ice rinks properties at December 31, 1998 includes \$2,980,000 (1997 - \$2,275,000) of debt repayable in U.S. dollars.

Debt on ice rinks and other revenue properties 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.

At December 31, 1998, the Company exceeded certain of the covenants specified in its borrowing agreements. Without prejudicing their rights, the respective lenders have indicated that, barring unforeseen circumstances, they do not intend to demand payment of the outstanding obligations.

Principal repayments for the next five years and in aggregate for amounts outstanding at December 31, 1998 are as follows:

<i>(\$ 0 0 0 s)</i>	
1999	\$ 9,283
2000	16,857
2001	14,932
2002	1,087
2003	17,075
	<u>\$ 59,234</u>

7 Obligations under capital lease

Total minimum lease payments are as follows:

<i>(\$ 0 0 0 s)</i>	
1999	\$ 1,145
2000	1,002
2001	788
2002	452
2003	109
	<u>3,496</u>
Less interest (rates vary from 8.25% to 12.0%)	439
Present value of minimum capital lease payments	<u>3,057</u>
Less current portion	1,145
Long-term portion	<u>\$ 1,912</u>

Lease obligations are secured directly by the leased assets.

Interest of \$303,000 (1997 - \$202,000) relating to capital lease obligations has been included in other interest expense.

8 Notes and agreements payable

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>	<i>1 9 9 7</i>
Note payable	\$ 3,000	\$ 3,000
O&O Development Corporation ("O&O") subordinated debentures:		
8%	2,500	2,500
16%	250	250
	<u>\$ 5,750</u>	<u>\$ 5,750</u>

The note payable bears interest at prime plus 1.75% (1997 - 1.75%) per annum and matures March 31, 2000. The note is secured by a fixed and floating charge on Canlan assets.

Interest is payable on the O&O subordinated debentures only if sufficient cash is available. Interest accrues on all unpaid interest. Interest has been waived by the debenture holders for fiscal 1998. Interest was also waived for fiscal 1997. The debentures mature in September 2002 at which time the debt can be extended for three one-year terms if insufficient cash exists for repayment. Upon the expiration of the third extension, should O&O be unable to retire the debentures, the debenture holder is entitled to receive common shares of the Company in settlement. The weighted average trading price of the Company's shares on the TSE at that time will be used to determine the number of shares to be issued in order to satisfy the debt.

9 Bank indebtedness

The Company has operating lines of credit which bear interest at rates varying from prime plus 1/2% to prime plus 1% (1997 - prime plus 1/2% to prime plus 1%) These operating lines of credit are secured by general security agreements. \$3,000,000 of the operating lines of credit are guaranteed by a significant shareholder.

10 Convertible debentures

(\$ 0 0 0 s)

1 9 9 8

1 9 9 7

2005 8% convertible debentures:

Debt liability	\$ 7,841	\$ 8,704
Debt capital	12,159	11,296
	\$ 20,000	\$ 20,000

The convertible debentures maturing in 2005 are convertible into common shares of the Company at \$7.40 per share subject to certain anti-dilution provisions. Subsequent to May 1, 1998, the Company is entitled, at its option, to call for redemption of the debentures if the weighted average trading price of the Company's common shares is not less than 125% of the conversion price of the debentures for a period of 20 consecutive trading days. The debenture holder may convert to shares at any time up to the day prior to the date fixed for redemption of the debentures. Upon redemption or maturity of the debentures, Canlan may,

at its option and subject to all applicable regulatory approvals, elect to satisfy its obligation to pay principal then due by issuing and delivering to each holder of debentures being redeemed or which have matured that number of common shares obtained by dividing \$1,000 by 95% of the weighted average trading price of the common shares on the TSE for the 20 consecutive trading days ending on the fifth trading day preceding the redemption or maturity date, as the case may be.

The fair value of the 2005 convertible debenture liability was determined by discounting the fixed interest payments at a discount rate of 9.5%. The discount rate was representative of interest rates for comparable securities without a conversion option, at the date of the offering. The convertible debenture capital represents the balance of the \$20,000,000 debenture.

11 Non-controlling interest

Included in non-controlling interest are \$812,500 of subordinated debentures issued to non-controlling shareholders and bearing interest at 8% per annum, due quarterly. Interest is payable only if sufficient cash is available. Interest accrues on all unpaid interest. Interest has been waived by the debenture holders for fiscal 1998. Interest was also waived in fiscal 1997. The debentures mature on September 30, 2002 at which time the debt may be extended until such time as the subsidiary has sufficient cash to repay the debentures.

