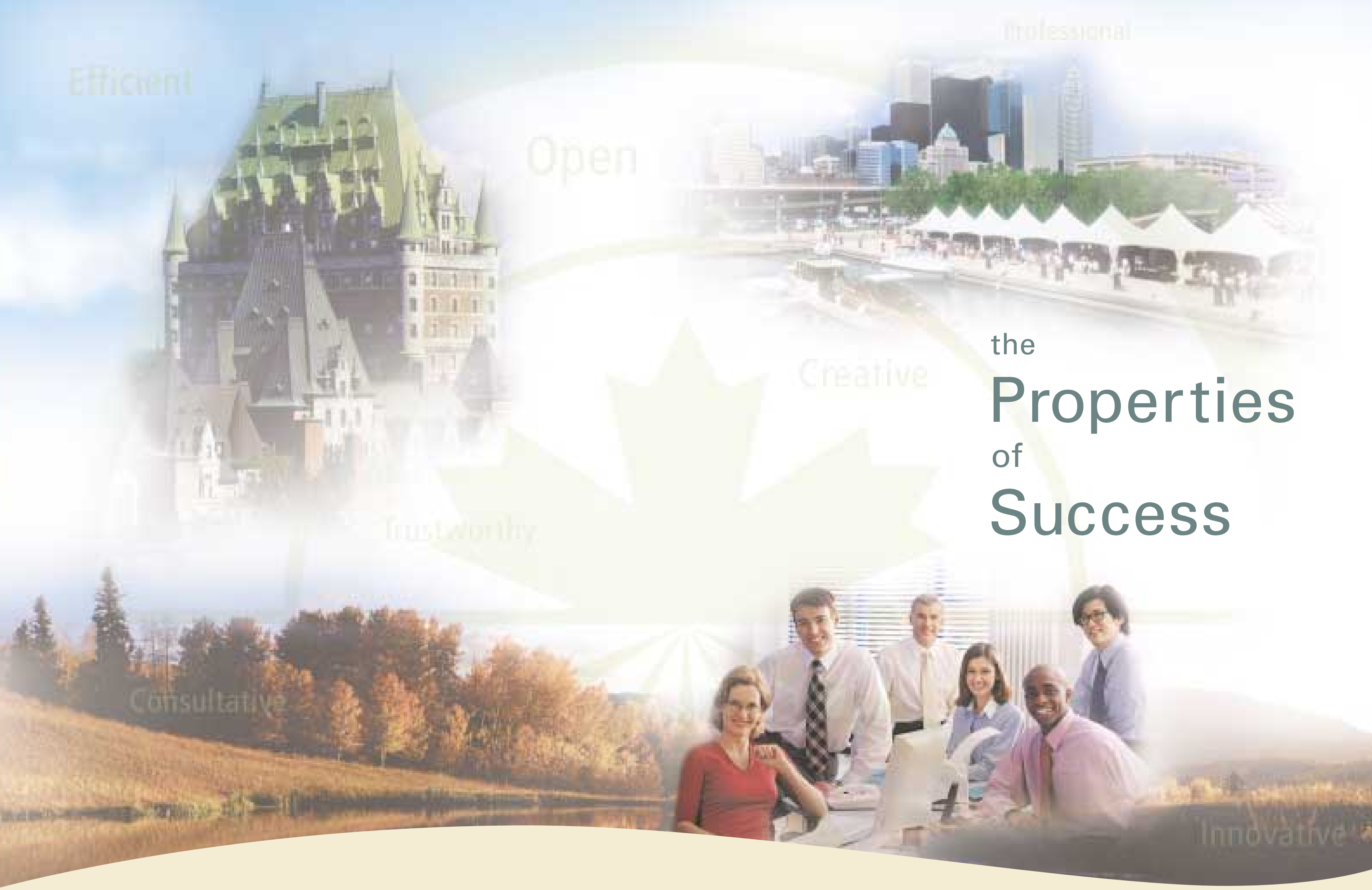


the Properties of Success

CANADA LANDS COMPANY LIMITED
SOCIÉTÉ IMMOBILIÈRE DU CANADA LIMITÉE

2002–2003 ANNUAL REPORT

CANADA LANDS COMPANY:

Created for Canadians

Canada Lands Company Limited (CLCL) was created by the Government of Canada to optimize the value from 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. The company is mandated to optimize the financial and community value from strategic properties no longer required for program purposes by Government of Canada departments, agencies and Crown corporations. It works through its Canada Lands Company CLC Limited (CLC) subsidiary to purchase properties at fair market value, then improves, manages or sells them in order to produce the best possible benefits for both local communities and the company's sole shareholder, the Government of Canada.

CLCL is a *Canada Business Corporation Act* corporation and is listed in Schedule III, Part 1 of the *Financial Administration Act* as a non-agent Crown corporation. It is the parent company of three wholly owned active subsidiaries:

- Canada Lands Company CLC Limited (CLC), the core real estate business, active in 24 municipalities across Canada;
- Parc Downsview Park Inc. (PDP), responsible for developing and managing Downsview Park in Toronto; and
- Old Port of Montréal Corporation Inc., responsible for redeveloping and managing the Old Port of Montréal, and reporting to Parliament as if it were a parent Crown corporation.

Letter to the Minister

June 30, 2003

The Honourable David Collenette
Minister of Transport
Place de Ville, Tower C
29th Floor, 330 Sparks Street
Ottawa, Ontario
K1A 0N5

Minister:

It gives me pleasure to enclose the annual report of Canada Lands Company Limited for the year ended March 31, 2003. This document focuses on how we are working as a company to meet the needs of Canadians through our various operating accomplishments over the past year, and working closely with our Government of Canada partners and customers to add value to strategic surplus federal assets across the country. I trust that you will find the enclosed highlights, case studies and messages informative.

Yours truly,

Marc Rochon
Chairman
Canada Lands Company Limited

cc. Hon. Steve Mahoney
Secretary of State (Selected Crown Corporations)

FROM THE GROUND UP:

A Message from the Chairman

Marc Rochon
Chairman
Canada Lands Company Limited and
Canada Lands Company CLC Limited

Canada Lands Company Limited (CLCL) is a creation of the federal government with a highly successful business model. It is a lean and efficient company that engages the private sector to implement innovative real estate projects. The company continues to work with its partners, customers and other stakeholders to meet and exceed the financial and community objectives set annually through its balanced scorecard.

The board welcomes its two newly appointed directors, Philip Star Q.C. from Yarmouth, Nova Scotia and Marco Veilleux from Montréal, Québec, and looks forward to benefiting from their very considerable experience. The board also extends its deep appreciation to departing board members Robert Basque from Moncton, New Brunswick and Charles Pelletier from Québec City, Québec for their valuable contributions over the past few years.

The company is extremely proud of its position as a real estate industry leader in the area of corporate social responsibility. Its balanced scorecard showcases many impressive achievements with respect to the benefits CLCL creates for Canadians in the numerous communities where it operates.

CANADA LANDS COMPANY LIMITED AND ITS SUBSIDIARIES

Parliament of Canada (through the Minister of Transport)

Canada Lands Company Limited

Old Port of Montréal Corporation Inc.

Canada Lands Company CLC Limited

Parc Downsview Park Inc.

CLCL continues to support its Parc Downsview Park (PDP) subsidiary as it seeks to address, in collaboration with the Government of Canada, PDP's governance and operational challenges.

I invite all Government of Canada departments, agencies and Crown corporations to learn more about CLCL and the financial benefits it is able to create for such organizations through divestiture of their surplus assets. In addition to receiving fair market value for surplus strategic assets, these benefits include relief from ongoing and often significant operational and maintenance costs, and avoidance of the erosion of asset value which can result from inadequate funding.

The company looks forward to working in close partnership in the coming year with its numerous Government of Canada customers to continue to improve and optimize the stewardship of government real estate assets. Together, CLCL and its partners are continuing to unlock the extraordinary value of the Government of Canada's real estate holdings for the benefit of taxpayers.

The company takes pride in fulfilling the role entrusted to it by Canadians of optimizing financial and social value, and it will continue to work tirelessly to improve the quality of life in communities across the country.

Kathy Milsom
President and CEO
Canada Lands Company Limited and
Canada Lands Company CLC Limited

THE COMMITMENT TO MEETING SHAREHOLDER NEEDS:

A Message from the President and CEO

Canada Lands Company CLC Limited (CLC) has repeatedly demonstrated that financial and community value creation can be complementary. While having contributed over $266 million to the government and taxpayers of Canada since inception in the form of dividends, cash acquisitions and payments for properties, CLC has also created considerable non-financial value for its various stakeholders.

During the past fiscal year, the company implemented two major organizational changes to enhance both operational effectiveness and cost efficiencies. In a very short time frame, these changes have already demonstrated far superior business outcomes, while delivering significant financial benefits. CLC's general and administrative cost avoidance for the fiscal year 2002–2003 was $3.3 million below budget. The associated annual sustainable savings, commencing fiscal year 2003–2004, will result in additional savings of $1.8 million over the amount achieved in the 2001–2002 fiscal year.

The company's top strategic priority continues to be increasing its inventory of properties. In addition to a number of St. Lawrence Seaway properties, titles to two properties were transferred to CLC during fiscal year 2002–2003. The company also received Government of Canada approval for the transfer of a third property in Richmond, British Columbia. We recognized that this rate of transfer is low and that the transfer processes needed to be improved. As a result, we implemented a major improvement during the fiscal year to our own internal process in how we seek to acquire properties. We are encouraged by the number of opportunities emerging as a result of the revised process, and will continue to work diligently and cooperatively with potential customers to advance these opportunities.

Both the past successes and the future potential of CLC are considerable. The most essential element in both respects is our employee base. We have a small but excellent team of individuals who constantly challenge the status quo in the spirit of continuous improvement. To ensure our continued success, we strive to attract and retain outstanding resources, and create work environments that are optimally conducive to high morale and performance. It is through the contributions of each and every one of our employees that we are able to produce significant results for the government and taxpayers of Canada.

MAKING IT WORK:

Corporate Governance as the Driver of Delivering Real Estate Value to Canadians

THE BOARD OF DIRECTORS OF CLCL IS RESPONSIBLE FOR MANAGING THE AFFAIRS OF THE CORPORATION AND THE CONDUCT OF ITS BUSINESS. AS STEWARD OF THE CORPORATION, THE BOARD OVERSEES THE COMPANY'S STRATEGIC DIRECTION, ENSURES THE INTEGRITY OF ITS CORPORATE AND FINANCIAL SYSTEMS, AND DEALS WITH RISK MANAGEMENT ISSUES. THE BOARD HAS A NON-EXECUTIVE CHAIRMAN AND CONSISTS OF SEVEN DIRECTORS: THE CHAIRMAN OF THE BOARD AND SIX OUTSIDE MEMBERS APPOINTED BY GOVERNOR IN COUNCIL. THESE DIRECTORS BRING A DIVERSE AND COMPLEMENTARY MIX OF SKILLS, AND REPRESENT CANADA'S GEOGRAPHIC REGIONS.

In 2002, an outside consultant confirmed to the CLCL board of directors that the company's governance practices were sound and — in many cases — exemplary. A disclosure statement on corporate governance was one outcome of this review. The board and management at CLCL, a self-financing Crown corporation, subscribe to the view that there are basic requirements and values that will always support good corporate governance in a Crown corporation: integrity, transparency, sound planning, an effective and efficient management structure, and a deep respect for the country's democratic institutions. In addition, they subscribe strongly to the view that an effective working relationship, and a climate of confidence between the board and senior management are key to promoting a positive corporate culture. There are clear, delineated delegations of authority to management from the board of CLCL.

