2005-2006 ANNUAL REPORT

innovation

value

legacy

Canada Lands Company Limited

Société Immobilière du Canada limitée

Canada

Canada Lands Company

CORPORATE PROFILE

Canada Lands Company Limited (CLCL) was reactivated in 1995 by the Government of Canada to dispose of and/or redevelop its surplus strategic real estate for the benefit of all Canadians. It is an arm's length, self-financing Crown corporation reporting to the Parliament of Canada through the Minister of Transport, Infrastructure and Communities. The company is mandated to optimize the financial and community value obtained from strategic properties no longer required for program purposes by the Government of Canada. It works through its subsidiary, Canada Lands Company CLC Limited (CLC), to purchase properties at fair market value, then improves, manages or sells them in order to produce the best possible benefit for both local communities and the company's sole shareholder, the Government of Canada.

CLCL is a *Canada Business Corporations Act* corporation and is listed in Schedule III, Part 1 of the *Financial Administration Act*. It is an agent of her Majesty and is the parent company of one wholly owned active subsidiary:

- Canada Lands Company CLC Limited (CLC), a non-agent Crown corporation, which carries out the core real estate business, owns and manages the CN Tower, and is active in 22 municipalities across Canada.

CLCL also holds shares in trust for Her Majesty in right of Canada of the following Crown corporations:

- Old Port of Montréal Corporation Inc. (OPMC), an agent Crown corporation, which is responsible for redeveloping the Old Port of Montréal, and which reports separately to Parliament as a deemed parent Crown corporation; and
- Parc Downsview Park Inc. (PDP), an agent Crown corporation, which was incorporated in 1998 to manage and develop the former Canadian Forces Base (CFB) Toronto lands as Downsview Park, and which also reports separately to Parliament as a deemed parent Crown corporation.

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Letter to the Minister

June 30, 2006

THE HONOURABLE LAWRENCE CANNON
MINISTER OF TRANSPORT, INFRASTRUCTURE AND COMMUNITIES, OTTAWA, CANADA

MINISTER:

It gives me great pleasure to enclose the annual report of Canada Lands Company Limited (CLCL) for the fiscal year ended March 31, 2006.

This document focuses on how CLCL has improved the many communities in which it has worked across Canada, as illustrated through its various accomplishments over the past year. During the 2005-2006 fiscal year, significant progress was made on the property acquisition front, further ensuring the long-term success of the company. The company's major strategic priorities for the coming year are to strengthen its sustainable development commitment and support improvements to the government's property transfer process.

CLCL will continue to be an important resource for the Government of Canada, providing innovative solutions to complex real estate challenges, tourism leadership in its management of the CN Tower, and value and legacy creation for all of its stakeholders.

I trust that you will find the enclosed messages, performance results, and case studies informative.

Sincerely,

Marc Rochon
Chairman
Canada Lands Company Limited

Board Message

EMBRACING SOUND CORPORATE GOVERNANCE

Amidst an environment of ever-increasing public scrutiny of government institutions, Canada Lands Company Limited (CLCL) recognizes that sound corporate governance continues to be essential to its future success.

Over the past number of years, the government has taken many serious steps to strengthen the governance of Crown corporations. CLCL's core real estate subsidiary, CLC, has attempted to lead in this area by adopting the best practices of both the public and private sectors. CLC has been recognized on both the national and international stage as a government-owned company with excellent practices in corporate governance.

We believe that recent Treasury Board guidelines and recommendations for Crown corporation accountability provide a solid framework for governance improvement. It is important that the boards of Crown corporations be held accountable and that the arm's length government relationship of organizations such as CLC be reaffirmed.

The board believes, in the spirit of good governance, that there should be significant changes to the President and CEO appointment process for Crown corporations. An objective, merit-based selection process should be followed in order to select individuals who are then managed by and held accountable to the board. The board also believes that it should be involved in every aspect of the selection of new members – fully acknowledging the responsibility of the government to make appointments. Furthermore, it recognizes the need for a President and CEO compensation regime that attracts and retains high calibre individuals.

Over the past year, the board welcomed Ernest Yee from Vancouver, British Columbia, as its newest member. We look forward to benefiting from his considerable experience. The board would also like to thank Jim Lynes for continuing to hold the position of Acting President and CEO until a permanent replacement is appointed.

We invite potential Government of Canada clients and the general public to learn more about CLC and the financial benefits it is able to create through divestiture of surplus real estate assets.

The company takes pride in fulfilling the role entrusted to it by the Government of Canada of optimizing the financial and community value of surplus strategic properties, and will continue to work tirelessly at the community level to meet the needs of all stakeholders across the country.

From left to right: Philip Star, Stephanie Felesky, Marc Rochon, John McManus, Jim Lynes (seated), Ernest Yee (seated), Marco Veilleux, Kevin Garland (seated)

Philip Star, Q.C.†‡ is one of the founding members of the law firm of Pink Star Murphy Barro in Yarmouth, Nova Scotia. Mr. Star is active in many community initiatives, including his role as President and Board Member of Big Brothers / Big Sisters of Yarmouth, and is the incoming President of the Nova Scotia Barristers' Society and member of the Criminal Lawyers' Association.

Stephanie Felesky C.M.*†‡ is a board member of Canexus Limited, as well as a member of several community boards, including the Calgary Homeless Foundation, the Calgary Herald Advisory Board and the Board of Governors of the University of Calgary and the Calgary Children's Initiative. She is past member of the Board of Star Choice Communications and past Chair of the Board of Directors for the United Way of Calgary.

Marc Rochon‡ served as President of the Canada Mortgage and Housing Corporation from 1995 to 2000. Mr. Rochon also served in several senior positions within the Government of Canada, including Senior Advisor at the Privy Council Office, Deputy Minister at the Department of Canadian Heritage, as well as the Department of Communications, and Undersecretary of State in the Department of the Secretary of State, giving him a wide range of experience in such areas as corporate governance and social policy issues.

John McManus, CA*‡ is Senior Vice President of Borealis Capital Corporation in Toronto, a leading Canadian investment and asset management company. He is a member of the Board of Directors of several private companies, including Bruce Power Inc. and Ciel Satellite Communications Inc.

Jim Lynes is Acting President and CEO of CLCL and CLC and has over 32 years of property and financial management experience. The former CEO of Canada Ports Corporation, he has also held numerous senior positions within the federal government. He joined CLC in 2000.

Ernest Yee†‡ is Assistant Vice President, Public Affairs of HSBC Bank Canada. Mr. Yee is a member of the Asian Studies Advisory Board at the University of British Columbia and has served on the Federal Judicial Appointments Advisory Committee for British Columbia and the Granville Island Trust.

Marco Veilleux*†‡ is a senior partner with the law firm Veilleux Gélinas Avocats S.A. in Montréal. A Canadian Olympian, Mr. Veilleux is former President of the Aquatic Federation of Canada and was Vice President of the 2005 FINA World Championships in Montréal.

Kevin Garland*‡ is Executive Director of the National Ballet of Canada. Formerly Executive Director of the Canadian Opera House Corporation and Senior Vice President of Corporate Real Estate at CIBC Development Corporation in Toronto, she holds a Master of Science degree in Urban and Regional Planning, and has extensive experience in both urban planning and real estate management.

* Member of the Audit Committee † Member of the Human Resources Committee ‡ Member of the Governance Committee

President's Message

INNOVATION • VALUE • LEGACY

2005 was a great year for CLC. Revenues from the real estate divisions of the business continued to remain strong. Our success in the management of Canada's National Tower (the CN Tower) resulted in substantial increases in revenues and attendance at the Toronto landmark. CLC also celebrated its tenth anniversary.

Significant growth in CLC's reputation among government stakeholders has also taken place. While we continue to earn praise for our real estate developments in Western Canada, there is now a greater recognition of our competencies notably in the areas of risk management, of community consultation and sustainable development, as projects like our Benny Farm site in Montréal become more widely known and amass national and international accolades.

2005-2006 will result in the highest level of net income before taxes (NIBT) for the company since 1999-2000. This is a combination of strong real estate sales and a record breaking year for the CN Tower. Significant movement also occurred on the property acquisition front further ensuring the long-term success of the company. CLC acquired the Fisheries and Oceans Canada Garden City site in Richmond, British Columbia and the Public Works and Government Services Canada Pleasantville site in St. John's. Treasury Board approvals were also received for the former Kapyong Barracks site in Winnipeg, the former Canadian Forces Base (CFB) Rockcliffe in Ottawa, and the former Veteran Affairs Senneville site in Montréal.

The CN Tower has also had an exceptional year within CLC. A concentrated focus on marketing and on food and beverage operations has increased its business substantially, and 2005-2006 marks the first time it has achieved over $18 million in earnings before interest depreciation and amortization. While the CN Tower is a mature business, it continues to grow despite a significant drop in US attendance. The sky is truly the limit for this Canadian icon as it begins its fourth decade as the world's tallest building.

CLC's activities over the past year are a reflection of our commitment to our core values of "Innovation • Value • Legacy". Whether we are seeking innovative ways to meet the need for subsidized housing, respecting the interests of First Nations, carrying out best practices in sustainable urban development, commemorating Canada's military history or managing a world-renowned tourist facility, "Innovation • Value • Legacy" governs all that we do.

As we move into our second decade of operation, CLC has come of age. We have proven our quality and competence, as evidenced through the positive feedback received from the communities in which we carry out our business. We will continue to be an important resource for the Government of Canada, providing value through innovative solutions to complex real estate challenges, leadership in tourism development, and a sense of legacy to all of our stakeholders.

I am extremely proud of what our team accomplished during the 2005-2006 fiscal year.

Jim Lynes

Corporate Governance

A COMPANY MUST BE ACCOUNTABLE

Committees of the Board

Corporate Governance

The corporate governance committee comprises the entire board due to the great importance attributed to governance issues. The committee continues to review the company's governance practices in the spirit of continuous improvement. The company has a clear and concise board of director profile to assist with the selection of board members, and all directors are subject to a conflict of interest policy. There is also an established process for reviewing the board's performance. This committee is responsible for reviewing the company's activities in the area of corporate social responsibility.

Human Resources

This committee oversees corporate policies relating to human resources and it has all-encompassing oversight over human resources development. It is responsible for reviewing and approving the goals of the President and CEO and monitoring performance as well as making recommendations related to programs and succession planning. The committee recommends pay policies and annual salary and incentive budgets to the board. The committee is comprised of four members.

Audit

The audit committee advises the board on the soundness of the financial management of the corporation, and assists the board in overseeing internal control systems, financial reporting, risk management, and the audit process. The committee is composed of four independent directors. It has the authority to investigate any activity of the corporation, and all employees are obliged to cooperate. Its chairman is a chartered accountant.

Corporate Governance: Year in Review

CLCL is committed to improving its governance and management practices and has received widespread recognition for its leadership in these areas. Listed below are a number of corporate governance highlights from the past fiscal year.