12 Share capital

(a) Authorized:

50,000,000 Common shares of no par value

(b) Issued and outstanding:

(\$ 0 0 0 s)	S h a r e s	1 9 9 8		1 9 9 7	
		A m o u n t	S h a r e s	A m o u n t	
Balance, beginning of year	12,957,476	\$ 44,592	10,632,476	\$ 36,600	
Issued during the year	—	—	2,325,000	7,992	
Balance, end of year	12,957,476	\$ 44,592	12,957,476	\$ 44,592	

On January 8, 1997, the Company issued 2,260,000 special warrants at \$3.75 each for an aggregate consideration of \$8,475,000. Each special warrant entitled the holder upon exercise or deemed exercise to receive one common share, without additional payment. These warrants were exercised on May 8, 1997. Share issue costs related to this transaction amounted to \$655,000.

During 1997, the Company issued 65,000 common shares to employees for cash consideration of \$172,000 pursuant to the exercise of stock options.

(c) Stock options:

The Company has stock options outstanding for the issue of 859,000 common shares (1997 - 75,000 common shares) at an exercise price of \$1.75 per share (1997 - \$5.00 per share) which expire on September 2001 (1997 - August 1998).

13 Income taxes

The major factors which caused variations from the Company's expected federal and provincial income tax rate of 45% for 1998 and 1997 were as follows:

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>	<i>1 9 9 7</i>
Statutory rate applied to loss from continuing operations before income taxes	\$ (2,078)	\$ (2,104)
Large corporations tax	222	210
Deductible interest on convertible debenture capital	(389)	(356)
Non-controlling interest	(155)	(117)
Benefit related to current year's losses not recognized	2,786	2,972
	<u>\$ 386</u>	<u>\$ 605</u>

Potential future income tax benefits have not been recognized in the accounts for non-capital tax losses which expire as follows:

<i>(\$ 0 0 0 s)</i>	
1999	\$ 41
2000	1,382
2001	231
2002	1,830
2003	204
2004	4,800
2005	12,080
	<u>\$ 20,568</u>

14 Commitments and contingencies

(i) The Company is contingently liable for debts of joint ventures and partnerships applicable to co-venturers and partners. However, the assets of the joint ventures and partnerships, which exceed their liabilities, are available to satisfy these debts.

(ii) The Company is liable for letters of credit in the amount of \$2,432,000 (1997 - \$3,295,000), which have been issued to various municipalities, primarily to collateralize servicing work relating to development property.

(iii) The Company is committed to leasing equipment and office space pursuant to leases expiring at dates up to November 2001. Payments over the next five years, including the Company's estimated operating expenses and property taxes in respect of office space leases, are as follows:

<i>(\$ 0 0 0 s)</i>	
1999	\$ 211
2000	215
2001	125
	<u>\$ 551</u>

(iv) The Company has guaranteed one-half of the principal and interest payments of bonds in the amount of \$5,810,000, used to finance a project in which the Company acts as project manager.

(v) Various lawsuits are pending against or by the Company. Actual liabilities or recoveries of deposits with respect to these lawsuits are not determinable, but management believes, based on counsels' opinions, that any potential liabilities or shortfall on recoveries of deposits will not materially affect the Company's financial position.

(vi) The Company is one of several defendants in a lawsuit, relating to a development project, in which the plaintiffs are claiming damages of \$3,000,000. The Company has filed a statement of defense denying liability. The Company and its counsel expect that the Company will be seeking indemnification from other defendants or other persons if the Company is found to be liable. This litigation is in its preliminary stages and neither the outcome nor the potential liability is determinable at this time.

(vii) The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in

some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15 Joint ventures

The following amounts representing the Company's proportionate interest in joint ventures and partnerships are recorded in these financial statements:

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>	<i>1 9 9 7</i>
Assets	\$ 17,050	\$16,485
Liabilities	13,727	13,216
Revenues	5,825	5,184
Expenses	6,020	5,709
Net income (loss)	(195)	(525)
Cash flows from:		
Operating activities	8	(1,222)
Investing activities	(565)	(517)
Financing activities	511	324

Certain assets of the joint ventures are pledged as collateral to support liabilities.

16 Financial instruments

The Company has the following financial instruments: accounts and mortgages receivable, marketable securities, bank indebtedness, accounts payable and accrued liabilities, obligations under capital lease, debt on properties, notes and agreements payable and convertible debenture liability. The carrying values of accounts and mortgages receivable, bank

indebtedness and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial assets and liabilities. Other financial instruments of a longer term nature are impacted by changes in market yields which can result in differences between their carrying value and their market value. Management estimates that these differences are not material to the financial statements.