CLCL Board Committees

THERE ARE THREE CLCL BOARD COMMITTEES: CORPORATE GOVERNANCE, HUMAN RESOURCES AND AUDIT. THE BOARD ACTS AS ITS OWN CORPORATE GOVERNANCE COMMITTEE, IN PART BECAUSE IT IS A RELATIVELY SMALL BOARD BUT ALSO BECAUSE IT ATTACHES A GREAT DEAL OF IMPORTANCE TO GOVERNANCE. ACCORDINGLY, IT CONCLUDED THAT ALL BOARD MEMBERS SHOULD TAKE AN ACTIVE INTEREST IN GOVERNANCE MATTERS.

The corporate governance committee

reviews the company's governance practices on a periodic basis. Already regarded as a leader in the field, the company has created a board of director profile and a skills matrix to assist with the selection of board members. All directors are subject to a conflict of interest policy, and the board also has a process of assessment to review its performance.

The human resources committee

oversees corporate policies relating to human resources and the direction it provides is all encompassing in human resources development. It is responsible for putting in place human resources policies, and directing management with respect to programs and succession planning.

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 audit committee is composed of directors who are all neither officers nor employees of the corporation or any of its affiliates. It has the authority to investigate any activity of the corporation, and all employees are called on to fully cooperate.

Director Attendance and Compensation

There were five CLCL board meetings during the fiscal year. All meetings were attended by all members of the board, with the exception of a meeting where two directors were absent. The 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 the directors respectively, as well as a per diem rate of $375 for both the chairman and directors.

CANADA LANDS COMPANY PAY POLICY

CLC compensation philosophy is to pay a competitive total compensation package in order to attract and retain exceptional resources in the industry, while remaining accountable to all stakeholders through transparent compensation practices that are fiscally prudent.

Based on yearly market data collected by independent consultants creating a blend from the public and private sectors, CLC's pay policy provides base compensation at the median of market comparators on a national basis, while total compensation, including incentive, is offered just below the 3rd quartile (or equating to approximately 30% of companies providing greater total compensation). Annual salary reviews are conducted and, at the discretion of the company, within the overall budget, 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, employees must meet standard job criteria in order to be eligible for incentive pay. The incentive, ranging from 5% to 35% of salary, is based on meeting stretch goals which exceed the expected performance of the role. The corporation's strategic objectives for a given fiscal year are translated into the President and CEO's personal goals. These goals then cascade through the organization such that all employees have performance goals that relate back to the corporation's overall strategic objectives.

The position of President and CEO of CLCL is a Governor in Council appointee and, as such, the Governor in Council sets the rate of remuneration of this position as required under the *Financial Administration Act*. CLCL, as a Group 5 Crown corporation, offers incentive pay to the President and CEO to a maximum of 10% of salary.

The President and CEO receives the same benefit package as the other executive members of the organization, including health and dental benefits. The President and CEO position is paid at below the median of the market for base compensation using the same practices that are used for the rest of the employees of CLC.

balance

THE BALANCED SCORECARD:

Meeting the Needs of All Stakeholders

WHEN CLC WAS REACTIVATED IN 1995, THE GOVERNMENT OF CANADA'S PRIORITIES AND FISCAL CIRCUMSTANCES WERE SUCH THAT THE FOCUS OF THE COMPANY WAS ON FINANCIAL VALUE CREATION. AS THE NEEDS AND PRIORITIES OF THE GOVERNMENT EVOLVED OVER THE YEARS, CLC REMAINED SENSITIVE TO THOSE NEEDS AND BEGAN TO PIONEER A NEW CORPORATE CULTURE.

By adopting a core commitment to corporate social responsibility, CLC acknowledged the importance of all of its key stakeholder groups. CLC's balanced scorecard was developed to recognize the needs of its various stakeholders, as well as a means to improve the company's internal financial and qualitative measures and performance. The scorecard is utilized as both an internal self-assessment tool and an external communication tool, and has been lauded by various business and community groups including the Conference Board of Canada. The balanced scorecard enables the documenting of goals, managing and measuring performance, and reporting on achievements within the priorities of each key result area.

At the corporate level, CLC has identified five key result areas that represent the corporation's primary stakeholder groups. These areas are: shareholder and board of directors, business and financial outcomes, community and legacy initiatives, employees and the work environment, and municipal and provincial interests.

As part of CLC's strategic planning process each year, strategies, corporate objectives or goals and performance indicators are established for each key result area. The goals established then cascade through the organization by incorporation, to various degrees, into each employee's personal performance goals. In this manner, every employee understands his or her contribution to, and has a stake in, the overall success of the corporation in meeting the needs of its various stakeholder groups.

Shareholder and Board of Directors

Business and Financial Outcomes

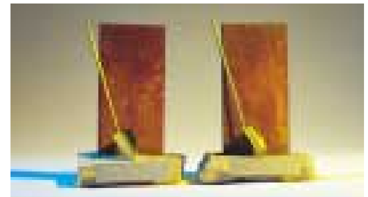
Community and Legacy Initiatives

Employees and the Work Environment

Municipal and Provincial Interests

CANADA LANDS' BALANCED SCORECARD

CLC strives to meet the needs and priorities of its shareholder and board of directors. The company achieves this through effective communications, maintaining high standards of internal financial and qualitative measures and performance, ensuring an ongoing commitment to corporate social responsibility, and championing strong governance practices.



CLC strives to succeed financially and excel at its business. The company achieves this by continuously seeking to improve financial performance, increasing property transfers, exploring the applicability of its core competencies to evolving government needs, and enhancing customer relations.

CLC strives to create lasting value and legacies in communities in which it operates. The company achieves this by creating legacies as a part of each major project, partnering with local organizations wherever possible, seeking input from and engaging the community with respect to all major projects, and evaluating opportunities for strategic donations related to major projects and/or in communities where the company conducts business.

CLC strives to create a work environment that is optimally conducive to high morale and performance. The company achieves this by being recognized as an employer of choice, and by communicating with and consulting employees extensively.

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 to reach consensus among three levels of government and promotes sustainable development.

Shareholder / Board of Directors Interests

OBJECTIVE	INITIATIVES	KEY PERFORMANCE INDICATORS	ACHIEVEMENTS
Positioning of company communications	Showcase CLC's accomplishments to various stakeholders as a business development tool through project tours and events	Roll out new corporate visual identity program across regions	Visual identity program consistently applied
		Conduct a minimum of five project tours for key stakeholders	Conducted dozens of project tours for key stakeholders
	Develop the Web site to respond to company needs	Successfully implement the Web site redevelopment work plan	Corporate Web site launched, as well as four project Web sites
Improve internal financial and qualitative measures and performance	Report on performance regularly to the board and the shareholder	Report to the board quarterly and to the shareholder at a frequency determined by the board	Regular updates through reports from the President and CFO at each board meeting
	Ensure sufficient and appropriate policies exist, and that newly established 'market value' indicator for CLC is a means of more appropriately measuring financial success	Identify areas requiring new or revised corporate policies or controls, and develop and implement as necessary	Risk management assessment initiated, financial processes reviewed/revised, and JD Edwards financial information systems assessment begun
		Monitor and report to the board on performance on a quarterly basis with respect to the 'market value' performance indicator	Market value performance indicator presented to the board and accepted as an additional means to internally measure performance
Further clarify the company's commitment to corporate social responsibility (CSR)	Further clarify CSR and its rationale and ensure increasing employee buy-in	Continued communications and employee participation with respect to CSR	Progress achieved in generating buy-in and understanding throughout the company
	Continue communications of CSR to employees, the government and the public	Implement a comprehensive internal communications framework	CSR has been internalized by employees
			Employee CSR committee in existence for over one year
Work towards achieving bilingualism for all designated employee positions	Execute the official languages designation plan	Assess employee capabilities and develop appropriate training plans to meet minimum requirements	Training plans developed and will be implemented in fiscal year 2003–2004
		100% of management team to meet minimum requirements or be registered in language classes	All members of senior management team either meet the requirements of their jobs' language designation or are presently training to achieve it
Strengthen current governance practices	Explore and seek to further enhance governance practices	Work with the minister's office to fill board positions vacated by members whose terms will expire in 2002–2003	Recommendations were sent to the minister, along with board profile and skills matrix
		Further assess and refine corporate governance practices	A review of CLC's parent board's governance practices found them sound and in many cases exemplary

Business / Financial

OBJECTIVE	INITIATIVES	KEY PERFORMANCE INDICATORS	ACHIEVEMENTS
Enhance financial performance	Seek to enhance the financial value and return on projects	Maintain general and administrative (G&A) expenses at previous year's actuals plus 3%, other than staffing and other expenses necessitated by new projects	G&A expenses are 10% lower than previous year's actuals
	Continue to make financially prudent investments in projects to ensure sustainability of business and distribution to the shareholder	Meet or exceed corporate financial targets (net income before tax [NIBT] and cash flow before capital expenditures) set in the corporate plan	Cash flow before capital expenditures 6% more than budget, and NIBT was exceeded by 84%
	Structure projects to ensure a sustainable revenue stream and cash flows	Carry out targeted capital expenditures in order to ensure that financial targets on major projects can be met in ensuing years	Capital expenditure actuals were below budget due to the delayed commencement of several projects
Increase property transfers	Proactively identify strategic federal property assets that are underutilized	Obtain necessary approvals for six transfers over the course of the fiscal year	Achieved approval for one transfer
	Formulate property specific action plans to obtain approvals and facilitate title transfers	Achieve transfer of title for four properties	Achieved transfer of title for 35 properties (33 of these were from the St. Lawrence Seaway portfolio) Implemented a restructuring plan to improve customer service and internal processes for acquiring more properties in a shorter time frame
Explore expansion of scope of services and new business lines as warranted by government needs	Continue stakeholder consultation to ensure services align with stakeholder needs	Clarify scope of work for CLC in the Toronto Waterfront Revitalization Initiative	Working with Toronto Waterfront Revitalization Corporation (TWRC), city agency TEDCO and Ontario Realty Corporation on defining scope of work
		Secure necessary authorizations on a project basis as the needs may arise with respect to either a build to suit or environmental remediation and any other initiatives	Authorization granted by TWRC and project commenced on improvements to Cherry Beach
Enhance customer relations	Continue to apply customer satisfaction monitoring methodology to target groups in each region	Minimum overall customer satisfaction score of 75% for new target groups or increase in satisfaction score for repeat surveys	Survey conducted on Griesbach refurbishment achieved a customer satisfaction score of 90% 277 Front Street received the BOMA Toronto Award for Certificate of Building Excellence

Community / Legacy

OBJECTIVE	INITIATIVES	KEY PERFORMANCE INDICATORS	ACHIEVEMENTS
Create legacies as a part of each major project	Implement legacy or community investment initiatives as part of an overall development strategy	Legacy or community investment initiatives benefiting the development of major projects	Completion of unique public art attraction as part of 401 Burrard Street office tower Moncton property sports fields fully completed and turned over to the City of Moncton Monument to commemorate the veterans of Benny Farm residential complex
Partner with local organizations wherever possible	Seek innovative ways to partner with local organizations/service providers	New partnerships forged over the course of the fiscal year in support of development plans	Completion of Fraser River lookout at Glenlyon Business Park in partnership with the City of Burnaby Collaboration with Options for Homes for construction at 650 Lawrence in Toronto
Evaluate opportunities for strategic donations related to major projects and/or in communities where the company conducts business	Review, evaluate and act upon areas of potential financial or in-kind support	Community acceptance and support of proposed development plan	19 in-kind donations were recorded for the 2002–2003 fiscal year
Seek input from and engage the community with respect to all major projects	Undertake broad-based consultation for each major project as part of planning approval process	Community acceptance and support of proposed development plan	Franklin Yard charrette, Moncton Albion & Lester Road consultations, Ottawa Benny Farm redevelopment consultation process, Montréal Griesbach re-zoning, Edmonton Garrison Green re-zoning, Calgary Interactive process well advanced for Chilliwack Parcel A