- Board member Stephanie Felesky was part of the first graduating class of the directors education program in Calgary put on by ICD Corporate Governance College.
- The senior management team succession plan was reviewed and updated in 2005.
- The Office of the Auditor General carried out a special examination of CLCL, pursuant to the *Financial Administration Act*. In the report no significant deficiencies were found.
- CLC received one language complaint for service to the public. The Commissioner of Official Languages investigators found the company's corrective action to be satisfactory.

- Annual review of all Committee Terms of Reference was completed in September 2005.
- CLCL was identified for the purposes of a pilot project to harmonize board profiles and the selection criteria for the chairman's profile in response to the implementation of measures 16 and 17 of the *Review of the Governance Framework for Canada's Crown Corporations*. CLCL fully cooperated with Privy Council Office (PCO) and developed/confirmed accountability profiles and selection criteria for the chairman and the board.
- The Annual Declaration of Conflict of Interest was signed by all board members, in addition to the Independence Declaration.

Policies

Policies are always being reviewed to ensure they are in line with the company's strategic direction, transparency, and accountability. The company is currently reviewing the overall policy framework for the board's oversight responsibilities.

The following policies were approved by the board: Partisan Political Activity for Governor in Council Appointees; Risk Management; Internal Controls Charter; Hiring of Former Employees of Independent Auditors, Involuntary Separation and Official Languages.

A number of other corporate policies were reviewed and updated by the senior management team during the year including Environmental Guidelines, Records Management, Health and Safety for Construction Projects, Educational Financial Assistance, and Information Security.

Pay Policy

Because compensation is always of keen interest to the stakeholders of Crown corporations, the company feels it is important to highlight the key areas of CLC's pay policy as follows:

CLC's compensation philosophy is to pay a competitive total compensation package in order to attract and retain exceptional resources, while remaining accountable to all stakeholders through transparent compensation practices.

CLC's pay policy provides base compensation at the median of public and private market comparators primarily on a national basis, while earned incentive compensation is targeted at the median and generally is not to exceed the 70th percentile. Annual salary reviews are conducted and approved by the human resources committee. Increases are administered based on internal equity, external competitiveness (market data) and individual performance.

Reinforcing a performance culture and providing compensation that is competitive and appropriate for the company, eligible employees must meet above-average performance criteria in order to be eligible for incentive pay. The incentive, ranging from 4% to 35% of salary for eligible employees, is based on exceeding key performance objectives.

The position of President and CEO is a Governor in Council (GIC) appointment and, as such, the GIC sets the rate of compensation pursuant to the *Financial Administration Act*.

Director Attendance and Compensation

There were six CLCL board meetings during the fiscal year. Attendance at board meetings was 94%. There were four meetings of the human resources, audit, and corporate governance committees. Attendance at committee meetings was 92%. Compensation for the chairman and directors is set by Governor in Council and consists of annual retainers of $9,400 for the chairman and $4,500 for directors, respectively, as well as a per diem rate of $375 for both the chairman and directors, and $250 for teleconference meetings.

Enterprise Risk Management

CLC continues to place emphasis on its enterprise risk management objectives and internal controls environment. The Director of Risk Management and Internal Controls ensures that risks are identified, assessed, mitigated, managed, monitored, and, when reasonable, insured. In the past year, there were several risk management and internal control initiatives and enhancements undertaken. These include:

- development of the company's first integrated risk management policy and guidelines;
- development of the company's first Internal Controls and Auditing Charter;
- development of the company's first Internal Audit Plan by an internal audit function within the company;
- a first internal audit of the CN Tower's payroll function;
- an assessment of key risks that could impede the company's objectives, and development of a corporate risk registry and risk mitigation action plan aligned to CLC's mandate and corporate objectives to act as a monitoring and communications report;
- a current state gap analysis of the company's business continuity planning in order to make it more business-responsive;
- a national bilingual claims management system utilizing a prominent claims control adjuster to reduce unnecessary legal and administrative expenses; and
- a review of risk sharing and risk transfer options available through contracts/leases.

Managing Risk at the Project Level

In early 2006, a risk control engineering survey was conducted at CLC's former Canadian Forces Base Calgary project to identify and review risk exposures and measures. This formed part of CLC's overall plan to mitigate risk exposure at the project level. Over the past 15 months, similar engineering risk surveys have been undertaken at the CN Tower, the Metro Toronto Convention Centre, and Benny Farm.

The purpose of these surveys is to examine:

- human management and safety programs;
- water supplies;
- fire retardant and protection devices;
- water and liquid damage potential;
- burglary and theft potential;
- sewer back-up, flood and earthquake impacts; and
- environmental contamination and asbestos potential.

CLC's project management team reviews recommendations resulting from the surveys in order to implement practical solutions and the result is reduced potential overall damage and loss to the company.

Balanced Scorecard

BUILDING INNOVATIVE WIN-WIN SOLUTIONS

Many companies, including Crown corporations, are often faced with seemingly competitive financial and non-financial stakeholder interests. In order to build innovative win-win solutions, CLC has integrated a balanced scorecard approach to doing business.

CLC acknowledges the importance of all of its key stakeholder groups. It recognizes not only the different priorities and needs of these key groups, but also that they are all interrelated. CLC's balanced scorecard translates its vision and strategies into measurable objectives with respect to the priorities of each stakeholder group.

By further refining its balanced scorecard method of setting objectives, monitoring performance, and reporting outcomes, CLC is able to fairly and appropriately reflect both its accomplishments and, in some cases, areas requiring improvement. This objective and balanced approach to performance management and reporting enables CLC to learn from its successes and shortfalls and enhance its performance.

Corporate social responsibility (CSR) is very important at CLC and it has become a core value of the company. With each new project undertaken, an assessment is made to allow for environmental, social and economic opportunities. Plans are formulated to enable value creation while improving the quality of life in local communities. One of the most surprising aspects of CSR for many stakeholders is that, in many cases, it can enhance the financial success of the redevelopment projects undertaken by the company, over and above ensuring a solid legacy.

The board of directors has acknowledged that CLC's success in CSR comes as a result of having "operationalized" this approach to business throughout the entire company.

PERFORMANCE HIGHLIGHTS

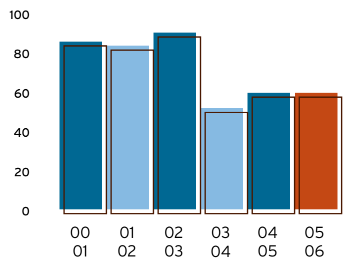
Net income before tax of

$19.2 million

Revenues of

$136.4 million

SALES (in millions)



Shareholder and Board of Directors	CLC strives to meet the needs and priorities of its shareholder and Board of Directors. The company achieves this through effective communications, ensuring high performance standards and an ongoing commitment to corporate social responsibility, and championing strong governance practices.
Business and Financial Outcomes	CLC strives to succeed financially and excel at its business. The company achieves this by continuously seeking to improve financial performance, increasing property transfers, and enhancing customer relations.
Community and Legacy Initiatives	CLC strives to create lasting value and legacies in communities in which it operates. The company achieves this by partnering with local organizations wherever possible, seeking input from and engaging the community and evaluating opportunities for creating legacies and strategic donations related to major projects.
Human Resources	CLC strives to create a work environment that is optimally conducive to high morale and performance. The company achieves this by communicating with and consulting employees extensively.
Municipal and Provincial Interests	CLC strives to create solid partnerships with the municipalities and provinces in which it operates. The company provides economic stimulation in communities where it conducts business, champions social policy objectives, and promotes sustainable development.

Shareholder / Board of Directors

2005-2006 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Operations		
Provide financial benefits to the Government of Canada	Pay dividends to the government of $7.5 million for 2005-2006 and of $74.8 million for 2005-2006 to 2009-2010	Paid $11 million in dividends to the government in 2005-2006; **cash flows from operations was greater than expected due to early payment of CityPlace mortgage**
	Pay cash acquisitions and note repayments for properties to the government of $28.9 million for 2005-2006 and $74.7 million for 2005-2006 to 2009-2010	Paid $5.6 million in distributions ($5.1 million in cash acquisitions and $0.5 million in note repayments) to the government; **a failure to transfer three major properties to CLC accounted for this variance; some of which are expected to be transferred early 2006-2007**
	Pay federal income taxes to the government of $3.1 million for 2005-2006 and $36.6 million for 2005-2006 to 2009-2010	Paid $5.4 million in federal income tax in 2005-2006 **due to higher than expected net NIBT**
Ensure best practices in non-financial areas of the company	A completed, full social audit by external auditors to verify the validity of practices used to measure non-financial reporting	The suggestions coming out of the audit are being acted upon and the company will consider carrying out another social audit in a few years for comparison purposes
Bilingualism		
Ensure compliance with Government of Canada's official languages action plan	Implement training plan for all bilingual positions once established	CLC's bilingualism policy was extensively revised and implemented to ensure better compliance with the government's action plan

Business / Financial

2005-2006 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Financial Performance		
Optimize financial value and returns	Achieve net income before tax of $12.7 million for 2005-2006 and $148.4 million for 2005-2006 to 2009-2010 Achieve revenues of $106.6 million for 2005-2006 and $889.4 million for 2005-2006 to 2009-2010 Projected CLC capital expenditures, including investments in environmental remediation of $57.8 million for 2005-2006 and $364.6 million for 2005-2006 to 2009-2010	Net income before tax of $19.2 million achieved, **due to higher than expected property sales** Revenues of $136.4 million achieved, **due to higher than expected property sales** Capital expenditures of $46.1 million incurred **due to delays in transfers**
Business Development		
Work with the government to improve the property transfer process	CLC concerns and input are reflected in the final outcome	CLC's concerns are being addressed in the interim solution
Assist in expediting property transfers	Increase starting book value of property inventory, with measures and targets to be developed in 2005-2006	Milestones established to track property transfer progress Book value of properties transferred to the company is $12.3 million
Optimize tourism attendance growth for the CN Tower	Increase overall attendance by 5.5% for 2005-2006 Off-season (November through April) to be at minimum of 27% of overall 2005-2006 attendance	Total attendance increased by 2.8% Off-season attendance is 25% of overall number
Customer Relations		
Continue to improve customer satisfaction for tenants and CN Tower visitors	Minimum overall customer satisfaction score of 75% for operating divisions	The CN Tower met this goal

Community / Legacy

2005-2006 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Legacy Creation		
Implement legacy initiatives	Commemorate the heritage of company projects	Held Peacekeepers' Day in Calgary and unveiled Buffalo Park Unveiled a statue of Major General Griesbach at the Village at Griesbach in Edmonton Hosted an exhibition by the *Écomusée du fier monde* on 50 years of veterans at Benny Farm
Corporate Philanthropy		
Evaluate and act upon potential areas of donations and sponsorships	Contribute up to 1% of net income before taxes (which equates to $175,000) towards corporate philanthropy (donations and sponsorships) in line with the company's corporate philanthropy policy	Contributed $175,000 to corporate philanthropy initiatives, including $60,000 contributed to the employee United Way compaign Focused philanthropy on areas directly related to projects undertaken by the company