17 Related party transactions

The Company participates in joint ventures with a significant shareholder to complete the development of two residential properties and to operate a golf course, each of which is owned on an equal basis with the shareholder. Included in payables and accruals is \$97,000 (1997 - \$16,000) which relates to advances to the joint ventures by the shareholder which are in excess of its 50% interest. Included in accounts receivable is \$39,000 (1997 - \$523,000) which relates to advances to the joint venture in excess of Canlan's 50% interest.

During the year, the Company received a \$2,676,000 loan from the shareholder; bearing interest at 10.35% per annum, which is included in debt on development properties as at December 31, 1998 (1997 - \$nil). The Company incurred \$121,000 in interest expense related to this loan. A \$1,260,000 shareholder loan was repaid in January 1997 and the shareholder purchased 620,000 special warrants on the basis described in note 12.

During 1997, the Company sold a development property to a company controlled by a significant shareholder for \$6,300,000.

18 Acquisition of subsidiary

During 1997, the Company purchased the remaining 25% of the outstanding shares of Les Quatre Glaces (1994) Inc. ("Quatre Glaces") and a 56% interest in O&O Development Corporation ("O&O"). These acquisitions have been accounted for by the purchase method.

Summarized below are the net assets acquired:

<i>(\$ 0 0 0 s)</i>	
Total assets	\$ 5,652
Total liabilities	<u>5,015</u>
Total purchase price,	
being net assets acquired	<u>\$ 637</u>

The results of operations have been included in the consolidated statements of operations from the dates of acquisition.

19 Discontinued operations

Effective December 31, 1998, Canlan Investment Corporation adopted formal plans to discontinue its real estate activities. The Company plans on selling all of its remaining non-Ice Sports related assets in 1999, of which the most significant development and other revenue properties were sold subsequent to year end, as disclosed in note 21. The real estate activities have been reflected in the consolidated financial statements and notes on a discontinued basis.

The results of discontinued operations are as follows:

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>	<i>1 9 9 7</i>
Revenue:		
Development	\$ 19,819	\$ 43,304
Other revenue properties	4,181	6,297
	24,000	49,601
Expenses:		
Development	24,028	46,943
Other revenue properties	4,388	7,221
	28,416	54,164
Loss from discontinued operations		
before the undernoted	4,416	4,563
Estimated loss from disposal of		
discontinued operations	17,571	-
Loss from discontinued operations		
before income taxes	21,987	4,563
Income taxes (recovery)	(240)	99
Loss from discontinued operations	\$ 21,747	\$ 4,662

The remaining assets and liabilities of discontinued operations are as follows:

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>	<i>1 9 9 7</i>
Accounts and mortgages		
receivable	\$ 4,467	\$ 13,202
Development properties	29,915	55,287
Other revenue properties	10,251	25,097
	\$ 44,633	\$ 93,586
Bank indebtedness	\$ 2,838	\$ 1,689
Accounts payable and		
agreements payable	8,789	10,307
Debt on development properties	17,536	25,562
Mortgages on other		
revenue properties	5,242	16,513
	\$ 34,405	\$ 54,071

Development and other revenue properties are recorded at estimated net realizable values. During the year, interest of \$759,000 (1997 - \$2,566,000) has been capitalized to such properties.

Debt on development properties is secured by demand debentures, a general security agreement, and specific pledging of title to and interest in the respective properties.

The cash flows from discontinued operations are as follows:

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>	<i>1 9 9 7</i>
Operations	\$ (5,545)	\$ (692)
Financing	(19,666)	(14,182)
Investing	31,522	16,827
	\$ 6,311	\$ 1,953

2 0 Segmented information

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

Ice rinks revenue by services provided are as follows:

<i>(\$ 0 0 0 s)</i>	<i>1 9 9 8</i>	<i>1 9 9 7</i>
Ice sales	\$ 22,962	\$ 18,484
Restaurant and lounge	7,751	6,359
Sports store	3,541	2,708
Other	2,044	1,892
	\$ 36,298	\$ 29,443

There are no single customers who account for 10% or more of the Company's revenue.