Human Resources

OBJECTIVE	INITIATIVES	KEY PERFORMANCE INDICATORS	ACHIEVEMENTS
Be recognized as an employer of choice	Issue annual employee workplace satisfaction survey	Enhance baseline employee satisfaction	Second annual employee survey issued and results tabulated, indicating employee satisfaction exceeds previous year
	Based on employee input from last year's workplace satisfaction survey, refine human resources programs to resolve issues/difficulties	Refine human resources programs	All human resources programs were reviewed and many refinements have been implemented
		Ensure appropriateness and flexibility of organizational structure to respond to needs and opportunities	Organizational structure modified, with positive business and financial outcomes
	Strive to create challenging and positive work environment, and focus on employee retention with particular attention to skills development and skills appropriation	Maintain voluntary employee turnover at below five percent	Voluntary employee turnover maintained at less than one percent
		Through human resources information system, develop a skills inventory and strategic development plan	Development of skills inventory commenced
			In response to recommendations of the Auditor General, a pay policy disclosure statement was developed
Communicate with and consult employees extensively	Continue to strengthen employee communications, and inform employees regularly through both formal and informal means	Issue employee newsletter at least quarterly and hold regular meetings at regional offices	Employee newsletters continue to be issued, and regular meetings held with the President
	Develop a process for capturing and communicating best practices and expertise across the organization	Introduce more structured employee communications framework	Human resources round table established with improved communication framework
		Ensure each region has access to relevant centres of excellence	Centres of excellence now routinely utilized within and across regions
	Continue to engage all employees in the strategic planning process	Respond to major findings of employee workplace satisfaction survey and engage employees in workplace change initiatives	Input received through the employee survey with all respondents contacted for follow-up
	Continue to engage employees more fully with respect to corporate financial and non-financial performance	Employee buy-in and appreciation of strategic direction and corporate plan	Employee participation in corporate plan took place at national conference
		Quarterly employee CSR committee progress report submitted to the board and published in employee newsletter	One CSR committee progress report published in employee newsletter and submitted to the board
		Hold a national employee conference during fiscal year	National conference held in September 2002, with a 90% approval rating

Municipal / Provincial

OBJECTIVE	INITIATIVES	KEY PERFORMANCE INDICATORS	ACHIEVEMENTS
Provide economic stimulation in communities where CLC conducts business	Promote timely development and construction at project sites	Development expenditures stimulated	Total project development expenditures of $3.3 billion*
	Identify and implement most appropriate mixed use developments for project sites	Person years of direct construction employment stimulated	26,400 person years of construction employment*
		Annual taxes to municipalities at point of sale	$15 million in annual taxes to municipalities at point of sale by CLC
		Annual operating expenses relieved from Government of Canada departments, agencies and Crown corporations	$1.5 million in operating expenses relieved from Government of Canada departments, agencies and Crown corporations for all properties purchased by CLC
		Non-residential construction stimulated	$2.4 million in non-residential construction
Champion social policy objectives to reach consensus among three levels of government	Explore the feasibility of contributing to affordable housing and other social policy objectives with each major development project	New or refurbished residential units stimulated	14,000 new or refurbished residential units at a variety of affordability levels*
	Utilize environmentally/fiscally responsible means of remediating contaminated sites	Environmental remediation investment	$35.7 million invested by CLC in environmental remediation*
			Two Brownie Awards from the Canadian Urban Institute for CLC's work at its Moncton properties
Promote sustainable development	Incorporate sound principles of sustainable development for each development initiative	Creation of strong sense of community, belonging or neighbourliness for projects	Participation in the Prime Minister's Task Force on Urban Issues
		Public areas that encourage walking and socializing	Enhancement of Foreshore Park/trail system in Glenlyon, Burnaby
	Explore and implement innovative means of recycling and/or reusing demolition or construction waste	Quantities of recycled or reused materials from demolition or construction	Opening of 401 Burrard Street in Vancouver, the 'greenest' building in PWGSC inventory

* Company achievements since inception.

"CLC has been very sensitive to the community in the development of Garrison Woods. I am extremely thankful for their commitment to preserving the heritage of the site."

Barry Erskine
Ward Alderman
City of Calgary

DEVELOPMENT

Pre-Sale Value Creation to Meet Community Aspirations

CLC TYPICALLY ENGAGES IN PLANNING AND DEVELOPMENT, INCLUDING CONSULTATIONS WITH THE COMMUNITY, BEFORE IT IS READY TO REINTEGRATE ITS PROPERTIES INTO THE FABRIC OF THE LOCAL COMMUNITY.

CLC Calgary

A "Jewel in the Crown" of Community Revitalization

CLC Calgary is the 450 acre (182 hectare) site of the former Canadian Forces Base (CFB) Calgary. It has evolved into a coveted location for residential, office and commercial development, and is one of Canada's most significant urban revitalization projects, featuring some of Calgary's most desirable neighbourhoods. Garrison Woods is the 175 acre (70.8 hectare) neighbourhood created on the eastern portion of the site and Garrison Green is the 80 acre (32.4 hectare) neighbourhood created on the southern portion of the site. CLC Calgary has won numerous national, provincial and local awards. Not only is it one of the most complex and innovative urban redevelopment projects in North America, it is also a unique community which residents are proud to call home.

www.clccalgary.ca

Garrison Woods — Smart Growth and Innovative Design

Extensive public consultation determined the need for a community that was well integrated into the surrounding neighbourhoods, commemorated the site's military history and was pedestrian-friendly. CLC's approach employed traffic-calming streets, boulevard trees, and an environment that promotes walking and biking, resulting in a friendly, safe neighbourhood for all members of the community.

The Manors retirement complex at Garrison Woods opened in March 2003 and was designed in consultation with the local community to meet the special needs of seniors. It illustrates how Garrison Woods provides a variety of housing opportunities for all segments of society.

During fiscal year 2002–2003, CLC sold a portion of the site to a private school, Lycée Louis Pasteur. The school makes use of existing buildings including the former community centre. Lycée Louis Pasteur will also preserve one of the chapels on the site to accommodate its kindergarten program.

www.garrisonwoods.com

Garrison Green — Providing the Widest Range of Residential Options

In September 2002, CLC worked with its partners to integrate Cyprus Green seamlessly into the 800 unit Garrison Green residential development. Cyprus Green is an affordable housing community comprising 65 refurbished family homes, which were relocated and renovated with funding from all levels of government. This development offers low income Calgarians the opportunity to own a home in a beautiful community.

CLC's Calgary Team

"Canada Lands demonstrated its commitment to an open and transparent participatory process that took the diverse community needs and aspirations into consideration in reaching a consensus on a redevelopment plan."

Benny Farm Task Force

Properties of Success

Benny Farm

The Value of Consensus and Agreed Upon Objectives

Benny Farm is an 18 acre (7.2 hectare) property located in the heart of the Notre-Dame-de-Grâce (NDG) area of Montréal, originally consisting of 384 apartment units built in 1946 and 1947 to respond to the overwhelming need for post-war housing. In 1999, CLC acquired the property from Canada Mortgage and Housing Corporation (CMHC) and by 2000 it had completed relocating Benny Farm tenants, most of whom are veterans, into newly constructed buildings on the site.

For several years, the property stood at the centre of heated controversy, as numerous interest groups within the NDG community came forward with diverse and competing views on how to proceed with further redevelopment. In late 2001, the redevelopment process came to a standstill when an injunction was attempted against CLC.

Determined to find a solution acceptable to all parties, CLC decided that a uniquely tailored community consultation process would be required to end the stalemate among the various opposing groups. In July 2002, the company launched a participatory process to develop objectives for future use of the property that addressed the needs of all stakeholders.

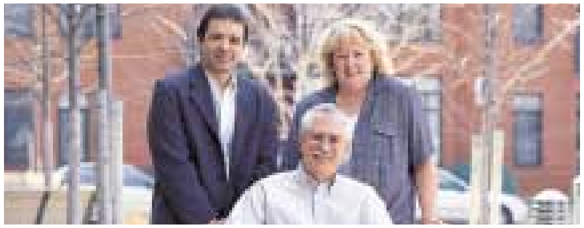
Following consultations with a wide range of community representatives, CLC created the Benny Farm Task Force, comprised of 12 individuals representing the diverse views on the property's redevelopment.

In October 2002, the Benny Farm Task Force issued its agreed upon development objectives for the site. It dedicated 75% of the site to be used for affordable housing, with the remainder of the site to be used for community services. Residents and concerned community groups were then invited to a public presentation of four design alternatives based on these recommendations.

The recommendations of the Benny Farm Task Force, along with almost 300 feedback forms collected from the public, helped guide CLC in its selection of the preferred master plan for this redevelopment.

The redevelopment plan for the Benny Farm site was then submitted to the City of Montréal in February 2003 for public consultation and approval. CLC has continued to work cooperatively with all stakeholders to move the redevelopment forward.

The role of the Benny Farm Task Force will evolve into that of an advisory committee to CLC, which will liaise with the community while overseeing implementation of the development objectives and design guidelines for the site. The result of this consensus building exercise will be much-needed affordable and subsidized housing as well as several community facilities, bringing a new vitality to this growing area of Montréal.



CLC's Benny Farm Team

www.bennyfarm.org

"I am so excited and proud that I finally own a home. I am grateful to Options for Homes and Canada Lands for helping make my dreams a reality."

Janet Munroe and her daughter, Jahnoya
Home owner

BRINGING REVITALIZED PROPERTIES TO CANADIAN MARKETS

The Core Value Creation Activity

THE NET EFFECT OF THE COMPANY'S VALUE-ADDED ACTIVITIES IS THE OPTIMIZATION OF BOTH THE FINANCIAL AND COMMUNITY VALUE OBTAINED FROM SURPLUS STRATEGIC FEDERAL PROPERTIES. IN MOST INSTANCES, THIS MEANS ULTIMATELY SELLING THESE PROPERTIES TO ACHIEVE FINANCIAL BENEFITS FOR THE GOVERNMENT AND PEOPLE OF CANADA. THE COMPANY STRIVES FOR CONTINUOUS IMPROVEMENT IN THIS AREA TO ENSURE THAT THE NEEDS AND INTERESTS OF CANADIAN TAXPAYERS ARE FULLY RESPECTED.

650 Lawrence Avenue in Toronto

An Innovative Affordable Housing Solution

In 1998, CLC acquired the 3.8 acre (1.5 hectare) site of the former Toronto office of CMHC, located at 650 Lawrence Avenue West in Toronto.

CLC listed the property for sale with a public brokerage house and, after negotiations with several bidders, announced that the site would be developed in conjunction with Options for Homes, a unique non-profit organization based in Toronto.

This decision allowed CLC to make a very real contribution towards solving one of the major issues of our times, the shortage of affordable housing options. The company sold the site to Options for Homes for the construction of a 431 unit mixed use affordable housing project.

The complex includes townhouses and apartment units ranging from studio apartments to three bedroom homes.

At the core of the project's success is Options for Homes' unique financing concept for its purchasers. As ownership units, the homes at 650 Lawrence have monthly costs that are less than market rental units in Toronto. The units were sold at cost with a minimum 5% deposit and mortgaged at the sale price. The difference between the sale price and the market value is secured by implementing an alternative mortgage that discourages immediate resale of the units and windfall profits.

By eliminating amenities, marketing costs, commissions and profit margins, Options for Homes has been able to provide significant savings for its purchasers when compared to similar developments in the city. This pricing model enables people with lower incomes to have pride in ownership.

The project sold out quickly and families began moving into their new homes in May 2003. The complex is expected to be fully occupied by the summer of 2003.

The 650 Lawrence complex represents one of Toronto's most innovative affordable housing initiatives and provides a major contribution to meeting the affordable housing shortfall in the city. CLC is proud to have helped make this initiative a reality.

CLC's Ontario Region Team

"Our work with CLC was extremely gratifying, not only in terms of the quality of the completed project, but in professional, collaborative partnership we enjoyed with the CLC development team."