Human Resources

2005-2006 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Work Environment		
Maintain positive and safe work environment and recognize and reward employees appropriately	Maintain voluntary employee turnover at below 5% for real estate divisions Establish industry benchmark for voluntary turnover of non-seasonal CN Tower employees to be used in the future Expand Health and Safety program for each province	Voluntary employee turnover rate of 6.6% The CN Tower is currently investigating industry benchmarking practices Enhancing training, communication and education is ongoing

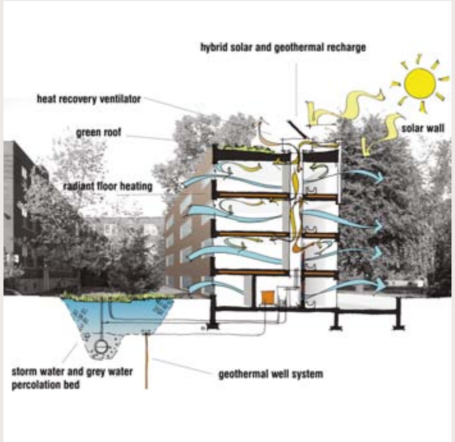
Continued focus on integration of programs of the CN Tower	Maintain the succession plan for real estate division and create one for the CN Tower with increased focus on development opportunities Increased communication and employee input at the CN Tower through introduction of Human Resources Round Table and employee survey	The succession planning process is being enhanced to ensure ongoing skills and professional development in support of organizational growth A Human Resources Round Table has been introduced as a means to increase communication across the organization and participation in the employee survey continues to grow

Municipal / Provincial

2005-2006 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Economic Stimulation		
Promote timely and appropriate development and construction of sites and track activity in line with the company's guidelines on tracking benefits beyond dividends	Increase cumulative development expenditures stimulated by CLC and its project associates to $200 million for 2005-2006 and $1 billion for 2005-2006 to 2009-2010 Increase cumulative person-years of direct construction employment stimulated by CLC and its project associates by 1,750 for 2005-2006 and 8,750 for 2005-2006 to 2009-2010	Increased by $300 million through the construction of residential units and industrial and commercial facilities Increased by 3,000 person-years for 2005-2006
Social Policy Objectives		
Contribute to subsidized housing and other social policy objectives where feasible, with each major project	Increase new or refurbished residential units stimulated by CLC and its project associates by 32 for 2005-2006 and 160 for 2005-2006 to 2009-2010	Increase of 100 subsidized housing units at Benny Farm, Montréal
Sustainable Development		
Incorporate sound principles of sustainable development for each development initiative **Recycling and/or reusing demolition or construction wastes**	Demonstrate sustainable development approaches for company projects Divert minimum of 60% of demolished materials from landfills for company projects	Benny Farm project won the Holcim Award for best sustainable development In excess of 60% of demolished materials diverted from landfills at CLC's Chilliwack, Calgary and Edmonton projects

Benny Farm

Top image and illustration: L'OEUF Pearl Poddubiuk et associés, architectes, 2006



Innovation: CLC respects the past and embraces the future, embodying innovation through its approaches to stakeholder relations and the ways it carries out its real estate activities.

Benny Farm, an 18-acre (7.3-hectare) redevelopment site in the Notre-Dame-de-Grâce (NDG) district of Montréal, was originally established as housing for the families of soldiers returning from the Second World War. After an innovative and comprehensive public consultation process, a community-based redevelopment plan was approved by the city in 2004 and construction began soon after.

To date, Benny Farm has provided 220 subsidized housing units for the community. When completed, the project will include approximately 570 subsidized housing units for both tenants and homeowners. In November 2005, the City of Montréal acquired a one-acre parcel of land for the construction of a municipal recreation and community centre on the property.

Benny Farm has become a landmark project in Montréal and its innovative community participation process has led to national and international recognition.

L'OEUF, the architectural firm involved with various Benny Farm social and non-profit housing initiatives, gained international recognition when it received the prestigious Holcim Award (Gold) for North America in 2005 for its sustainable development initiatives. Their community-based approach uses integrated design to produce low-cost, sustainable buildings with skillful integration of energy saving measures, water treatment procedures and geothermal radiant heating and cooling systems. Designed to expand in phases, the project provides a protocol for construction that reduces greenhouse gas emissions, potable water use, and the production of solid waste through retrofitting, reuse and waste diversion. A non-profit, community-run organization will oversee the ownership, management and continual reinvestment in sustainable construction for this common energy, water and waste infrastructure.

The Benny Farm Task Force was recently selected as recipient of the Canadian Urban Institute's 2006 Urban Leadership Award in the City Renewal category. This national award recognized the task force's exemplary contribution in promoting attitudinal change, encouraging public participation, and transforming the urban landscape. Lessons learned from the task force experience have strongly influenced CLC's practices across the country.

As the project moves forward, it is clear to the community that Benny Farm is not just a series of new and refurbished buildings; it is a community that provides benefits well beyond housing for the entire NDG neighbourhood.

Benny Farm

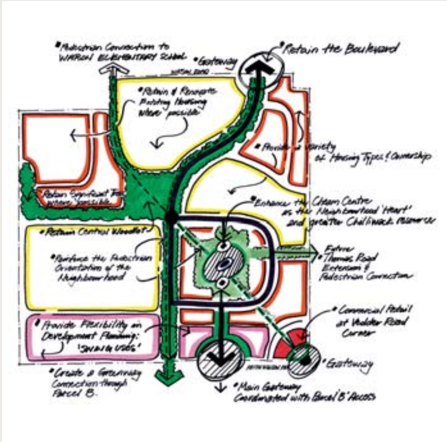
Notre-Dame-de-Grâce

Montréal, Québec

www.bennyfarm.org

Benny Farm Team

Garrison Crossing



Value: CLC is proud of the value its activities bring to Canadians, both in financial and non-financial terms.

One of Chilliwack, British Columbia's most innovative projects is CLC's Garrison Crossing, a 153-acre (61.9-hectare) redevelopment, part of the former Canadian Forces Base (CFB) Chilliwack. CLC acquired the site in 2001 and has received very positive support from the community for its transformation of the former military base.

CLC, in cooperation with the city, has brought many innovations to Garrison Crossing that have increased the financial and community value of this redevelopment project. Unique approaches applied to this project include the:

- restoration and reuse of many of the former military housing units rather than demolition;
- preservation of the majority of mature trees on the site, including the dedication of a 2.5-acre (1-hectare) Douglas Fir forest as a park;
- implementation of narrow roadways and rear lanes to calm street traffic and increase pedestrian friendliness; and
- addition of legal secondary suites in basements of larger homes and in the form of carriage houses above detached garages on the rear lanes.

In addition to what can be readily seen and appreciated, many engineering innovations have been applied that are hidden from view. These include:

- installation of a complete storm water collection system and implementation of a treatment and groundwater recharge system to protect the city's drinking water aquifer;
- undergrounding of not only all utility wires and cables, but also the hydro transformer boxes and cable/telephone connection kiosks; and
- recycling of demolition materials such as concrete and asphalt by on-site crushing for use as base material in new roadbeds.

In late 2005, CLC received the prestigious Development Excellence Award from the Chilliwack Chamber of Commerce for Garrison Crossing. When completed, the project will include over 1,500 residential housing units with a mix of new and refurbished single-family homes, new and restored townhouses, rental and condominium apartments, seniors' residences, and its own retail village.

The revitalization of Garrison Crossing celebrates its surroundings and commemorates its history. This approach has made the community one of the most desirable residential neighbourhoods in the entire Fraser Valley.

Garrison Crossing

Upper Fraser River Valley
Chilliwack, British Columbia
www.garrisoncrossing.ca

Garrison Crossing Team

Village at Griesbach

Legacy: CLC reflects the values and traditions of the communities in which it conducts business. Its activities honour the past, while leaving a lasting legacy to be enjoyed by future generations in communities across Canada.

For almost 50 years, military personnel and their families from across Canada called the former Canadian Forces Base (CFB) Griesbach home. After the base was decommissioned, the 620-acre (250-hectare) site in the middle of Edmonton was acquired by CLC in 2003 and the company quickly began work transforming it into the Village at Griesbach. CLC realized that it was not just redeveloping a large piece of land in the province's capital, it was actually redeveloping an important part of Edmonton's history.

Known for its efforts in commemorating heritage across the country, CLC has been a leader in heritage commemoration for the province of Alberta. At the Village at Griesbach, CLC has:

- named several streets and avenues after significant military events or figures with a connection to Edmonton;
- erected a statue in October 2004 of Mrs. Janet Griesbach, who played an important role in the social fabric of the city; and
- unveiled an equestrian statue in September 2005 of Major General William Griesbach, Mayor of Edmonton and one of the city's most famous sons.

The Griesbachs played a major role in the development of Edmonton. Mrs. Griesbach was the 'first lady' of the original garrison stationed in Edmonton through her support of military families and charitable work. In addition to giving his name to this former military base, Major Griesbach was a decorated First World War hero and, elected in 1907 as the youngest mayor of Edmonton. He was elected as Member of Parliament in 1917, and then subsequently appointed to the Canadian Senate in 1921. The two statues gracing this residential community are a fitting tribute to the important military history of the city.

Over the past year, CLC has completed the first of four storm water management lakes in the community. A replica of an army bailey bridge honouring the army engineers who once lived on the base, was built and crosses this first lake.

The feeling of preserved heritage and strong military character is a recurring one in the Village at Griesbach. The redevelopment of the former CFB Griesbach not only showcases CLC's commitment to new urbanism, but also honours Alberta's war veterans through fitting legacy initiatives.

Village at Griesbach

Central Edmonton
Edmonton, Alberta
www.villageatgriesbach.ca

Village at Griesbach Team

CN Tower: Defining the Toronto Skyline

CN TOWER
301 Front Street W
Toronto, Ontario
www.cntower.ca

Canada's National Tower (CN Tower) embodies the corporate values of innovation, value, and legacy. It defines the Toronto skyline, and is a symbol of Canadian achievement. The Tower has constantly reinvented itself over the years to ensure a relevant place in the hearts of all Canadians. Widely regarded as the defining symbol of tourism for Toronto, the Tower has consistently created value in offering exceptional product and service experiences for all its visitors. This wonder of the modern world has established a legacy over its 30-year history as a major telecommunications hub, a first-class dining and event centre, and the must-see attraction when visiting Toronto.

2005-2006 Highlights

In completing its second year under CLC management, the CN Tower:

- increased attendance to 1,569,443, a 2.5% increase over the previous year
- increased overall revenues by $2.9M over the previous year;
- achieved a record year in food and beverage revenues of $19.2M, an 11% increase over the previous year;
- achieved a record average per visit spending, an increase of 3.1% over the previous year; and
- increased earnings before interest tax depreciation and amortization (EBITDA) by $1.2M over the previous year.

The CN Tower outpaced the industry on a variety of fronts in 2005-2006. Attendance for the Tower was increased by 2.5%, while total visitors to Toronto increased only 1.5%. *360 The Restaurant at the CN Tower* revenues outpaced the full-service restaurant industry's total sales receipts in Ontario with 14.5% gains over the previous year, versus the Ontario increase of 2.3%.