2 1 Subsequent event

Pursuant to Agreements of Purchase and Sale dated February 28, 1999 (the "Agreements"), on April 30, 1999 the Company closed the sale of its most significant development and investment properties net of related debt thereon to affiliates of a significant shareholder of the Company. The Company received cash proceeds of \$6,000,000, which represents the carrying value of those properties, net of related debt thereon, in these financial statements. In addition, the Agreements provide that should the purchasers sell all or substantially all of the acquired properties at a profit prior to February 28, 2001, the Company will participate in such profit. The value of the transaction was substantiated by a third party appraisal commissioned by an Independent Committee of the Board of Directors struck to review the transaction, which was approved by the shareholders of the Company at a special general meeting held on April 28, 1999 for that purpose.

Five Year Review: Earnings Statement

Canlan Investment Corporation

<i>(in thousands of dollars)</i>	1 9 9 8	1 9 9 7	1 9 9 6	1 9 9 5	1 9 9 4
Revenue					
Ice rinks	\$ 35,825	\$ 28,931	\$ 22,198	\$ 15,356	\$ 8,228
Other	473	512	332	324	318
Total revenue	36,298	29,443	22,530	15,680	8,546
Operating expenses					
Ice rinks	28,633	23,529	17,565	11,526	5,746
Other	132	117	132	136	120
General and administrative	2,776	2,863	2,175	1,942	1,955
	31,541	26,509	19,872	13,604	7,821
Earnings before interest, taxes, depreciation and amortization	4,757	2,934	2,658	2,076	725
Other expenses					
Interest	6,665	5,123	4,677	2,072	2,069
Depreciation and amortization	3,593	2,444	979	478	254
Other	173	648	223	118	60
	10,431	8,215	5,879	2,668	2,383
Loss from continuing operations	(5,674)	(5,281)	(3,221)	(592)	(1,658)
Results of discontinued operations	(21,747)	(4,662)	5,010	3,090	5,761
Net income (loss)	\$ (27,421)	\$ (9,943)	\$ 1,789	\$ 2,498	\$ 4,103
Interest on convertible debentures	\$ (864)	\$ (792)	\$ (726)	\$ (218)	\$ —

Five Year Review: Balance Sheet

Canlan Investment Corporation

<i>(in thousands of dollars)</i>	1998	1997	1996	1995	1994
Assets					
Ice rink properties	\$ 107,858	\$ 97,992	\$ 83,669	\$ 64,231	\$ 24,797
Other revenue property	1,627	1,849	1,803	1,816	1,763
Other	11,141	11,169	20,369	15,723	11,466
Discontinued operations	44,633	93,586	103,649	90,531	63,535
Total assets	\$ 165,259	\$ 204,596	\$ 209,490	\$ 172,301	\$ 101,561
Liabilities					
Ice rink properties	\$ 62,291	\$ 56,133	\$ 46,810	\$ 34,481	\$ 14,269
Other revenue property	128	437	498	471	524
Convertible debentures	7,841	8,704	9,496	10,222	7,453
Other	25,299	22,534	33,536	18,394	9,511
Discontinued operations	34,405	54,071	54,482	45,911	29,485
Total liabilities	\$ 129,964	\$ 141,879	\$ 144,822	\$ 109,479	\$ 61,242
Shareholders' and debenture holders' equity					
Convertible debentures	\$ 12,159	\$ 11,296	\$ 10,504	\$ 9,778	\$ -
Share capital	44,592	44,592	36,600	36,543	26,098
Retained earnings (deficit)	(21,456)	6,829	17,564	16,501	14,221
Total	\$ 35,295	\$ 62,717	\$ 64,668	\$ 62,822	\$ 40,319
Statistics					
Debt to equity ratio	3.63	2.23	2.18	1.99	1.49
Issued shares at year end	12,957	12,957	10,632	10,614	7,941
Average shares outstanding	12,957	12,193	10,616	10,478	6,583
Return on equity	(63.40%)	(24.10%)	2.90%	6.80%	12.60%
Earnings (loss) per common share					
Loss per common share from continuing operations					
Basic	\$ (0.50)	\$ (0.50)	\$ (0.37)	\$ (0.08)	\$ (0.25)
Fully diluted	n.a.	n.a.	n.a.	n.a.	n.a.
Net earnings (loss) per common share					
Basic	\$ (2.18)	\$ (0.88)	\$ 0.10	\$ 0.22	\$ 0.62
Fully diluted	n.a.	n.a.	n.a.	\$ 0.17	\$ 0.54
Cash flow per common share	\$ (0.56)	\$ (0.33)	0.12	\$ 0.30	\$ 0.68
Share price range	\$ 2.74-0.99	\$ 4.24-2.75	\$ 4.95-3.05	\$ 7.00-4.25	\$ 6.62-4.25