Alan Endall, MAIBC
Senior Associate
Stantec Architecture

Properties of Success

401 Burrard Street in Vancouver

A "Green" Building Heralding the Future

401 Burrard Street is a 19 storey, 215,000 ft^2 (19,974 m^2) Class "AAA" office building in downtown Vancouver. The site was originally acquired by Canadian National Railway (CN) in 1986 and transferred to CLC upon its reactivation in 1995.

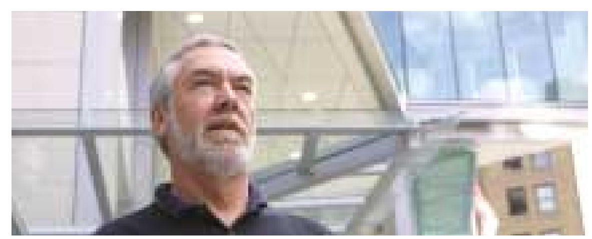
In 1993, a development permit was negotiated with the City of Vancouver, and the property was actively marketed until early 1999, when Public Works and Government Services Canada (PWGSC) approached CLC with a proposal to lease the entire project to house federal departments.

Extensive discussions took place over the next several months to integrate the distinctive architectural approach reflected in the development permit with the requirements of PWGSC and its tenants, along with environmentally sound initiatives in a fiscally responsible project design.

PWGSC subsequently decided to purchase the property to help balance its national portfolio of leased versus owned properties, and the purchase agreement was finalized in late 1999. CLC completed the design and constructed the project. PWGSC purchased the project upon completion at a fixed price in order to proceed with interior improvements. Construction commenced in July 2000 and was completed in April 2002, with the sale transaction closing on May 15, 2002. With the interior improvements completed, the project has become the greenest high-rise office building in the PWGSC inventory, and has demonstrated the benefits of a productive and fruitful working relationship between CLC and PWGSC.

Completion of the project involved a successful working relationship between CLC, the design consultant team and the general contractor. A guaranteed maximum price for the construction of the project was tendered, which formed the basis of the sale price and allowed for input to be provided by the selected contractor in the final design. This 'fast-tracking' process reduced a normal design, tender and construct delivery timeline, by one full year.

A new entrance area, made possible by creative land use agreements with neighbouring landowners, allowed for the provision of a dramatic public art installation to complement the architecture of the building. The artist for this 60 ft (18.2 m) kinetic structure, which mirrors the configuration and movement of the building's internal elevators, was chosen through a public competition attracting submissions from many artists and sculptors. Today, the building is recognized as one of the most attractive additions to Vancouver's skyline.



CLC's John DeJong, 401 Burrard Project Manager

"Our participation with the CLC team has been an extremely rewarding experience. The development program has been unique and has created a development team of managers, engineers and earth works specialists of which we are proud members."

Jim O'Brien, Mustapha Zergoun, Russ Sheils, Neil Burke
Trow Consulting and Atlantic Contractors

BUILD TO SUIT

Delivering Creative, Cost-Effective Solutions to the Customer

CONSISTENT WITH ITS CONTINUING COMMITMENT TO CUSTOMER SERVICE, CLC TAILORS ITS PROJECTS TO MEET THE SPECIFIC NEEDS OF THE END USER. THE COMPANY IS ABLE TO DRAW UPON A RANGE OF EXPERTISE AND EXPERIENCE IN DELIVERING HIGH QUALITY ENVIRONMENTALLY FRIENDLY BUILDINGS ON SCHEDULE, WITHIN BUDGET AND AT OPTIMAL LIFE CYCLE VALUE.

Glenlyon Business Park

Beauty, Sustainability and Value Delivered in One Setting

CLC's Glenlyon Business Park, the 'Natural Habitat for Business,' is the premier suburban office park in Western Canada and has revolutionized the development of what were once called industrial parks. Situated in Burnaby, British Columbia, the site consists of 133 acres (53.8 hectares), of which 45 acres (18.2 hectares) have been developed to date. The site is surrounded by parkland, the Fraser River and the Riverway Golf Course. The beautiful outdoor environment is showcased throughout the property, offering companies a campus-style work environment that is being developed to ensure consistent landscaping, building design and tenant use throughout the park.

Nokia will move into its new 95,000 ft² (8,826 m²) research and development facility at Glenlyon in the spring of 2003, while Sulzer Medica will move into its new 50,000 ft² (4,645 m²) laboratory facility overlooking the golf course. Both facilities were developed by CLC.

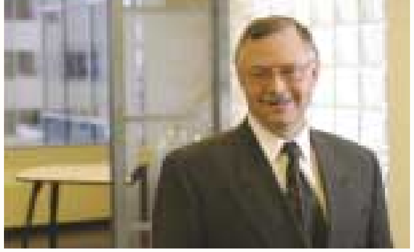
During 2003, CLC will complete the internal road system on the property and will continue work on improvements to Burnaby's Foreshore Park, which is contained within the property. An interpretive lookout adjacent to the Fraser River was completed this year, providing spectacular views of the Fraser River and a lasting legacy for the people of Burnaby.

The balance of the property will be developed in stages until completion in the summer of 2007. When completed, Glenlyon Business Park will consist of over two million ft² (185,806 m²) of office, and research and development space. To date, construction of 680,000 ft² (67,174 m²) of space has been completed, accommodating approximately 2,500 employees.

Glenlyon Business Park is another award winning example of CLC's commitment to sustainable development and high standards of environmental stewardship. Relocating and enhancing creeks, building new storm-water retention ponds, improving Burnaby's Foreshore Park, and emphasizing extra landscaping contribute to the park-like feel of Glenlyon Business Park. This strategy has been so successful that CLC has attracted an impressive list of tenants and owners, including Ballard Power Systems, Future Shop/Best Buy, INEX Pharmaceuticals, the B.C. Hospital Employees Union and Telus.

CLC's Glenlyon Team

www.glenlyonbusinesspark.com



"Our partnership with CLC and other developers is an example of making downtowns the most desirable communities. The revitalization is led by housing which anchors retail."

Larry Benowski
Head
City of Edmonton Planning Department

the Properties of Success

Oliver Village

Creating a Catalyst for Urban Renewal

CLC's Oliver Village property in Edmonton, Alberta was acquired from CN in 1995. The 6.2 acre (2.5 hectare) site has been transformed from a polluted and abandoned rail site into a small but extremely vibrant community.

The Oliver Village development includes 308 residential apartment units in two buildings, and 45,000 ft² (4,180 m²) of commercial space including retail and restaurants. It represents a catalyst in the rejuvenation of Edmonton's downtown core.

The City of Edmonton initially approached CLC to seek assistance in developing a new residential neighbourhood to help revitalize the downtown area. The company rose to the challenge and worked in cooperation with the private sector to develop the Oliver Village Ashby apartment complex. This housing complex was such a tremendous success that it was awarded the Downtown Development Award from the Edmonton Downtown Development Corporation.

While developing retail shops on the property, CLC invested in higher standards of design, materials, signage and lighting, in order to integrate the development more effectively into the surrounding area while providing high quality amenities for the entire community. CLC was careful to select tenants that would offer unique services and satisfy the needs of the residents. One of the tenants, The Blue Iguana Restaurant, has already won two Double Gold Medal Awards for its menu items.

An innovative feature of the development is the one acre (0.4 hectare) MacKenzie and Mann Park, which commemorates the history of the first rail link across the North Saskatchewan River to Edmonton. The park was developed through a partnership between the City of Edmonton and CLC, which resulted in the creation of this special urban amenity now enjoyed by the downtown community and the general public.

Through its partnerships with the city and private developers, CLC is contributing to continued growth in downtown Edmonton. The overall development of the property has resulted in new residential units and commercial activity, while ensuring commemoration of Edmonton's rich history.

"Working with the professional staff from CLC was positive and rewarding. CLC displayed a tremendous amount of determination and ability to deal with all stakeholders."

Anthony Marsman
President
Rembrandt Homes

ENVIRONMENTAL REMEDIATION

CLC's Commitment to Safe and Sustainable Development Options

CLC'S COMMITMENT TO LEAVE A LASTING LEGACY IN COMMUNITIES OFTEN INCLUDES, AMONG OTHER ELEMENTS, ENVIRONMENTALLY REMEDIATED AND REVITALIZED SITES.

Wolseley Barracks

Working with the Customer to Optimize Remediation Solutions

The Wolseley Barracks site is one of the many properties acquired by CLC that can be defined as diverse and challenging. Located in London, Ontario, the Department of National Defence (DND) site has a colourful and significant past. Established in 1886, Wolseley Barracks was an important training ground for Canadian troops during World Wars I and II. A portion of this still active base was declared surplus in 1989, and approximately 38 acres (15.4 hectares) were then acquired by CLC in 1998. Area Support Unit London — Wolseley Barracks continues to occupy a sizeable portion of the base that was not part of this transaction.

As site preparation proceeded with the removal of abandoned steam pipes, buried munitions from DND operations were found at the southwest corner of the property. CLC embarked upon a remediation project that was far from ordinary. Consultants specializing in unexploded ordnance were retained, and produced an electromagnetic scan of the entire property in order to locate buried metals. Unexploded ordnance were then removed with the assistance of DND personnel. Once remediated, the company sold the property in three transactions: 13 acres (5.3 hectares) to a grocery chain, 19 acres (7.7 hectares) to a local residential developer and 6 acres (2.4 hectares) to the City of London for the expansion of a neighbouring community centre.

A further environmental due diligence process for the residential development of the property was performed consisting of a complete excavation and sift of the site. This process allowed the builder to remove any metal particulates, and reclaim and segregate concrete and topsoil. Enough gravel was obtained through this program to construct roadbeds, and an abundance of topsoil was obtained to satisfy landscape requirements for the planned townhouse development.

The City of London undertook a similar activity, and its portion of the site is being integrated into a fully functional community activity area. The grocery operator, through its construction process, was also able to reclaim reusable materials.

With the transactions completed in March 2003, CLC's commitment to this innovative and cooperative development solution resulted in a successful and financially viable project that will bring benefits to the local community for years to come. The reintegration of federal lands complements the surrounding neighbourhood with a mix of residential, commercial and recreational uses.

CLC's Ontario Region Team

Properties of Success

Bayside

Cost Avoidance and Responsible Development

An example of CLC's unique environmental remediation skill set in action can be seen at the former rail yard in the Selkirk Waterway section of downtown Victoria, British Columbia. The Bayside residential project demonstrates the company's ability to avoid unnecessary costs through effective development, planning and remediation practices.

CLC purchased the property in 1995 from CN, and began work with the City of Victoria and the local community to re-zone the 11.7 acre (4.7 hectare) waterfront parcel for a residential community of 400 units. The site contained low levels of hydrocarbon and metal contamination resulting from former uses. As provincial environmental standards are more stringent for residential development than roads, to ensure cost effectiveness, it was decided that the cleanup could not be undertaken until a detailed plan for the site was developed.

In 2001, CLC offered the land for sale and a local developer was the successful bidder. Once the developer's plan for the site was finalized, CLC's team of local consultants worked with the province's Ministry of the Environment (MOE), the federal Department of Fisheries and Oceans (DFO) and the City of Victoria to establish guidelines for environmental remediation of the site. A comprehensive plan was developed for the excavation, stockpiling and screening of the contaminated soils. The plan called for the removal of soil that contained higher levels of contaminants, while soils with low levels of contaminants, containing particles of coal dust, were to be incorporated as structural fill within future road beds.

To address concerns about the environmental condition of the adjacent foreshore areas, CLC demonstrated that the foreshore had not been affected by past rail activities and in fact was home to a thriving marine ecosystem. The two areas of storm-water outfall discovered during the operation were remediated and restored during low tide, in order to cause minimum disruption to marine wildlife.

The remediation of the property began in August 2001 and was completed three months later, with final reports submitted to the MOE in November 2001. A Certificate of Compliance was received in May 2002, and the sale of the lands was subsequently completed.

The developer received development permits from the City of Victoria for a housing community and construction is well advanced, with the first units to be completed in the summer of 2003. Once again, CLC has contributed to providing much-needed housing for a local community by enabling the creation of a beautiful new neighbourhood on formerly derelict lands.