2005-2006 proved a record year of achievement for *360, The Restaurant at the CN Tower*, as it celebrated a decade anniversary of award-winning wine and cuisine. The restaurant delivered exceptional value in quality, product and service offerings to 265,000 diners over the course of the fiscal year. The restaurant won its ninth *DiRoNA Award* for excellence in food and ambiance and seventh *Wine Spectator Award* for its wine collection putting the food and wine selection at the Tower in a class with a select few.

CN Tower Communities In Bloom Gardens

Meeting Facility

New meeting facility contributes to hospitality revenues

360 Restaurant

A Distinguished Restaurant of North America (DiRoNA)

Other awards received included a VQA – *Vintners Quality Alliance Award of Excellence*, the *Wine Enthusiast Award of Unique Distinction*, in recognition of dedication to delivering the most wine-friendly experience to patrons. Further, the restaurant continues to be recognized as Toronto's "most romantic" restaurant by *WHERE Magazine* readers, and received, for the third consecutive year, an "Eat Smart" award of excellence from Ontario's healthy restaurant program.

The CN Tower has experience hosting over 300 events each year. In 2005-2006, the Tower launched a new event venue, presenting 1,100 ft^2 (102.2 m^2) of flexible space adjacent to the CN Tower's 144-seat Maple Leaf Cinema. These new, fully-equipped meeting rooms have provided new revenue streams for the corporate hospitality and event business of the CN Tower, contributing to the $2.1M in corporate hospitality revenue.

The CN Tower entered its 30th year in 2006, proudly retaining its record as the world's tallest free-standing structure. Among the number of initiatives planned to take place throughout the coming year was the launch in March by the Royal Canadian Mint, of a 2006 "Architectural Treasures" CN Tower collector coin celebrating the 30th anniversary of Canada's world-famous landmark.

Partnerships

Canada's landmark icon gave visitors a new reason to take in the view. The green spaces at Canada's National Tower were transformed into the **CN Tower Communities in Bloom Gardens**, as part of an inspired tribute to the national program committed to fostering civic pride, environmental responsibility and beautification. The Gardens were conceived as a tourism initiative: to promote other areas of Canada to the Tower's international visitors, to encourage participating communities to visit the CN Tower and to enhance the CN Tower's visitor experience. The 2005 Gardens promoted eight communities from across Canada through their feature garden areas, each garden symbolizing the beauty of its environment and pride of its residents: Brampton (Ontario), Fort St. John (British Columbia), Goderich (Ontario), Halifax Regional Municipality (Nova Scotia), Kincardine (Ontario), Oshawa (Ontario), Stratford (Ontario), and Vaughan (Ontario).

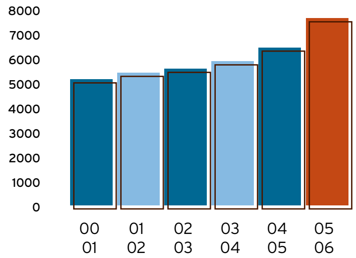
The CN Tower entered its 30th year in 2006, proudly retaining its record as the world's tallest free-standing structure.

View from the Tower

Year in Review

CLC ACHIEVED THE FOLLOWING RESULTS DURING THE 2005-2006 FISCAL YEAR:

CUMULATIVE ACRES SOLD
(acres)



CLC's Pleasantville site in St. John's Newfoundland.

Acquisitions

- Received approval and title to Public Works and Government Services Canada 80-acre (32.4-hectare) Pleasantville site in St. John's, Newfoundland.
- Received title to Fisheries and Oceans Canada 130-acre (52-hectare) Garden City site in Richmond, British Columbia.
- Obtained Treasury Board approval to acquire the Department of National Defence's (DND) 336-acre (136-hectare) former CFB Rockcliffe property in Ottawa, Ontario
- Obtained Treasury Board approval for the transfer of DND's 160-acre (65-hectare) former Kapyong Barracks site in Winnipeg, Manitoba
- Obtained Treasury Board approval for the transfer of Veterans Affairs Canada's 60.5-acre (24.5-hectare) former Senneville site in Montréal, Québec.

value

The company's activities since reactivation in 1995, along with estimates for sold properties, will lead to the following benefits for Canadian communities and taxpayers (2005-2006 results in parentheses):

- $4.4 billion in development expenditures ($300 million);
- 35,600 person-years of direct construction employment (3,000 person-years);
- $61 million invested in environmental remediation ($3.5 million);
- 20,200 new or refurbished residential units;
- 500 subsidized housing units built (100 units); and
- 18.2 million ft² or 1.7 million m² of non-residential construction (4.2 ft² or 0.4 million m²).

Operations Highlights

CLC is proud of its operational accomplishments over the past fiscal year, which include the following:

- Commenced construction of a 43,000 ft² (3,994.8 m²) two-storey office building at Glenlyon Business Park in Burnaby, British Columbia.
- Completed the sale of 126 acres (50.9 hectares) to Chilliwack Economic Partners Corporation to facilitate the creation of the Canada Education Park.
- Sold a 3-acre (1.2 hectares) site at Brandt's Creek Crossing in Kelowna. Plans call for a 20-storey, four-star hotel with 218 rooms.
- Currie Barracks' interim leasing program resulted in the completion of 44 new leases, 26 lease renewals, 17 lease amending agreements, and 123 license agreements.
- Opened a new sales centre and four new builder show homes at the Village at Griesbach.
- Opened the Diane and Irving Kipnes Centre, an extended care facility for veterans, at the Village at Griesbach in November 2005, resulting in the creation of 120 private rooms for veterans.
- Received engineering approval for its Lester Road property in Ottawa, allowing servicing to commence in the summer of 2005. Ottawa City Council also finalized the re-zoning application for this property. The company will now proceed with its development, which will consist of a mixed-use community called Deerfield Village.
- Sold the first parcel at Franklin Crossing in Moncton, New Brunswick. Site servicing undertaken by CLC has begun and will allow the purchaser to start construction of the builder show homes.
- Sold the 5.4-acre (2.19-hectare) Gladstone property in Halifax, Nova Scotia.

legacy

Calgary

On August 9, 2005, in partnership with the Canadian Association of Veterans in United Nations Peacekeeping and Veterans Affairs Canada, CLC unveiled Buffalo Park as part of Calgary's Peacekeepers' Day commemorations. Buffalo Park is dedicated to the nine Canadian Peacekeepers who were killed when their Buffalo aircraft was shot down while on United Nations Peacekeeping duty in Syria on August 9, 1974.

This marks the third year in succession that CLC has been a proud sponsor of Peacekeepers' Day in Calgary and demonstrates the company's commitment to commemorating the legacy of its various sites across the country.

innovation

Ontario Seaway Properties

In March 2002, CLC signed an agreement with Transport Canada to acquire 134 seaway properties in Ontario. To sell these properties, many of which were small, landlocked, and considered impossible to sell, CLC had to initiate an on-the-ground marketing campaign.

All properties were exposed to the open market, except those properties that municipalities expressed an interest in acquiring. For many of the landlocked lots, CLC went door-to-door visiting the neighbouring landowners to sell the property. This on-the-ground marketing approach provides a stark contrast to the elaborate marketing efforts CLC has undertaken for projects such as Garrison Crossing in Chilliwack, British Columbia.

Four years later, the project has been extremely successful. CLC has sold over 90% of the inventory and its innovative approach in literally "going the extra mile" has brought many of these properties back into productive use.

Edmonton, Alberta

Opened a new sales centre and four new builder show homes at the Village at Griesbach.

Edmonton, Alberta

The Diane and Irving Kipnes Centre, an extended care facility for veterans, at the Village at Griesbach opened in November 2005, resulting in the creation of 120 private rooms for veterans.

Awards

CLC's projects won the following awards over the past fiscal year:

- The Business Excellence Award from the Chilliwack Chamber of Commerce for Development Excellence at Garrison Crossing.
- The Canadian Home Builders Association for the Edmonton Region awarded the 2006 SAM Award for Best Home Parade to CLC's Village at Griesbach project.
- The CN Tower's 360 Restaurant won the VQA award of Excellence.
- The CN Tower won Spirit of Excellence awards for best Orientation Program, best Guest Services Training, and best Safety Awareness Program from the International Association of Amusement Parks and Attractions.
- CLC's Benny Farm project won the Real Property Institute of Canada (RPIC) Group Award for Comprehensive Planning.
- The Greater Toronto Home Builders' Association's Best New Home Design – Townhouse was awarded to Eden Oak Homes, which is part of CLC's McLevin Woods subdivision in northeast Toronto.

Kelowna, British Columbia

Artist's rendering of the 20-storey, 218-room hotel at Brandt's Creek Crossing.

Calgary, Alberta

In August 2005 CLC unveiled Buffalo Park in memory of nine Peacekeepers who were killed when their Buffalo aircraft was shot down in Syria in August 1974.

Management's Discussion and Analysis

May 12, 2006

The following Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements included in this annual report.

Through its core real estate subsidiary Canada Lands Company CLC Limited (CLC), Canada Lands Company Limited (CLCL) carries out its policy mandate "to ensure the commercially-oriented, orderly disposition of selected surplus federal real properties with optimal value to the Canadian taxpayer and the holding of certain properties". This mandate was approved by the Government of Canada (the government) on reactivation in 1995.

All real estate operations are carried out through CLC and are consolidated in CLCL. Discussion of financial results in this section of the annual report will occur from the perspective of CLC, even though the results are identical to those of CLCL for the 2005-2006 fiscal year.

CLCL holds shares of Parc Downsview Park Inc. and the Old Port of Montréal Corporation Inc. in trust for Her Majesty in right of Canada. Both of these corporations report separately to the Parliament of Canada through the Minister of Transport, Infrastructure and Communities as deemed parent Crown corporations. Accordingly, their results are not included in the results of CLCL.

Balanced Scorecard

CLCL continues using a balanced scorecard method of setting objectives, monitoring and managing performance and reporting outcomes in five key result areas: community/legacy, business/financial, human resources, municipal/provincial and shareholder/board of directors' interests. Each key result area reflects the interests of one of CLCL's five major stakeholder groups. Both financial and non-financial interests are covered by the key result areas, which create a balance of all interests important to CLCL and its stakeholders. The results of the balanced scorecard are summarized on pages 10-13.

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Governance

CLCL continues to provide bare certification of financial statements by its Acting President and Chief Executive Officer and its Vice President Finance and Chief Financial Officer. Due to the additional cost and manpower requirement, CLCL has not proceeded any further with certification. CLCL will closely monitor developments in this area and assess how it can proceed.

As a good governance initiative and in line with its core commitment to the principle of corporate social responsibility (CSR), CLC undertook a trial "social audit" in 2004-2005 of its performance in non-financial areas assessed against best practices. Based on the findings of the social audit, CLC has implemented a CSR action plan which it reports on through its balanced scorecard.

CLCL's board of directors is composed of the chairman and six directors. The chairman and the directors are independent of management, and appointed by the Governor in Council. Three board members are on over hold as their terms have expired and two other members' terms expire in 2006. The board held five board meetings and one strategic planning retreat during the year.