CLC's Larry Morgan, Bayside Project Manager

"By implementing numerous measures, CLC is able to provide the tenants of 277 Front Street with the comfort they have come to expect, while increasing efficiency."

Neal Bach, P.Eng
Energy Profiles Limited

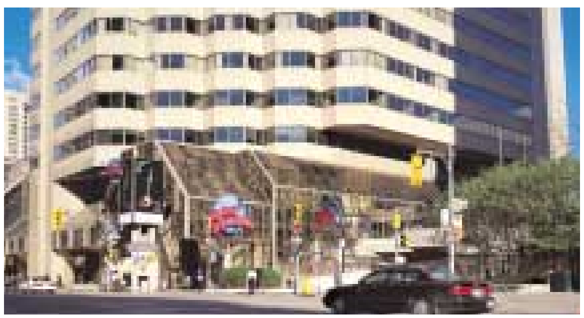
PROPERTY MANAGEMENT

Putting the Customer First

CLC'S PROPERTY MANAGEMENT TEAM IS COMMITTED TO PROVIDING THE HIGHEST LEVEL OF SERVICE TO ITS TENANTS THROUGH PROPER ONGOING MAINTENANCE ACTIVITIES THAT ENSURE EFFICIENT OPERATION OF ALL BUILDING EQUIPMENT, SYSTEMS AND FEATURES. THE COMPANY BELIEVES THAT WELL MAINTAINED EQUIPMENT IS THE BACKBONE OF AN EFFICIENT BUILDING, AND A COMFORTABLE AND SECURE WORK ENVIRONMENT. THIS COMMITMENT TO CUSTOMER SERVICE ALSO ENSURES THAT TENANTS ARE CONSIDERED FIRST IN ALL DECISIONS.

277 Front Street in Toronto

Satisfied Business Tenants

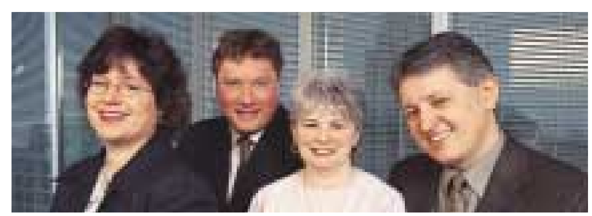


CLC is the property manager for 277 Front Street. The 17 storey building forms part of the Metro Toronto Convention Centre Complex, a two million ft² (185,806 m²) complex in the heart of downtown Toronto that includes a 586 room luxury hotel and a one million ft² (92,903 m²) convention centre and parking facility. Tenants at 277 Front Street include CN, PWGSC, the Royal Bank and Planet Hollywood.

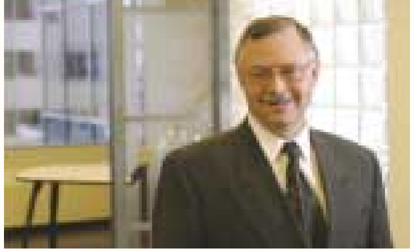
Periodic quality control inspections and tenant surveys ensure that CLC continually monitors its performance, and also identifies any areas requiring attention. The company's goal is efficient property management through careful planning and control of expenditures, proper maintenance of building equipment and operating systems, and daily attention to tenants. The building's central control facility operates around the clock to respond to the service requests of the approximately one thousand people who work in the building.

In the past year, CLC undertook several initiatives to further improve operating and energy efficiency. These included the installation of an elevator monitoring system and a security camera system, completion of a major lighting retrofit using T8 lamps and electronic ballasts, and installation of variable speed drive motors on various fan units and chilled water pumps. Deregulation of the Ontario electricity market in May 2002 presented new challenges in achieving cost effective building management. CLC responded with the use of new technologies to monitor energy consumption, and identified opportunities to reduce consumption costs and demand while taking into account equipment operation and business priorities.

In April 2002, the Building Owners and Managers Association of Toronto awarded the 277 Front Street property its Certificate of Building Excellence. This award acknowledges the high standard of building management achieved by CLC.



CLC's 277 Front Street Team



"CLC's reuse of the existing Griesbach homes as a start of rebuilding a historical community demonstrates creativity, sensitivity and return on investment. This sets the bar at a new level."

Larry Benowski
Head
City of Edmonton Planning Department

the Properties of Success

Former CFB Griesbach

Giving Edmonton a Dynamic New Community

CLC's former CFB Griesbach property encompasses 618 acres (250 hectares) in north Edmonton and was purchased by DND in 1951 for the purpose of creating a military base in Edmonton. The ensuing years saw the construction of 757 married quarters comprising rowhouses and detached and semi-detached houses. Most of the non-residential buildings on the property were vacated by DND during the mid-1990s as the military operations were transferred to a new super base in Namao.

The Griesbach lands were approved for transfer to CLC in December 2001. As part of the transfer process, CLC entered into an early use agreement with DND, which included the management of the married quarters, so that the company could initiate a much-needed repair program. In return, CLC committed to making 550 of the married quarters units available for military families in perpetuity.

Since April 2002, CLC has been the landlord for the military families, and has been responsible for management and maintenance of the residential areas of the site. In order to commence development on the property in 2002, it was necessary to relocate military families from the southeast quadrant of the site to equivalent units in the northeast quadrant of the site. This was successfully completed by August 2002. CLC paid all moving expenses for the families and renovated the units to agreed upon standards. In addition to upholding its commitment to military families, CLC has also been renting additional married quarters units on the open marketplace. By March 2003, just over 100 units had been rented to civilian families. As a result, student enrolment at the public school on the site has increased for the first time in many years.

Title to the Griesbach property was transferred to CLC in February 2003. As part of the transfer process, CLC has leased back three buildings to DND for its ongoing use.

The management of the married quarters represents the first phase of CLC activity on the former CFB Griesbach site. When fully redeveloped, the property will be a mixed residential development. The new community will benefit from pedestrian-friendly streets, attractive, varied streetscapes, retained trees, renovated married quarters and recycled concrete, asphalt and other materials, as well as commemoration of the military and community heritage of the site.

CLC's Edmonton Team

A ONE OF THE MANY UNITS IN CYPRUS GREEN, A COMMUNITY WITHIN CLC CALGARY, THAT ADDRESSES THE GOVERNMENT OF CANADA'S CALL FOR ADDITIONAL AFFORDABLE HOUSING.

B THE NEW LEARNING AMPHITHEATRE BUILT FOR THE DR. OAKLEY SCHOOL ON CLC'S GARRISON WOODS SITE IN CALGARY.

BUILDING ON SUCCESS:

The Year in Review

Financial Results

CLC successfully achieved the following results during the 2002–2003 fiscal year:

- net income before tax was $6.7 million above budget;
- general and administrative expenses were $3.3 million below budget;
- gross profit on sales was 8% higher than budget.

Acquisitions

- obtained necessary Treasury Board approvals, then acquired title to the Department of Fisheries and Oceans' (DFO's) 11 acre (4.4 hectare) Trafalgar Road property in Oakville, Ontario;
- received title to DND's 618 acre (250 hectare) former CFB Griesbach property in Edmonton, Alberta; and
- achieved necessary Treasury Board approval to acquire the DFO 133 acre (53.8 hectare) property in Richmond, British Columbia.

C EXISTING MARRIED QUARTERS UNITS PROVIDE ONE OF THE CORNERSTONES FOR CLC'S REDEVELOPMENT OF THE FORMER CFB GRIESBACH LANDS IN EDMONTON.

D MACKENZIE AND MANN PARK, A CLC INITIATIVE IN PARTNERSHIP WITH THE CITY OF EDMONTON, IS A TRIBUTE TO THE PROUD HISTORICAL LEGACY OF THOSE WHO BROUGHT THE RAILWAY TO EDMONTON.


C


D

Operations Highlights

CLC is proud of its operational accomplishments over the past fiscal year and some of the more notable of these are outlined on the next few pages.

- sold the 19 storey 401 Burrard Street office building project in Vancouver, British Columbia;
- completed the 65 residential unit affordable housing project called Cyprus Green, in Calgary, Alberta;
- constructed a $15,000 learning amphitheatre for the Dr. Oakley School in Calgary, Alberta;
- initiated a rental agreement between DND and CLC on the former CFB Griesbach site, through which CLC is managing the residential rental program for over 400 military families in Edmonton, Alberta;
- received city council approvals for the Neighbourhood Area Structure Plan, entire site zoning, Master Agreement with the city and Phase One Tentative Plan for the 618 acre (250 hectare) former CFB Griesbach site in Edmonton, Alberta;
- completed MacKenzie and Mann Park, in partnership with the City of Edmonton, Alberta;
- the 650 Lawrence Avenue affordable housing complex (431 residential units) completed in Toronto, Ontario with Options for Homes;
- received city council development plan approval and began servicing the Albion Road site in Ottawa, Ontario;

E

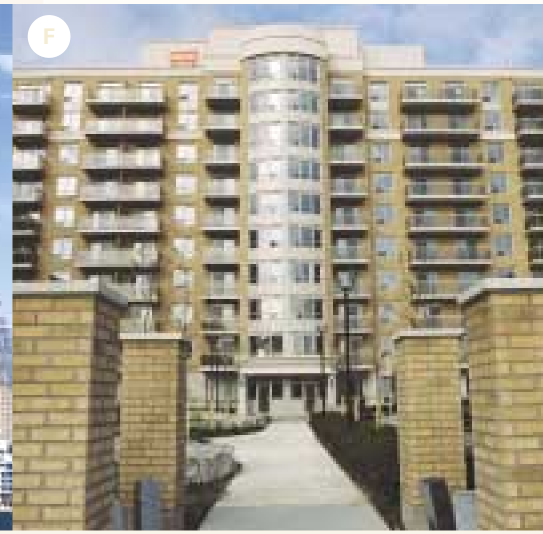
CLC OWNS THE CN TOWER IN TORONTO, THE WORLD'S TALLEST FREESTANDING STRUCTURE.

F

650 LAWRENCE AVENUE IN TORONTO IS ONE OF THE CITY'S MOST INNOVATIVE AFFORDABLE HOUSING INITIATIVES, PROVIDING OVER 400 FAMILIES WITH THE OPPORTUNITY TO OWN A HOME.

G

CLC'S TWO CANADIAN URBAN INSTITUTE BROWNIE AWARDS, INCLUDING THE AWARD FOR "BEST OVERALL PROJECT" RECEIVED FOR THE COMPANY'S WORK ON ITS MONCTON PROPERTIES.



- implemented a successful consultation process and achieved stakeholder consensus on future development of the Benny Farm property in Montréal, Québec;
- sold the 54 acre (21.8 hectare) Neufchâtel property in Québec City, Québec; and
- hosted a design charrette for the Franklin Yard property in Moncton, New Brunswick.

Awards

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

- first place for Best Guest Services Training Program and Best Safety Awareness Program for the CN Tower in Toronto, Ontario, to TrizecHahn, from the International Association of Amusement Parks and Attractions Spirit of Excellence Awards;
- the Certificate of Building Excellence for 277 Front Street in Toronto, Ontario, from the Building Owners and Managers Association;
- the Governor General's Medal for Architecture, awarded to Saia Barbarese and Laverdière, Giguère Architects for the new residential units constructed at Benny Farm in Montréal, Québec; and
- Best Project Overall and Sustainability in Community Building for the former Moncton Shops property in Moncton, New Brunswick, at the 2002 Canadian Urban Institute Brownie Awards.

www.franklinyard.ca

H BOMA PRESIDENT IAN STEWART PRESENTS CLC'S PAUL BURTON AND ALISON PRITCHARD-KUNCIC WITH THE CERTIFICATE OF BUILDING EXCELLENCE FOR 277 FRONT STREET IN TORONTO.