The compensation for the chairman and directors is set by the Governor in Council and consists of annual retainers of $9,400 for the chairman and $4,500 for directors respectively, as well as a per diem rate of $375 for both the chairman and directors and $250 for teleconference meetings.

The board's expenses for the year ended March 31, 2006 (YE 06), including travel expenses, conferences and seminars, liability insurance and annual retainers and per diems totalled $279,000, a decrease of $67,000 from 2004-2005, due mainly to reductions in travel expenses and professional services.

Results of Operations

In millions of dollars	YE 06	Budget	YE 05
Property sales	$ 62.0	$ 50.5	$ 59.3
Attractions, food and beverage and other CN Tower revenues	54.2	55.9	51.3
Gross revenues	136.4	124.9	132.3
General and administrative expenses	20.6	21.7	19.5
Income before taxes	19.2	12.7	17.6
Cash flows before dividends and note repayments	12.9	(30.9)	45.2

In YE 06, CLC earned revenues of $136.4 million and income of $19.2 million before taxes and generated cash of $12.9 million before distributions (repayment of notes payable and dividends) to the government. The CN Tower operations generated income before taxes of $12.1 million and real estate operations generated income before taxes of $7.1 million.

Total revenues were $11.5 million higher than budget, which resulted mainly from increased property sales of $11.5 million.

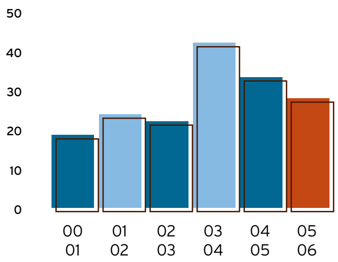
This is the second consecutive year of increased property sales since 2003-2004 which was the lowest sales level since reactivation of CLCL. Sales levels are expected to continue to increase over the next four years.

Included in expenses last year was a provision for environmental remediation of $5.8 million. CLC made a commitment under the sale of the City Place lands in 1998 to fund a portion of the environmental clean-up costs. CLC has fully discharged its liabilities under the commitment.

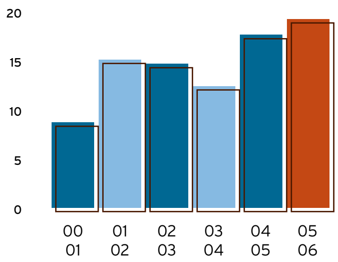
General and administrative expenses increased by $1.1 million over the prior year. This was due mainly to the additional staffing, marketing and sales promotions and computer maintenance contract costs related to operation at the CN Tower. General and administrative expenses attributed to real estate operations decreased slightly from last year. The expenses were $1.1 million less than budget reflecting the continued goal to enhance both operational effectiveness and cost efficiencies.

CLCL is subject to federal and certain provincial taxes at corporate rates. Income taxes of $5.7 million for YE 06 represent an effective rate of 30% of income before tax, due to the fact that CLCL's income is not subject to provincial income taxes in Ontario and Alberta.

GROSS MARGIN ON PROPERTY SALES
(percentage)



INCOME BEFORE TAXES
(in millions of dollars)



Real Estate Operations

In millions of dollars except where noted	YE 06	Budget	YE 05
Property sales	$ 62.0	$ 50.5	$ 59.3
Net profit on property sales	17.3	13.6	19.7
Gross margin on property sales (%)	27.9%	26.9%	33.2%
Expenditures on properties	38.0	50.5	35.5

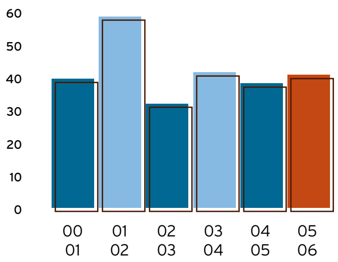
The net profit on property sales was $2.4 million lower than last year. Although property sales were $2.7 million higher than last year, sales are still significantly less than the five-year average of $69.2 million. The decrease in sales reflected the delay in transfers and the effects of the time required to service and sell the properties recently transferred from the government to replace the original property inventory CLC had sold.

The gross margin on property sales decreased from 33.2% to 27.9%. This reflects the expected level of gross margins as the YE 06 budget had gross margins of 26.9% and next year's budget has a gross margin of 26.5%.

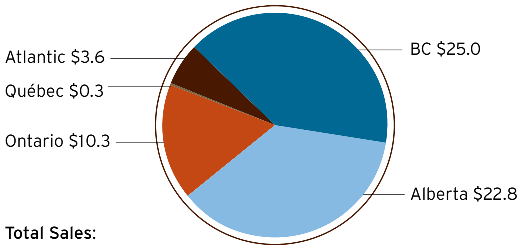
Property sales exceeded budget by $11.5 million and profit exceeded budget by $3.7 million. The increased sales and gross margin on property sales were due primarily to the sale of a site for an education campus (Chilliwack) and the Gladstone site (Halifax). The majority of sales (77%) took place in Western Canada compared to 76% last year. Until further transfers are achieved for Eastern Canada, this trend will continue as most of the developments are located in the West.

An objective of the company for YE 06 was to gain approval for nine property transfers from Treasury Board and to receive title transfer for ten properties. The company received approval for five properties and received title for five properties. This was an improvement over the prior year's result which only had one property transfer. The property inventory increased by $4.8 million from last year, reflecting the new properties transferred.

EXPENDITURES ON PROPERTIES
(in millions of dollars)



PROPERTY SALES BY REGION
(in millions of dollars)



Total Sales:
$62.0

The company implemented national milestones this year consisting of federal and municipal approvals. The federal milestones consisted of projects receiving Assistant Deputy Minister approval, Treasury Board approval and the transfers of title. The total objective was 22 of which 15 were achieved. Of this, 12 were achieved in the Eastern region. Municipal milestones consist of receiving development permits, engineering drawings, site registration, site zoning, plan approval, development agreements and environmental approvals. The milestone was set at 48, of which 27 were received. The majority (24) of these relate to the Western region where most of the development is presently taking place.

Capital expenditures excluding the CN Tower were $12.5 million less than budget. The delay in transferring properties resulted in a reduction of $9.7 million in expenditures.

CN Tower Operations

In millions of dollars except where noted	YE 06	Budget	YE 05
Revenues	$ 54.2	$ 55.9	$ 51.3
Earnings before interest, tax depreciation and amortization	18.3	17.5	17.0
Income before taxes	12.1	11.0	11.0
Attendance (number of people)	1.6	1.6	1.5
Average spending per visitor (in dollars)	$ 33.08	$ 33.23	$ 32.07

Attractions generated gross revenue of $25.7 million, $2.6 million less than budget but $0.8 million more than last year. Although attendance continues to improve at the CN Tower, it has not yet reached the pre-9/11 and SARS levels. This is the fifth consecutive year of US visitor decline to Ontario. While European and Asian visitors have increased, the majority of these are group tours that purchased discounted tickets. The average spending per visitor increased by $1.01 over last year but is still less than budget. The budget assumed the return of US visitors who normally spend the most of all visitors. Attractions portfolio managed to provide a healthy 90.4% operating margin in a difficult year.

Food and beverage (F&B) revenues are at an all-time high at $19.2 million, which is $1.4 million or 8% more than budget and $1.9 million or 11% more than last year. The evening sittings at the CN Tower are almost at capacity. The F&B operations provided an encouraging 29.2% operating margin, which was 3.4% better than budget and 2.3% over last year.

Retail store operations generated $5.8 million of revenue with an operating margin of $2.2 million or 38.5% versus budgeted 37.7% and last year's 38.0%.

A goal of the CN Tower is to increase attendance in Season B from November to April by 15,000. During Season A from May to October, the CN Tower is operating close to maximum capacity. Season B visitors tend to live locally as opposed to Season A which is mainly comprised of tourists. The CN Tower fell short of its goal for YE 06, attendance in Season B increased by only 9,000. The total Season B attendance represents 25.4% of the annual attendance, the same percentage as last year.

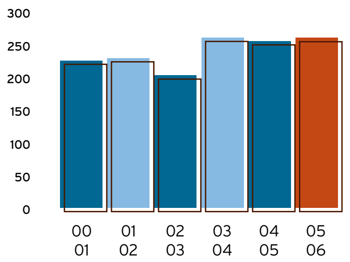
Properties

The property holdings of CLC fall into three categories: revenue producing properties, properties under development, and land held for development or sale.

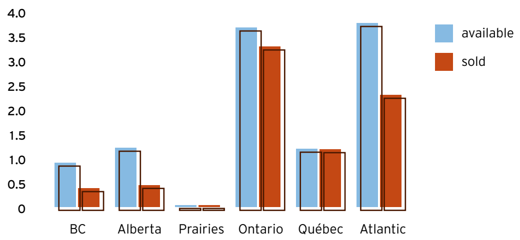
In millions of dollars	March 2006	March 2005
Revenue producing properties	$ 121.2	$ 122.4
Properties under development	97.2	100.2
Land held for development or sale	41.1	32.2

At March 31, 2006, CLC owned five revenue producing properties with a book value of $121.2 million. These properties had a book value of $122.4 million at March 31, 2005. CLC's principal property asset is the CN Tower in Toronto. CLC's revenue producing properties also include a retail shopping centre in Edmonton, office/research facilities in Burnaby and two parking facilities in Toronto.

PROPERTY INVENTORY
(in millions of dollars)



ACREAGE BY REGION SINCE INCEPTION
(in thousands of acres)



CLC manages two other revenue producing properties: an office and hotel complex in Toronto for a pension fund and a residential complex in Montréal in connection with Canada Mortgage and Housing Corporation (CMHC).

Properties under development consist of five property holdings totalling approximately 945 acres (382.4 hectares), with a carrying value of $97.2 million, a decrease of $3.0 million from March 31, 2005. The sites under active development include Glenlyon Business Park in Burnaby, the former military bases in Chilliwack, Calgary, and Edmonton, and a residential project in Ottawa.

Land held for development or sale consists of approximately 25 property holdings located across Canada totalling 1,997 acres (808.1 hectares). At March 31, 2006, the carrying value of lands in this category was $41.1 million, a $8.9 million increase from March 31, 2005.

During YE 06, CLC spent $40.6 million on construction, site servicing, environmental remediation and other investments at its various property holdings including the CN Tower.

Cash Flows

Cash provided by operating activities during YE 06 totalled $19.7 million, a decrease of $25.6 million from the $45.3 million generated in YE 05. The decrease was due primarily to the settlement of the Concord Adex City Place agreement last year which resulted from Concord Adex prepaying its mortgage of $34.1 million less a $12.8 million payment by CLC for its environmental liability.

Cash used in financing activities for YE 06 amounted to $15.3 million, representing note repayments to the government of $0.5 million, a dividend payment to the government of $11.0 million and mortgage bond repayments of $3.8 million. Cash used in financing activities for YE 05 was $14.3 million.

Cash used in investing activities for YE 06 was $3.0 million, $6.5 million lower than YE 05. The difference was due mainly to the recovery of cost of sales regarding 685 Cathcart (Montréal) of $6.6 million in YE 05.

Financial Condition And Liquidity

On January 27, 2004, CLC issued a $47.0 million, ten-year fully amortized and first mortgage bond at 5.37%, secured by the CN Tower asset and guaranteed by CLC. The mortgage bond had a balance of $39.5 million at March 31, 2006. The CN Tower received a rating of "A" with a stable trend from Dominion Bond Rating Service Limited in connection with the mortgage bond on January 20, 2006.

At March 31, 2006, CLC had cash and short-term investments totalling $59.1 million. In addition, CLC has a line of credit of $50.0 million with a Canadian chartered bank, which is presently being used for letters of credit issued in the amount of $23.1 million. CLC is presently in negotiations to increase this line to $85.0 million.

As at March 31, 2006, CLC had $35.9 million in notes payable to the government. These notes are unsecured obligations and are repayable on the earlier of their maturity dates or the dates on which net proceeds become available from the sale of the properties in respect of which the notes were issued. CLC expects that proceeds from these sales will enable the notes to be paid prior to their maturity dates. CLC estimates repayment of notes payable of $14.6 million during the year ending March 31, 2007. CLC expects to repay $32.3 million of these notes during the next five years.

In the coming year, CLC anticipates capital expenditures of approximately $74.4 million on its existing and new properties for construction, site servicing, environmental remediation and general preparations for its land inventory for sale. Substantial expenditures are expected to be incurred on the former military bases in Calgary, Chilliwack, Edmonton and Ottawa in addition to Glenlyon Business Park and CN Tower. CLC also anticipates property transfers from government departments and Crown corporations of $57.8 million of which $26.2 million will be cash payments.

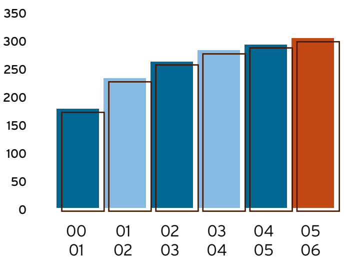
Under CLC's dividend policy, the dividend payment is the cash balance at the end of the year less the working capital requirement for the subsequent three years.

Based on the current level of cash and short-term investments and the existing line of credit, CLC expects to be able to fund all operating cash requirements and anticipated expenditures on properties for the coming year. In addition, currently contracted sales and future sales anticipated through the normal course of operations should generate sufficient cash proceeds for CLC's business needs and provide funds for distribution to the shareholder.

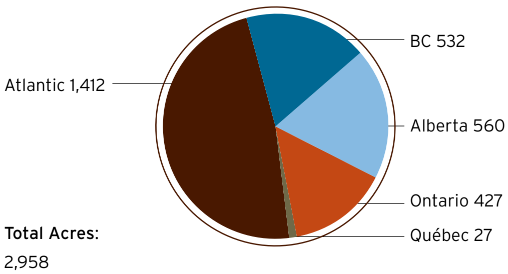
Risks and Uncertainties

It has come to the corporation's attention that the text in subsection 3(1.1) of the Federal Real Property Regulations (FRPR), which was supposed to mirror the articles of CLCL, is missing a few words. The effect of this omission is that some transfers of properties since 2000 should have received Order-in-Council (OIC) approval. CLCL and the government are currently coordinating their efforts to resolve this issue and it is planned that amendments will be made to the regulations and retroactive OIC approval for the affected transfers will be provided.

AVAILABLE CUMULATIVE DISTRIBUTION TO SHAREHOLDER (in millions of dollars)



PROPERTY DISTRIBUTION BY REGION (in acres)



CLCL, through CLC, manages and disposes of strategic surplus properties on behalf of the government to ensure that optimal value is realized from these assets. Optimal value recognizes financial value, economic stimulation and contribution to the quality of life in local communities where CLC conducts its business. CLC acted in a manner consistent with this mandate in YE 06.

CLC has adopted a proactive approach to business and operational risk management. The mandate of CLC's risk management committee is to identify and assess the key risks facing the company and then act to eliminate risks where possible, or mitigate, manage and insure them where elimination is not possible. The committee is chaired by the Director of Risk Management and Internal Controls. This director manages the internal audit function, risk management and the corporate insurance portfolio.

Risk Management and Internal Controls conducted an assessment of the company's enterprise-wide key risks (real estate and CN Tower) that could impede its objectives, and developed a corporate risk registry and risk mitigation action plan aligned to CLC's mandate and objectives, to act as a monitoring and communications tool and report. The risk register details the major risks and provides a risk weighting, and also what actions, if any, are required to mitigate the risk. If an action is required, a champion is assigned to carry this out and a schedule completion date is assigned. The risk register is presented to the Board of Directors on a quarterly basis and updated as appropriate. It is also linked to the company's internal audit plan.

Emphasis was placed on the development of a company-wide responsive business continuity plan in case of significant disruptions.

In keeping with its comprehensive insurance program and targeting its important operational risks, the company improved its overall insurance protection and continued its favourable cost performance. This year's insurance renewal exercise saw significant improvements to the coverage, which include:

- property terrorism coverage was increased from $125 million to $200 million;
- liability (third party) terrorism coverage was increased from $55 million to $70 million; and
- the major shareholder's (Federal Government) exclusion was removed from the policy. Directors and officers are now covered if a legal action is taken by the Federal Government, whereas in the past these types of actions were not covered by insurance.

An internal audit was carried out on the CN Tower's payroll function. The audit concluded that the controls in place are adequate but there were also opportunities to improve the controls and efficiencies. Management has concurred with the findings and is implementing the recommendations.

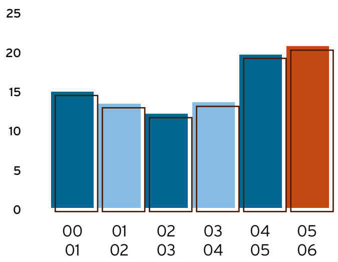
During the year a total of 575 acres (232.7 hectares) were transferred to CLC. This consisted of portions of the seaway portfolio, Garden City (Richmond) and Pleasantville (St. John's). On March 31, 2006, CLC had a land bank of approximately 2,958 acres (1,197.1 hectares). Treasury Board approved transfers of a further 565 acres (228.8 hectares), relating to CFB Rockcliffe (Ottawa), Kapyong Barracks (Winnipeg), Kingston Prison for Women (Kingston) and Senneville (Montréal).

CLC is currently in negotiations with government departments and agencies regarding a further 2,159 acres (873.9 hectares). As many of the individual properties potentially available for transfer are substantial in size, ranging from 50 to 1,200 acres (20 to 485 hectares), their planning, development and reintegration into local communities will take place over a number of years. Although this makes CLC vulnerable to adverse changes in local real estate market conditions and can affect demand, it also allows CLC to wait for improvement in local real estate markets as it has other properties for sale across Canada.

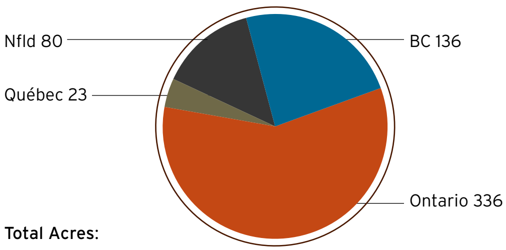
Across Canada, but particularly in British Columbia, CLC's holdings and potential transfers of properties from the government are impacted by aboriginal land claims. CLC has guidelines and procedures in place for advancing commercial transactions on its lands that are subject to comprehensive aboriginal land claims. CLC continues to work with various government agencies and organizations to assist in establishing a process whereby such surplus lands could be transferred to CLC. In December 2005, CLC signed a joint venture agreement with the Musqueam Band regarding the development of the Fisheries and Oceans Canada (DFO) Richmond lands. As a result the Musqueam Band has removed the interlocutory injunction which had blocked the transfer of the DFO Richmond lands to CLC. These lands have now been transferred.

Historically, the CN Tower's operations have been directly linked to the tourism sector in Toronto, as demonstrated dramatically by the impact of SARS in 2003. The number of visitors to the CN Tower has also been related to both the seasons and daily weather conditions. Recognizing and acting upon the potential of both attracting a higher percentage of Toronto's tourists and focusing on less seasonal corporate business will further enhance the performance of the CN Tower business development initiatives. Since reacquisition, this focus has already resulted in attendance reaching 92% of the pre-SARS levels and record income before taxes for the year ended March 2006. The CN Tower will be impacted by the introduction of the new US passport requirement in 2008 and the increasing value of the Canadian dollar. These factors will reduce the number of American tourists to the CN Tower.

GENERAL AND ADMINISTRATIVE EXPENSES
(in millions of dollars)



ACRES TRANSFERRED
(acres)



Total Acres:
575

Future Prospects

Last year the rate of growth of Canadian GDP of 2.9% was the same as the prior year. This was due to the continued development of energy projects and strong consumer spending. Canadian interest rates did increase last year and are expected to increase again this year. Canadian household debt level is at an all-time high, which could dampen the economy if interest rates increase dramatically.

The growth rate of the Canadian economy is expected to remain at 2.9% in 2006, with strong growth in Western Canada and Newfoundland and low growth in Central Canada. Residential rental, resale and new housing markets are expected to remain strong in Alberta and British Columbia where CLC's redevelopment of the former CFB Calgary, CFB Griesbach and CFB Chilliwack continue to receive a very positive response from local home buyers. The market is also strong in St John's where CLC is starting the development of the former CFB Pleasantville. Space at the former military bases attracts moderate but steady demand across Canada. CLC's recent sales activities demonstrate that there is ongoing demand for its land holdings and it can continue to create significant benefits and/or value from its property portfolio, which is diverse as to location, value, size and current or potential uses.

There remains a very large inventory of surplus properties within the government's real estate portfolio. Transferring more of these properties to CLC will enable the company to further enhance the value it creates for the Government of Canada and to continue to fulfill its mandate of creating optimal value for the government while reintegrating properties into the community in a financially prudent and socially responsible manner. Decommissioned military bases transferred from the Department of National Defence require major expenditures for site servicing, infrastructure and remediation in order to make the properties suitable for community use. As CLC starts to develop new properties transferred from the government, there will be added demand on CLC's cash resources; however, CLC will continue to make mandatory note repayments to the government or affiliated Crown corporations, in addition to the dividend payments stipulated in its dividend policy as part of its total distributions to the government.

Looking forward, CLC anticipates another profitable year of operation. The additional transfer of properties from the government will result in increased revenue over the next two to three years. CLC's highest level of income before taxes historically was $24.1 million. Income before taxes is expected to increase from $17.6 million in 2006-2007 to $33.6 million in year five, averaging $27.0 million per year. Property sales of $65.8 million are anticipated in 2006-2007, increasing to $144.3 million in year five.

Attendance at the CN Tower is expected to increase by 19% over the five-year plan period, resulting in a proportional increase in revenues. Finally, the property asset base by year three of the upcoming plan period is conservatively projected to be more than $409 million, compared to the highest historical level of $337 million at the company's reactivation in 1995.