I CLC'S GENERAL MANAGER OF ALBERTA, MARK MCCULLOUGH, EXPLAINS THE INNOVATION BEHIND THE REDEVELOPMENT OF THE FORMER CFB CALGARY, TO HER EXCELLENCY, THE RIGHT HONOURABLE ADRIENNE CLARKSON, GOVERNOR GENERAL OF CANADA AND HIS EXCELLENCY JOHN RALSTON SAUL.

Other Achievements

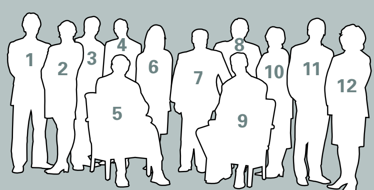
Other CLC achievements during the 2002–2003 fiscal year include:

- level of service to customers improved through substantial internal reorganization and implementation of an extensive and proactive action plan;
- outside consultant hired to review governance practices, with results indicating that practices are sound and, in many cases, exemplary; and
- launched the new corporate Web site located at www.clc.ca.

The company's activities to date, along with estimates for sold properties, will lead to the following benefits for local communities and Canadian taxpayers:

- $3.3 billion in private sector development expenditures;
- 26,400 person years of direct construction employment;
- $35.7 million in environmental remediation investment;
- 14,000 new or refurbished residential units at all affordability levels; and
- 12 million ft² (4.9 million m²) of non-residential construction.

Parc Downsview Park Inc.
Board of Directors



1) **D. Birkenshaw**
2) **B. Steinhauer**
3) **T. Varone**
4) **R. Lewis**
5) **T. Symons**
6) **K. Milsom** (President and CEO of Canada Lands Company Limited)
7) **G. Matrundola**
8) **T. Genco** (Representing Management: Executive Vice President, Parc Downsview Park Inc.)
9) **D. Bell** (Chair)
10) **E. Dowdeswell**
11) **J. McCool**
12) **R. Camarra**

PDP CONTINUES TO BUILD ON ITS PROGRESS IN TRANSFORMING THE FORMER CFB TORONTO INTO DOWNSVIEW PARK. THE PARK IS ALREADY A VIBRANT PLACE HOSTING A WIDE VARIETY OF COMMUNITY PROGRAMS, COMMERCIAL USES AND SEASONAL EVENTS FOR HUNDREDS OF THOUSANDS OF CANADIANS.

During fiscal year 2002–2003, DND completed the soil remediation on the property and deconstructed a number of former military buildings. The deconstruction work involved extensive reuse and recycling of materials, with only minimal amounts transferred to landfills. The work was undertaken to enable the implementation of the park design plan, which is to commence during 2003. Environmentally sustainable practices, such as deconstruction, will play a large role in the implementation of PDP's 'Tree City' design for Downsview Park.

Downsview Park: Implementing the Vision

DOWNSVIEW PARK IS OVER 644 ACRES (260 HECTARES) OF LAND IN THE HEART OF THE GREATER TORONTO AREA. IT IS FAST BECOMING A UNIQUE URBAN RECREATIONAL GREEN SPACE FOR THE ENJOYMENT OF FUTURE GENERATIONS.

A

B

PDP continues to increase revenue generating activities at Downsview Park. Such leasing and commercial ventures are vital to fulfilling the park's self-financing mandate. Altogether, the park comprises areas of parkland and 14 buildings encompassing close to 1.7 million ft² (163,000 m²) of space for office and commercial, warehousing, trade show, recreational and film production uses. Businesses include Downsview Park Studios, one of the largest film production facilities in Canada, and the Hangar Indoor Recreational Facility, where over 10,000 children play soccer weekly throughout the fall and winter.

In July 2002, the eyes of the world were focused on Downsview Park as thousands of Catholic pilgrims descended on Toronto for World Youth Day. This event was heralded as one of the largest single international gatherings in

B EARTH DAY CELEBRATIONS INVOLVE MANY SCHOOLCHILDREN AND IN 2002, INCLUDED THE PLANTING OF 2002 TREES IN ADDITION TO OTHER ENVIRONMENTAL INITIATIVES.

C EACH YEAR, HUNDREDS OF THOUSANDS OF CANADIANS ARE ENTERTAINED THROUGH A WIDE VARIETY OF SEASONAL SPECIAL EVENTS. THE PUBLIC EAGERLY ANTICIPATES SPRINGFEST, CANADA DAY, FALL FAIR AND WINTER WONDERLAND CELEBRATIONS.

D IN JULY 2002, THOUSANDS OF CATHOLIC PILGRIMS DESCENDED ON DOWNSVIEW PARK FOR WORLD YOUTH DAY 2002 FOR THE VIGIL AND CLOSING PAPAL MASS.

E PDP HAS MANY OUTREACH PROGRAMS TO EDUCATE THE PUBLIC ABOUT THE PARK AND THE TREE CITY DESIGN CONCEPT. HERE IS THE DISPLAY BEING PRESENTED DURING DOORS OPEN TORONTO.

Canadian history. Rainy weather did not dampen the enthusiasm of those who participated in the Pope John Paul II mass and evening vigil held on the property.

The park attracted excellent local, national and international media exposure and the on-site World Youth Day media centre served as headquarters for thousands of members of the press. The event created a city within Downsview Park and highlighted the park's full potential as an event venue.

In addition to World Youth Day, PDP again fulfilled its commitment to make the park a year-round venue by hosting a special event in every season. Its Springfest, Canada Day, Fall Fair and Winter Wonderland celebrations all drew large crowds, and are now eagerly anticipated by many members of the public.

Community events were also a tremendous success. Earth Day celebrations included planting 2002 trees and participating in Environment Day with the City of Toronto. In addition, 1,500 visitors toured historical buildings on the site this year as the park took part in Doors Open Toronto. Other events included the Kidsummer Program, the Terry Fox Run and Children's Remembrance Day ceremony. School programs continue to attract children from a variety of cultural backgrounds to celebrate our country's mosaic brilliance.

As PDP continues to build upon the notable successes of the past year, it will strive to meet the needs of more and more Canadians. The park has proven that it is a unique and innovative urban green space for current and future generations to enjoy.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The real estate business activities of Canada Lands Company Limited (CLCL) are carried out primarily through its wholly owned subsidiary, Canada Lands Company CLC Limited (CLC). In July 1998, Parc Downsview Park Inc. (PDP), was incorporated as a wholly owned subsidiary of CLCL with the mandate of creating a self-financing, urban park on the former Canadian Forces Base Toronto, in Downsview, Ontario. PDP has not yet acquired a long-term leasehold interest in the land or buildings.

Balanced Scorecard

CLC uses a balanced scorecard tool to document, manage, measure and report on performance in five key result areas: Community/Legacy, Business/Financial, Human Resources, Municipal/Provincial and Shareholder/Board of Directors interests. Each result area reflects the interests of one of the company's five major stakeholder groups. Both financial and non-financial interests are covered by the key result areas, creating a balance of all interests important to the company and its stakeholders. The five key result areas of the balanced scorecard are summarized in this report.

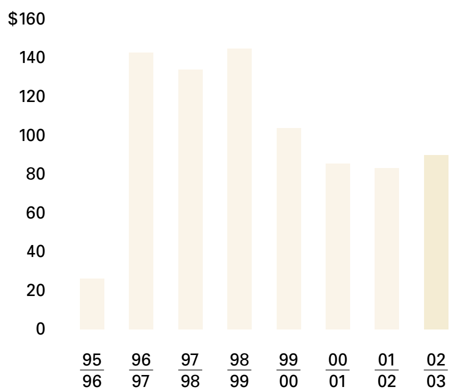
Results of Operations

For the year ended March 31, 2003 (YE03), CLCL earned revenues of $117.4 million (YE02 – $114.9 million) and income of $14.8 million (YE02 – $15.1 million) before tax, and generated cash flow of $41.2 million (YE02 – $0.5 million) before distributions (repayment of notes payable and dividends) to the Government of Canada (the government or shareholder) and affiliates. This compares to budgeted revenues of $141.7 million, income before tax of $7.5 million and cash flow generated of $2.3 million. Income before tax was $7.3 million above budget, due to lower than expected cost of sales at CFB Calgary and 401 Burrard, Vancouver and general and administrative expenses lower than budget. The general and administrative expense reduction was the result of two major organizational changes to enhance both operational effectiveness and cost efficiencies. Cash flow was $38.9 million above budget, due mainly to reduced capital expenditures.

CLC's net profit on sales was $20.0 million, up slightly from last year. Property sales for YE03 totalled $89.9 million, compared with average property sales of $110.3 million per year over the five-year period from 1998 to 2002. The decrease in sales reflects the lack of new properties transferred from the government

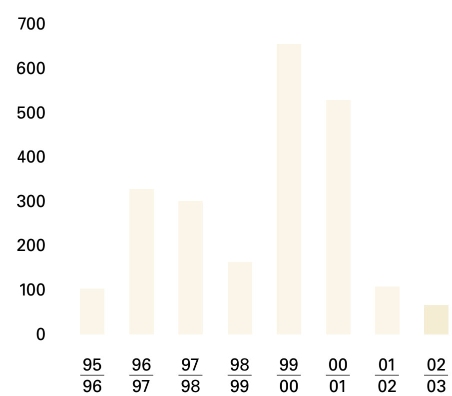
SALES BY YEAR

(in millions of dollars)



SALES BY YEAR

(in hectares)



to replace the original property inventory CLC has sold off. Over the past five years the property inventory has decreased by 23%.

CLCL is subject to federal and certain provincial taxes at corporate rates. Income taxes of $1.9 million for YE03 represent an effective rate of 13% of income before tax. This is lower than the expected combined rate of 38% due to an adjustment in prior year taxes and the beneficial tax effect of the non-taxable element of capital gains and the fact that the corporation's income is not taxable in certain provinces.

The loss from park operations at PDP was $1.3 million before government funding, compared with $1.9 million in YE02. Park operations generated revenue of $12.8 million, compared with $8.9 million in YE02. Included in YE03 revenue is a $3.2 million grant relating to World Youth Day held in 2002. Income after government funding for the year was $0.1 million, compared to a loss of $0.2 million in YE02. This improvement reflects increased rental and World Youth Day revenue, offset by a decrease in government funding and commencement of payment in lieu of taxes (PILT).

Initial financial assistance for PDP has been provided by the Department of National Defence (DND), the current property owner, to maintain the site on its behalf. In YE03, $1.2 million of financial assistance was provided, a decrease of $0.4 million from YE02. As the transition of the property from DND to PDP continues to evolve, such assistance will decrease. PDP continues to improve its operating income by increasing building occupancy, beginning to lease commercial lands and demolishing certain buildings with limited social and economic value. Presently PDP does not have long-term leasehold interest in any of the lands. Consequently, PDP is currently unable to develop certain of the commercial lands and thereby generate the revenues necessary to construct Phase 1 of the park. This is expected to be resolved in YE04.

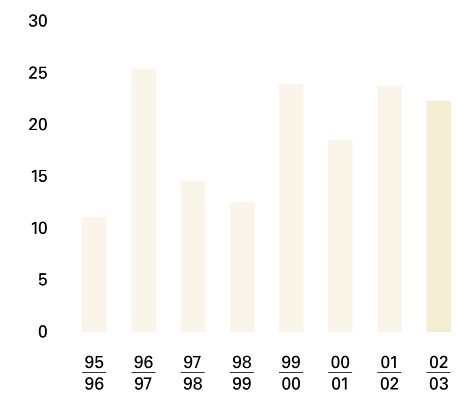
Properties

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

CLC's principal rental property is Canada's National Tower (CN Tower) in Toronto, Ontario, which will be retained by the corporation. Other rental properties include a retail shopping centre in Edmonton and parking facilities in Montréal and Toronto. The office building in Montréal included in rental properties last year has been transferred to properties under development as it is under renovation. At March 31, 2003, CLC owned six rental properties with a book value of $79.1 million, compared with seven properties with a book value of $75.0 million at March 31, 2002. CLC manages two other projects,

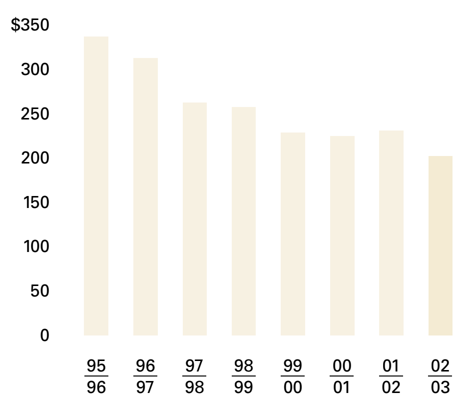
GROSS PROFIT ON SALES

(percentage)



PROPERTY INVENTORY

(in millions of dollars)



an office and hotel complex in Toronto and a residential complex in Montréal.