Financial Section

Canada Lands Company Limited
Société Immobilière du Canada limitée

We, Jim Lynes, Acting President and CEO, and Brian Evans, Vice President, Finance and Chief Financial Officer, certify that:

we have reviewed the financial statements of Canada Lands Company Limited for the fiscal year ending March 31, 2006;

based on our knowledge, the financial statements do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the fiscal year covered by this annual report; and

based on our knowledge, the annual financial statements together with the other financial information included in this annual report fairly present in all material respects the financial condition, results of operations and cash flows of Canada Lands Company Limited, as of the date and for the periods presented in this report.

May 12, 2006

Jim Lynes
Acting President and CEO

Brian Evans
Vice President, Finance
Chief Financial Officer

Management's Responsibility For Financial Reporting

The consolidated financial statements of Canada Lands Company Limited have been prepared by management of the corporation in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants, and the recommendations of the Real Property Association of Canada.

Management maintains financial and management reporting systems which include appropriate controls to provide reasonable assurance that the corporation's assets are safeguarded, to facilitate the preparation of relevant, reliable and timely financial information, and to ensure that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the corporation.

Where necessary, management uses judgement to make estimates required to ensure fair and consistent presentation of this information.

The Board of Directors of Canada Lands Company Limited is composed of seven directors, none of whom are employees of the corporation. The board of directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. An audit committee appointed by the board of directors of the corporation has reviewed these statements with management and the auditors, and has reported to the board of directors. The board of directors has approved the financial statements.

The auditors are responsible for auditing the financial statements and have issued a report thereon.

All other financial and operating data included in the annual report are consistent, where appropriate, with information contained in the financial statements.

Jim Lynes
Acting President and CEO

Brian Evans
Vice President, Finance
and Chief Financial Officer

May 12, 2006

Auditors' Report

To the Minister of Transport, Infrastructure and Communities

We have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 2006 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 corporation as at 31 March 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation and of its wholly-owned subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the corporation and its wholly-owned subsidiary.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
12 May 2006

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
12 May 2006

Consolidated Statement of Income and Retained Earnings

For the year ended March 31

In thousands	Note	2006	2005
REVENUES			
Real estate sales		$ 61,999	$ 59,325
Rental		17,757	16,752
Interest and other	11	3,620	4,944
Attractions, food and beverage and other CN Tower revenues		52,976	51,318
		136,352	132,339
EXPENSES			
Real estate cost of sales		44,727	39,586
Rental operating costs		15,328	14,738
General and administrative		20,550	19,508
Attractions, food and beverage and other CN Tower expenses		28,377	27,634
Other expenses		5,827	4,582
Provision for environmental remediation		–	5,778
Interest and other financing costs		2,329	2,429
Provision for decrease in property values		–	481
		117,138	114,736
INCOME BEFORE TAXES		19,214	17,603
Future income tax expense (recovery)	9	188	(489)
Current income tax expense	9	5,550	4,823
		5,738	4,334
NET INCOME		13,476	13,269
Retained earnings, beginning of year		95,522	87,253
Dividend		(11,000)	(5,000)
RETAINED EARNINGS, END OF YEAR		$ 97,998	$ 95,522

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

As at March 31

In thousands	Note	2006	2005
ASSETS			
Properties			
Revenue producing properties	3	$ 121,231	$ 122,419
Properties under development		97,190	100,150
Land held for development or sale		41,089	32,161
		259,510	254,730
Other Assets			
Cash and cash equivalents	4	59,141	57,712
Amounts receivable and other assets	5	29,937	31,299
		89,078	89,011
		$ 348,588	$ 343,741
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Mortgage bond payable	6	$ 39,480	$ 43,340
Notes payable	7	35,863	29,176
Accounts payable and accrued liabilities	10	22,375	25,082
Income tax payable		2,486	1,897
Future income tax liabilities	9	2,051	1,863
Prepaid rents and deposits		3,254	1,780
		105,509	103,138
Shareholder's Equity			
Capital stock	8	–	–
Contributed surplus		145,081	145,081
Retained earnings		97,998	95,522
		243,079	240,603
		$ 348,588	$ 343,741
Commitments and contingencies	10		

See accompanying notes to consolidated financial statements

On behalf of the Board

Marc Rochon

John McManus

Consolidated Statement of Cash Flows

For the year ended March 31

In thousands	Note	2006	2005
OPERATING ACTIVITIES			
Net income		$ 13,476	$ 13,269
Recovery of costs on sale of properties held for development or sale		42,475	31,153
Expenditures on properties held for development or sale		(43,542)	(34,687)
Provision for decrease in property values		–	481
Depreciation		4,953	4,512
		17,362	14,728
Net change in non-cash operating assets and liabilities		2,380	30,601
CASH PROVIDED BY OPERATING ACTIVITIES		19,742	45,329
FINANCING ACTIVITIES			
Repayment of notes payable		(479)	(5,617)
Dividend paid		(11,000)	(5,000)
Repayment of mortgage bond		(3,860)	(3,660)
CASH USED IN FINANCING ACTIVITIES		(15,339)	(14,277)
INVESTING ACTIVITIES			
Recovery of costs on sale of revenue producing properties		–	6,630
Expenditures on revenue producing properties		(2,591)	(3,290)
(Increase) decrease in restricted cash		(383)	206
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		(2,974)	3,546
INCREASE IN CASH AND CASH EQUIVALENTS		1,429	34,598
Cash and cash equivalents, beginning of year		57,712	23,114
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 59,141	$ 57,712
Supplemental cash flows information	11		

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Authority and Activities of CLCL

Canada Lands Company Limited (CLCL) became an agent Crown corporation pursuant to Governor in Council approval (order-in-council number P.C. 2003-1306). It was originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. It is listed as a parent Crown corporation in Part I of Schedule III to the *Financial Administration Act*.

CLCL conducts its real estate business operations through Canada Lands Company CLC Limited (CLC), its principal wholly-owned subsidiary. CLC's objective is to carry out a commercially oriented and orderly disposal program of certain real properties of the Government of Canada (the government) and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in its capacity as owner or on behalf of the government.

2. Summary of Significant Accounting Policies

a) General

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. With respect to real estate activities, CLCL's accounting policies and standards of financial disclosure are also substantially in accordance with the recommendations of the Real Property Association of Canada.

b) Consolidation

The accounts of CLC, a wholly-owned subsidiary of CLCL, are consolidated with CLCL's accounts.

CLCL holds the shares of Old Port of Montréal Corporation Inc. (OPMC) and Parc Downsview Park (PDP) in trust for Her Majesty in right of Canada. OPMC and PDP are excluded from consolidation because CLCL does not have continuing power to determine their strategic operating, investing and financing policies and because OPMC and PDP have been directed by the government to report as parent Crown corporations. CLCL has no recorded investment in OPMC and PDP. As at March 31, 2005, the latest date for which audited financial statements are available, OPMC had assets of $19.9 million, liabilities of $19.0 million and equity of $0.9 million, with revenue of $11.7 million and an excess of operating expenditures over revenue of $15.8 million for the year then ended. PDP had assets of $20.4 million, liabilities of $4.0 million and equity of $16.4 million, with revenue of $2.2 million and an excess of operating expenditures over revenue of $2.0 million for the year then ended.

c) Revenue Recognition

CLCL recognizes revenue as follows:

i) Sales
Sales revenues are recognized upon title of the property passing to the purchaser and receipt of at least 15% of the total proceeds.

ii) Rental
Rental revenues include rents from tenants under leases, property taxes and operating cost recoveries and parking income. Rental revenue is recognized in accordance with each lease.

iii) Attractions, food and beverage
Revenues from the ticket sales, food and beverage sales and retail store sales are recognized at point of sale.

d) Properties

i) Revenue producing properties are carried at the lower of depreciated cost and net recoverable amount or, if intended for disposition, at the lower of depreciated cost and estimated net realizable value. Properties under development and land held for development or sale are carried at the lower of cost and estimated net realizable value. Adjustments to the carrying value of properties are recorded in the "provision for decrease in property values" line in the statement of income.

ii) CLCL capitalizes direct construction and development costs, including financing costs and directly attributable overhead costs, to the properties under development net of any revenues generated during development until breakeven cash flow after debt service is achieved but not later than one year after substantial completion.

iii) Depreciation on revenue producing properties is calculated on the straight-line method using rates based on the estimated remaining useful lives of the assets, which range from five to 40 years. Depreciation is recorded in other expenses.

e) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

In determining estimates of net realizable values for its properties, CLCL 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. Due to the assumptions made in arriving at estimates of net realizable value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

In arriving at such estimates of net realizable value of the properties, management is required to make assumptions and estimates as to future costs which could be incurred in order to comply with various laws and regulations. Such estimates are, however, subject to change based on agreements with regulatory authorities, changes in laws and regulations, the ultimate use of the property, and as new information becomes available.

f) Income Taxes

Income taxes are recorded according to the liability method of tax allocation for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

g) Other Capital Assets

Other capital assets are recorded at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets as follows:

Office equipment and computer software and hardware	Straight-line over 3 to 5 years
Catering and entertainment equipment	Straight-line over 3 to 6 years
Leasehold improvements	Straight-line over 5 years

3. Revenue Producing Properties

CLCL's revenue producing properties consist primarily of the CN Tower, Nokia (office/research facilities), Oliver Village (retail centre) and car parking facilities.

In thousands	2006	2005
Land	$ 11,367	$ 11,367
Buildings	139,600	137,010
	150,967	148,377
Accumulated depreciation	29,736	25,958
	$ 121,231	$ 122,419

Depreciation expense of $3.8 million (2005 – $3.7 million) was charged to other expenses.

4. Cash and Cash Equivalents

In thousands	2006	2005
(Overdraft) cash	$ (845)	$ 612
Cash equivalents	59,986	57,100
	$ 59,141	$ 57,712

Cash equivalents are comprised of only highly liquid investments with original maturities at the date of purchase of three months.

5. Amounts Receivable and Other Assets

Amounts receivable and other assets are comprised of the following:

In thousands	2006	2005
Mortgages and secured notes	$ 6,015	$ 10,316
Assignment of rents	5,100	5,455
Rents, prepaids and other receivables	14,371	12,897
Other capital assets	4,024	2,587
Restricted cash	427	44
	$ 29,937	$ 31,299

a) Mortgages and secured notes receivable bear interest at a weighted average rate of 3.47% (2005 – 4.74%), and are receivable as follows:

In thousands		
Years ending March 31	2007	$ 4,185
	2008	1,830
		$ 6,015

b) CLCL has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income until 2013.

c) Restricted cash represents holdback money owing for the CFB Chilliwack North Side project.

d) Other capital assets are comprised of the following:

In thousands	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Office equipment and computer software and hardware	$ 4,197	$ 1,992	$ 2,205	$ 2,739	$ 1,410	$ 1,329
Catering and entertainment equipment	2,720	913	1,807	1,601	401	1,200
Leasehold improvements	230	218	12	230	172	58
Total	$ 7,147	$ 3,123	$ 4,024	$ 4,570	$ 1,983	$ 2,587

Depreciation expense of $1.1 million (2005 – $0.8 million) was charged to other expenses.