Properties under development increased by five properties over last year, and comprise eleven property holdings totalling approximately 1,293 acres (523.3 ha), with a carrying value of $82.4 million, a decrease of $21.7 million from March 31, 2002. The 401 Burrard building in Vancouver was completed and sold in YE03. The sites under active development are Glenlyon Business Park in Burnaby, British Columbia, the former Canadian Forces Bases in Calgary and Edmonton, Alberta and Chilliwack, British Columbia, the Oliver Village commercial project in Edmonton, Alberta, residential projects in Toronto and Ottawa, Ontario, the former Canadian Forces Base in Saint-Hubert, Québec and the retrofit of an office building in Montréal. CLC currently pre-leases or sells buildings prior to the commencement of construction.

Land held for development or sale consists of approximately 32 property holdings located across Canada totalling 2,102 acres (850.6 ha). Three properties included in last year's holdings, the former Canadian Forces Base in Chilliwack and the two residential projects in Ottawa, were transferred to property under development. At March 31, 2003, the carrying value of land in this category was $40.8 million, an $8.9 million decrease from the carrying value of $49.7 million at March 31, 2002, reflecting CLC's declining inventory level and the need to replenish inventory supplies.

During YE03, CLC spent $29.8 million for construction, site servicing, environmental remediation and other costs on its various property holdings. In addition, CLC acquired four properties from the government at a total cost of $9.7 million, satisfied by cash and the issuance of notes payable, as well as acquiring two adjoining pieces of land and buying out a joint venture partner for $2.0 million.

Cash Flows

Cash provided by operating activities during YE03 totalled $44.3 million, an increase of $58.5 million over the $14.2 million used in YE02. The increase resulted largely from two main factors: a decrease in expenditures on properties of $24.4 million and an increase in the cost of sales of $41.9 million.

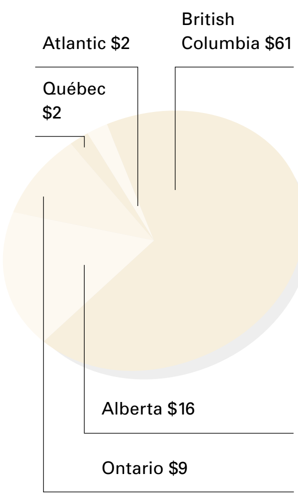
Cash used in financing activities for YE03 amounted to $30.3 million, representing principally the note repayments to the government and to affiliates of $25.5 million and a distribution to the government of $4.6 million. Note repayments to the government and to affiliates in YE02 totalled $38.9 million.

Cash used in investment activities for YE03 amounted to $2.9 million, representing expenditures on PDP and rental property.

In summary, CLCL generated $41.2 million in cash flow in YE03 prior to distributions to the shareholder and note repayments, compared with $0.5 million in YE02.

PROPERTY SALES BY REGION

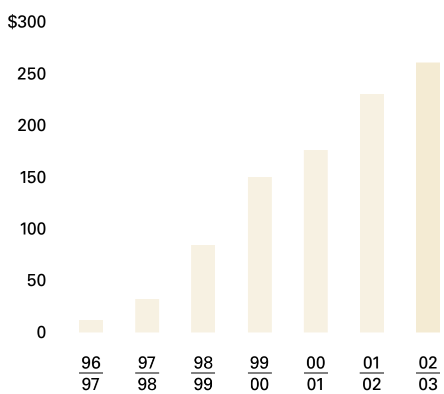
(in millions of dollars)



Total sales: $90 million

CUMULATIVE DISTRIBUTION TO SHAREHOLDER

(in millions of dollars)



Financial Condition and Liquidity

At March 31, 2003, CLCL had cash and short-term investments totalling $58.7 million. In addition, CLC has a line of credit of $50 million with a Canadian chartered bank, which is unused apart from letters of credit issued in the amount of $11.7 million.

As at March 31, 2003, CLC had $33.6 million of notes payable to the government. These notes are unsecured obligations and are repayable on the earlier of their maturity date or the date 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 the sale will be paid prior to the maturity date. During the year ending March 31, 2004, CLC's estimated repayment of the notes payable is $16.6 million.

In the coming year, CLC anticipates spending approximately $56.0 million on its existing and new properties for construction costs, site servicing, environmental remediation and generally preparing the land inventory for sale. Substantial expenditures are expected to be incurred on the Glenlyon Business Park, Burnaby, the former military bases in Calgary, Chilliwack and Edmonton, the office project in Montréal and the Albion Road residential site in Ottawa.

For the year ending March 31, 2004, PDP estimates spending $7.0 million to begin construction on the infrastructure needed to generate income from the commercial lands at Downsview Park, and to start the first phase of the park development program. This will not occur until PDP is able to obtain adequate funding resulting from leasehold interest in the land.

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 in the normal course of operations should generate sufficient cash proceeds for the corporation's business needs and provide funds for distribution to the shareholder. The annual dividend payment is the year end cash balance less any working capital requirements for the ensuing three years.

Risks and Uncertainties

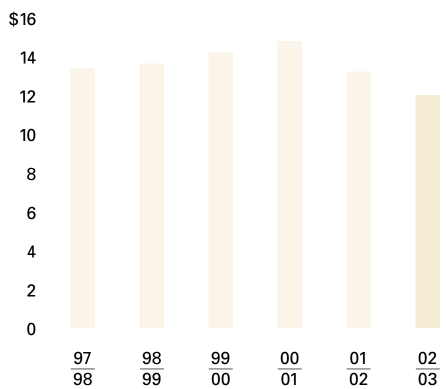
CLCL, through CLC, manages and disposes of strategic surplus properties on behalf of the government to ensure that optimal value is realized from these assets. Optimal value recognizes financial value realized, economic stimulation and contribution to the quality of life in local communities where CLC does business. CLC and CLCL have achieved this mandate in YE03.

The Canadian economy is showing signs of slowing down, which may decrease the demand for CLC's commercial and residential land holdings.

A risk management committee was formed during YE03, reporting to the board of directors, to identify

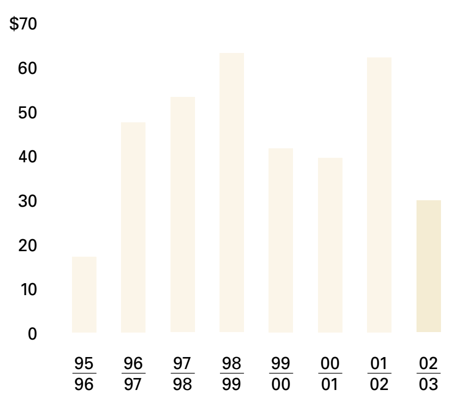
GENERAL AND ADMINISTRATIVE EXPENSES

(in millions of dollars)



CAPITAL EXPENDITURES

(in millions of dollars)



and quantify all risks facing CLC. A risk is considered anything that could adversely impact CLC's ability to achieve its business objectives. Risks are identified and measured as to frequency and severity. The goal is to eliminate these risks, and if this is not possible, act to manage/mitigate the risks and, where appropriate, to insure against the risks.

A consultant was hired to gather information through a series of interviews, facility inspections and document reviews, and to provide this information to the committee. The consultant met with the committee to discuss CLC's operational risks and the current methods of managing them. The risks were then prioritized and, starting with the higher risk items, recommendations were made for both mitigating the various risks identified and addressing the process on an ongoing basis. The goal in YE04 is to implement the recommendations, commencing with higher risk items.

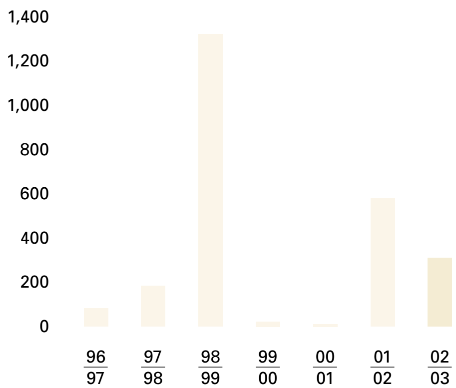
During the year, 756 acres (305.9 ha) of land were transferred from government departments and agencies to CLC. As at March 31, 2003, CLC had a land bank of approximately 3,402 acres (1,376.7 ha). The goal in YE04 is Treasury Board approval of eight property transfers. The Treasury Board Secretariat has approved additional transfers of a further 2,909 acres (1,177.2 ha), of which the St. Lawrence Seaway portfolio, portions of which are not yet transferred, consists of 143 properties totalling 2,772 acres (1,121.8 ha). CLC is currently in negotiation with government departments and agencies concerning a further 1,386 acres (560.9 ha). Of the properties approved and under negotiations, 80% are located in the Eastern Region, where there is presently a shortage of inventory. As many of the individual properties potentially available for transfer are substantial in size, ranging from 200 to 500 acres (81 to 202 ha), their planning, development and reintegration back into local communities will take place over a number of years. This makes CLC vulnerable to adverse changes in local real estate market conditions that may affect demand while also subjecting CLC to the risk of possible fluctuations in interest rates.

Across Canada, but in particular in British Columbia, CLC land holdings and potential transfers of properties from the government are impacted by First Nations land claims issues. The transfer of CFB Chilliwack resulted in the Soowahlie Band filing an injunction to prevent the transfer. The Court ruled in favour of CLC and the injunction was overruled and the land transferred to CLC.

CLC has guidelines and procedures in place for advancing commercial transactions on its lands that are subject to First Nations comprehensive land claims. The corporation 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 the meantime, the corporation continues developing specific relationships

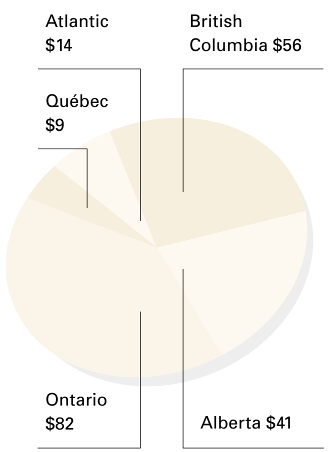
TRANSFERS OF PROPERTY BY YEAR

(in hectares)



PROPERTY DISTRIBUTION BY REGION BY BOOK VALUE

(in millions of dollars)



Total book value: $202 million

with First Nations on a band-by-band basis. Such relationships could lead to mutually beneficial real estate development initiatives outside the treaty process.

PDP has reached substantial agreement with DND to obtain title to and vacant possession of the Downsview Park lands that the Government of Canada had prescribed for its mandate. Based on the recently reviewed business case, a new governance structure will allow PDP to achieve its mandate with less financial risk than the present structure; therefore, PDP is attempting to garner a change in its governance model before obtaining title to the land.

Future Prospects

Last year, the Canadian economy, eighth largest in the world, was one of the strongest in the developed world with real GDP growth of 3.4%. Consumer spending was the primary reason for Canada's economic strength last year. This pent-up demand is expected to decrease in the current year. The Bank of Canada continues to raise interest rates due to concerns about inflation, causing increases in mortgage rates and in the value of the Canadian dollar relative to the US dollar. These factors and the economic effects of SARS are expected to slow growth this year.