6. Mortgage Bond Payable

The original amount issued of First Mortgage Bond, Series A, is $47 million. Maturity is in January 2014 with semi-annual principal and interest payments.

Certain of CLCL's properties have been pledged as collateral. The carrying value of the pledged properties as of March 31, 2006 was $92.5 million (2005 – $93.1 million). The mortgage bond payable has a maturity schedule as follows:

In thousands		
Years ending March 31	2007	$ 4,070
	2008	4,291
	2009	4,524
	2010	4,771
	2011	5,030
Subsequent years		16,794
		$ 39,480

Interest is payable at an annual rate of 5.37%. Interest incurred on mortgage bond payable amounted to $2.2 million for the period (2005 – $2.4 million).

CLC has the right to redeem the Series A Bond at any time upon payment of a specified redemption price.

7. Notes Payable

The notes payable were issued in consideration of the acquisition of real estate properties (note 12), and are due to the government. These notes are repayable on the earlier of their due dates (2008 to 2018) or the dates on which net proceeds become available from the sale by CLCL of the properties in respect of which the notes were issued. All notes are non-interest bearing. For those interest-free notes where the project has a life greater than 5 years, the notes are discounted using an imputed interest rate. The imputed interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average rate of 8.5% (2005 – 8.5%).

During the year ended March 31, 2006, interest capitalized was $2.5 million (2005 – $2.3 million).

Based on the anticipated timing of the sale of the real estate properties, principal repayments are estimated to be as follows:

In thousands

Years ending March 31	2007	$ 14,625
	2008	4,509
	2009	2,773
	2010	4,409
	2011	5,972
Subsequent years		23,340
		55,628
Less amounts representing imputed interest		19,765
		$ 35,863

8. Capital Stock

CLCL is authorized to issue three shares, which shall be transferred only to a person approved by the Minister designated as the appropriate Minister for CLCL (Minister). The current minister is the Minister of Transport, Infrastructure and Communities. The three authorized shares have been issued and are held in trust for Her Majesty in right of Canada by the Minister. Nominal value has been ascribed to the three issued shares of CLCL.

Contributed surplus is comprised of the net assets of $249.6 million acquired from the Minister of Transport less $104.5 million transferred to capital stock. Subsequently, CLCL's capital stock was reduced by this amount through payments to the shareholder in accordance with the *Canada Business Corporations Act* during the period 1996 to 2000.

9. Income Taxes

CLCL's actual income tax expense under Canadian generally accepted accounting principles differs from the expected income tax expense using the combined federal and provincial rate. CLCL is a non-taxable Crown corporation for Ontario and Alberta income tax purposes. A reconciliation of CLCL's income tax provision to a provision calculated at the combined federal and provincial statutory rate of tax is as follows:

In thousands	2006	2005
Expected statutory rate of tax	36%	36%
Expected income tax expense	$ 6,917	$ 6,337
Increase (decrease) in tax expense resulting from:		
Non-taxable portion of capital gains	–	(79)
Income not taxable in certain provinces	(2,210)	(2,050)
Large corporation tax	232	303
Other	799	(177)
Actual income tax expense	$ 5,738	$ 4,334

The components of the future income tax liabilities are as follows:

In thousands	2006	2005
Future tax liabilities		
Income producing properties	$ (2,772)	$ (2,664)
Notes payable	(4,795)	(4,515)
	(7,567)	(7,179)
Future tax assets		
Property under development	3,834	4,515
Land held for development	961	–
Reserves	613	640
Financing costs	108	161
	5,516	5,316
Net future tax liabilities	$ (2,051)	$ (1,863)

10. Other Liabilities, Commitments and Contingencies

a) In 1995, CLCL acquired a portfolio of real estate properties from Canadian National Railway Company (CN). As part of this transaction, CLCL assumed an obligation for a property previously sold by CN to a third party. CLCL is required to repurchase this property in 2083 for one dollar. However, there is an early termination clause in this agreement which CLCL may trigger in 2009. The repurchase and termination prices are based on a predetermined formula which includes initial investment plus any working capital loans outstanding and 50% of the increase in value.

CLCL is also responsible for the management of this property, for which it has entered into a management agreement with a third party that requires certain minimum payments that are determined as a percentage of revenues generated from the property operations.

CLCL's estimated obligation in respect of these commitments, assuming the early termination clause is exercised, is $3.2 million (2005 – $3.9 million) and is included in accounts payable and accrued liabilities. This estimate is based on assumptions regarding future events and economic conditions and the actual obligation may be materially different from this estimate.

b) Capital commitments for servicing requirements and other development costs at March 31, 2006 totalled $28.7 million (2005 – $28.7 million).

c) CLC has a $50 million line of credit with the Bank of Montréal. This line of credit is presently used for letters of credit issued for the fulfillment of certain obligations totalling $23.1 million at March 31, 2006 (2005 – $16.6 million).

d) CLCL is a defendant in certain lawsuits originating in the normal course of business. In the opinion of management, these actions will not have a material adverse effect on the financial position of CLCL.

e) The corporation has lease obligations for office space and computer hardware. The future minimum annual lease payments are as follows:

In thousands

Years ending March 31	2007	$ 536
	2008	392
	2009	345
	2010	305
	2011	305
Subsequent years		1,792
		$ 3,675

11. Consolidated Statement of Cash Flows – Supplementary Information

Property acquisitions and additions which were satisfied by the issuance of notes payable in the amount of $7.2 million (2005 – $2.8 million) have been excluded from the financing and investing activities in the consolidated statement of cash flows.

Non-cash increase in properties and notes payable of $2.5 million (2005 – $2.3 million) for capitalization of interest have been excluded from the financing and investing activities in the consolidated statement of cash flows.

Property disposals satisfied by the issuance of mortgages and secured notes by CLCL or the assumption of debt by the purchasers in the amount of $2.3 million (2005 – $1.8 million) have been excluded from the financing, investing and operating activities in the consolidated statement of cash flows.

During the year ended March 31, 2006, interest received totalled $1.8 million (2005 – $3.5 million), interest paid amounted to $1.8 million (2005 – $2.3 million) and income taxes paid totalled $4.9 million (2005 – $5.1 million).

12. Related Party Transactions

CLCL is related in terms of common ownership to all government departments, agencies and Crown corporations. CLCL enters into transactions with these entities in the normal course of business. These transactions are measured at their exchange amounts.

In addition to transactions previously disclosed, during the year ended March 31, 2006:

a) CLCL acquired an interest in real estate properties from government departments for an aggregate purchase price of $9.8 million (2005 – $0.5 million). Consideration for these assets was cash payment or the issuance of notes payable (note 7).

b) CLC received management fees of $0.1 million from a Crown corporation (2005 – $0.1 million). CLC also received various revenues and cost recoveries from federal agencies and departments of $ 1.2 million (2005 – $0.8 million).

c) CLCL has a net payable of $0.5 million (2005 – $0.2 million) to federal agencies and departments for reimbursement of costs.

13. Financial Instruments

The carrying values of CLCL's amounts receivable and notes payable approximate their fair values based on future cash flows discounted at market rates available to CLCL for financial instruments with similar risk, terms and maturities.

The carrying amounts of short-term investments and accounts payable and accrued liabilities approximate their fair values due to their short-term nature or based on discounted cash flows, as appropriate.

14. Benny Farm Property

CLC is developing the Benny Farm property under an agreement with Canada Mortgage and Housing Corporation (CMHC). This agreement provides a mechanism to share future profits with CMHC, should positive cash flows be generated in excess of the existing non-recourse liabilities of the property. CLCL does not expect future positive cash flows to exceed the property liabilities. CLCL has not recorded any activity in its accounts except for certain expenses. Conversely, CLC is under no obligation to transfer or use its own assets in settling liabilities of this property.

15. Segmented Information

CLCL's major areas of business activities are the management, development and sale of real estate, and the entertainment and hospitality operations of the CN Tower.

Additional information on these activities is as follows:

In thousands

	Real estate activities	Entertainment and hospitality	**Total 2006**	Total 2005
Revenues	$ 82,138	$ 54,214	**$ 136,352**	$ 132,339
Depreciation	1,022	3,931	**4,953**	4,512
Income before taxes	7,090	12,124	**19,214**	17,603
Acquisitions and expenditures on properties	43,511	2,622	**46,133**	37,977
Identifiable assets	231,532	117,056	**348,588**	343,741
Identifiable mortgage bond and notes payable	35,863	39,480	**75,343**	72,516

16. Pension Plan

CLCL has a defined contribution pension plan covering all of its full-time employees and certain part-time employees in accordance with the plan. Employees are eligible to join either at the date of employment or after a year of employment. The amount of the current service cost for the period charged to expense for this plan was $0.9 million for the year ended March 31, 2006 (2005 – $0.8 million).

17. Comparative Amounts

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current year.

Senior Management Team

Jim Lynes is Acting President and CEO and has over 32 years of property and financial management experience. The former CEO of Canada Ports Corporation, a Crown corporation responsible for 13 of the largest commercial ports in Canada, he has also held numerous senior positions within the federal government. He joined CLC in 2000.

Brian Evans, CA is the Vice President, Finance and Chief Financial Officer. Mr. Evans has over 24 years of experience in the field of real estate financial management. He has been with CLC since its reactivation in 1995 and began with CN Real Estate in 1991.

Fiorina Guido is the Assistant Corporate Secretary for the corporation and has been with the company since its inception in 1995. In 1988, she joined CN Real Estate holding progressively senior administrative positions. Ms. Guido is also Corporate Secretary for Queens Quay West Land Corporation.

Robert Howald is the Acting Vice President, Real Estate, Eastern Region. Mr. Howald has 25 years of real estate management experience. Prior to joining CLC in 1999, he was Executive Vice President with the City of Toronto Economic Development Corporation, and responsible for over 400 acres in the Toronto Portlands.

Doug Kester is the Vice President, Real Estate, Western Region. Mr. Kester has over 35 years of experience in the real estate business. He has been with CLC since its reactivation in 1995 and prior to that with CN Real Estate for five years.

Gordon McIvor, Ph.D., is the Vice President, Public and Government Affairs. He has over 25 years of experience in the field of public and government affairs and he has a leadership position in several volunteer organizations. Mr. McIvor has been with CLC since its creation in 1995 and with CN Real Estate beginning in 1988.

Jack Robinson is the General Manager, CN Tower and Vice President. Mr. Robinson has 29 years of attractions and consumer management experience and has been at the CN Tower for 14 years, most recently as Director of Sales. He joined CLC's senior management team in 2004.

Barry K. Singer is Vice President Administration. Prior to joining CLC, Mr. Singer held senior executive roles in the telecommunications, transportation and resource sectors.

From left to right: Fiorina Guido, Barry Singer, Jim Lynes, Gordon McIvor, Jack Robinson, Doug Kester, Robert Howald, Brian Evans

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