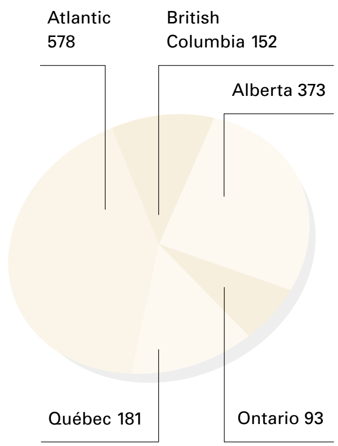
The United States accounts for 85% of Canada's exports. The US economy is expected to recover this year before accelerating next year, and this should help Canadian manufacturing, which has been feeling the impact of weaker US demand. If the Canadian dollar continues to strengthen in relation to the US dollar, Canada's export-oriented manufacturing sector will continue to weaken, materially affecting output in Ontario, Québec, Manitoba and New Brunswick. The brightest spot in the Canadian economy continues to be the crude oil and natural gas industries in Alberta and Newfoundland. The growth rate in the Canadian economy is expected to slow to 2.8% from 3.4% last year.

Real estate markets continue to vary across Canada. The housing market is expected to remain strong but to moderate from the hot market last year. Residential rental, resale and new housing markets are expected to remain strong in Alberta, where CLC's redevelopment of the former Canadian Forces Base Calgary continues to receive a very positive response from local home buyers. Development on Canadian Forces Base Griesbach in Edmonton has also commenced. CLC has disposed of its rental properties, apart from short-term leased space at the former Canadian Forces bases it owns or manages. Space at the former Canadian Forces bases attracts moderate but steady demand across Canada, particularly from the movie industry, which will be negatively affected if the Canadian dollar continues to strengthen in relation to the US dollar.

CLC's recent sales activities continue to demonstrate that there is demand for its land holdings,

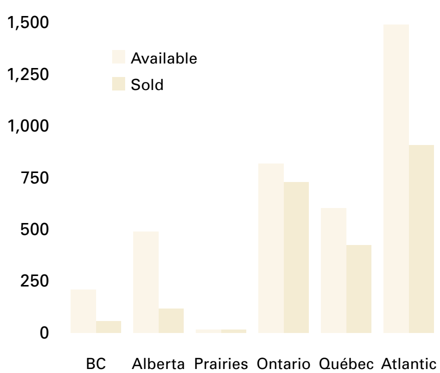
PROPERTY DISTRIBUTION BY REGION

(in hectares)



SUMMARY OF PROPERTY SINCE INCEPTION BY REGION

(in hectares)



and it can still create significant benefits from its property portfolio, which is diverse as to location, value, size and current or potential uses.

An increased flow of new properties will enable CLC to continue to fulfill its original mandate of creating optimal value for the government, while reintegrating surplus properties into the community in a financially prudent and socially responsible manner. In most cases, and particularly where decommissioned military bases are involved, new property transfers may create an initial cash drain on the corporation's resources. Most bases transferred from DND 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 increasing demand on the corporation's cash resources; however, CLCL will continue to make mandatory note repayments to the government or affiliated Crown corporations, in addition to dividend payments, as part of its total distributions to the government.

In order to carry out its mandate, the PDP subsidiary needs title to the Downsview Park lands, a favourable source of funding and a governance structure that will enable PDP to receive charitable donations. Satisfactory resolution of these issues, along with the development plan in place, should enable PDP to take a significant first step towards the further evolution of the Downsview Park mandate.

CLC has received authority to enter into an agreement of purchase and sale for an asset of approximately $50 million. The purchase is subject to a number of conditions, including approval by the corporation's shareholder.

Looking forward, CLCL, through its CLC subsidiary, anticipates another profitable year of operations.

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 Canadian Institute of Public and Private Real Estate Companies.

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 the 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.

Kathy Milsom

Kathy Milsom
President and CEO

B Evans

Brian Evans
Vice President, Finance
Chief Financial Officer

16 May 2003

Auditors' Report

To the Minister of Transport

We have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 2003 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 2003 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 subsidiaries 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 subsidiaries.*

As required by paragraph 132(2)(b) of the Financial Administration Act*, we wish to bring an other matter to Parliament's attention regarding Parc Downsview Park Inc., a wholly-owned subsidiary of the corporation. For the past three years the external auditors have reported that the Government of Canada has not requested, and accordingly Parliament had not provided, clear and explicit authority for the creation and operation of an urban park being undertaken by Parc Downsview Park Inc., nor has Parliament authorized the related spending of public funds. As described in Note 1 to the consolidated financial statements, the Standing Committee on Public Accounts of the House of Commons presented a report to the House on December 3, 2002 and the Government of Canada tabled the government's response to the report on May 2, 2003.*

Shahid Minto, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
16 May 2003

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
16 May 2003

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED 31 MARCH

In thousands	Note	2003	2002
REVENUES			
Sales		**$ 89,948**	$ 83,267
Rental		**20,870**	21,195
Interest and other	11	**6,596**	10,442
		117,414	114,904
EXPENSES			
Cost of sales		**69,888**	63,539
Provision for environmental remediation		**1,200**	–
Provision for decrease in property values		**113**	1,216
Rental operating costs		**16,880**	15,463
General and administrative		**11,956**	13,214
Other		**2,725**	6,233
		102,762	99,665
INCOME BEFORE PARK OPERATIONS		**14,652**	15,239
Loss from park operations before government funding	8	**(1,258)**	(1,928)
Government funding for park operations	8	**1,381**	1,774
		123	(154)
INCOME BEFORE TAXES		**14,775**	15,085
Future income taxes expense (recovery)	9	**1,116**	903
Current income taxes expense	9	**806**	3,198
		1,922	4,101
NET INCOME		**12,853**	10,984
Retained earnings, beginning of year		**67,946**	72,462
Dividend		**(4,600)**	(15,500)
RETAINED EARNINGS, END OF YEAR		**$ 76,199**	$ 67,946

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

AS AT 31 MARCH

In thousands	Note	2003	2002
ASSETS			
Properties			
Rental properties	3	**$ 79,110**	$ 75,021
Properties under development		**82,400**	104,148
Land held for development or sale		**40,800**	49,664
		202,310	228,833
Other Assets			
Cash and cash equivalents	4	**58,708**	47,600
Amounts receivable and other	5	**73,295**	80,706
Park landscaping and improvements		**7,572**	7,940
		139,575	136,246
		$ 341,885	$ 365,079
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Notes payable	6	**$ 33,593**	$ 46,965
Accounts payable and accrued liabilities	10	**46,848**	51,721
Prepaid rents, deposits and lease assignment obligation		**21,164**	34,366
		101,605	133,052
Shareholder's Equity			
Capital stock	7	**–**	–
Contributed surplus		**145,081**	145,081
Equity arising from note payable to the Government of Canada		**19,000**	19,000
Retained earnings		**76,199**	67,946
		240,280	232,027
		$ 341,885	$ 365,079
Commitments	10		

On behalf of the board

Marc Rochon

Kevin Garland

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH

In thousands	Note	2003	2002
OPERATING ACTIVITIES			
Net income		**$ 12,853**	$ 10,984
Recovery of costs on sale		**64,014**	22,095
Expenditures on properties		**(29,277)**	(53,704)
Provision for loss on amounts receivable		**–**	1,260
Provision for decrease in property values		**113**	1,216
Depreciation		**3,154**	3,060
		50,857	(15,089)
Net change in non-cash operating assets and liabilities		**(6,551)**	861
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**44,306**	(14,228)
FINANCING ACTIVITIES			
Repayment of notes payable		**(25,534)**	(38,886)
Dividend paid		**(4,600)**	(15,500)
Government funding for park	12	**1,229**	1,623
Government funding used for park operating activities		**(1,381)**	(1,774)
CASH USED IN FINANCING ACTIVITIES		**(30,286)**	(54,537)
INVESTMENT ACTIVITIES			
Recovery of costs on sale		**–**	20,844
Expenditures on properties, park and building improvements		**(2,912)**	(5,963)
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		**(2,912)**	14,881
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,108**	(53,884)
Cash and cash equivalents, beginning of year		**47,600**	101,484
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 58,708**	$ 47,600

Supplemental cash flow information (note 11)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. AUTHORITY AND ACTIVITIES OF THE CORPORATION

Canada Lands Company Limited, a non-agent Crown corporation, 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*.

The corporation 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 Government of Canada ("government") surplus properties and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in the capacity of owner or as agent for the government.

In July 1998, pursuant to an Order-in-Council, Parc Downsview Park Inc. ("PDP"), (formerly CLC Downsview Inc.), was incorporated as a wholly-owned subsidiary of the corporation. The mandate of PDP, as established by the government, is to redevelop a former military base located in the City of Toronto in Ontario into a unique urban recreational green space to be held in perpetuity for the enjoyment of future generations.

The government has approved in principle, the transfer to PDP by way of freehold title or long-term lease of approximately 644 acres (260 ha) of land at Canadian Forces Base Toronto in Ontario. It is the government's intention that approximately 300 acres (121.4 ha) of this land will be used for park, cultural and recreational purposes, while the remainder will be made available for commercial activities to generate funds that will be used for the development and operation of the park.

The Government of Canada has not requested, and accordingly Parliament has not provided, clear and explicit authority for the creation and operation of an urban park being undertaken by PDP, nor has Parliament authorized the related spending of public funds. Following hearings by the Standing Committee on Public Accounts of the House of Commons on April 9, 2002 and June 4, 2002, the Committee presented a report to the House on December 3, 2002. The report recommended that the Privy Council seek to obtain parliamentary approval to make Parc Downsview Park a parent Crown corporation, prior to March 31, 2003. On May 2, 2003, the government tabled a response to the Standing Committee Recommendations to the House indicating it had decided against accepting the Committee's recommendation, stating that in the government's view "The financial accountability for Crown corporations in Part X of the FAA provides a rigorous means to ensure proper transparency and accountability of PDP Inc., through its parent Crown corporation."

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, the corporation's accounting policies and standards of financial disclosure are also substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

b) Consolidation

The corporation has three wholly-owned subsidiaries, CLC, PDP and an inactive company, 3148131 Canada Limited ("3148131"), for which their accounts are consolidated with the corporation's accounts.

The corporation also owns shares of Old Port of Montréal Corporation Inc. ("Old Port"). Old Port is excluded from consolidation because the corporation does not have continuing power to determine its strategic operating, investing and financing policies and because Old Port has been directed by the government to report as a parent Crown corporation. The corporation has no recorded investment in Old Port. As at 31 March 2002, the latest date for which audited statements are available, Old Port had assets of $20.6 million, liabilities of $19.9 million and equity of $0.07 million, with revenue of $13.5 million and an excess of operating expenditures over revenue of $9.7 million for the year then ended.

c) Revenue Recognition

The corporation 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

Revenues and operating costs for rental properties are recognized when break-even cash flow after debt service is achieved but not later than one year after substantial completion.

d) Properties

i) Rental 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" in the statement of income.

ii) The corporation capitalizes interest on specific debt on properties under development and land held for development or sale. During the year ended 31 March 2003, interest capitalized totalled $0.02 million (2002 – $0.6 million).

iii) Depreciation is calculated on the straight-line method using rates based on the estimated remaining useful lives of the assets, which range from 5 to 40 years. Depreciation charge 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, the corporation 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.

The corporation's properties are subject to various government laws and regulations relating to the protection of the environment. The corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations. Where estimated costs are reasonably determinable, the corporation considers such costs in arriving at estimates of net realizable value of its properties, based on management's estimate of such costs. 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 new information as it 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 will be in effect when the differences are expected to reverse.

3. RENTAL PROPERTIES

The corporation's rental properties consist primarily of the CN Tower and car parking facilities.

In thousands of dollars	2003	2002
Land	**$ 11,261**	$ 10,214
Buildings	**88,178**	82,799
	99,439	93,013
Accumulated depreciation	**20,329**	17,992
	$ 79,110	$ 75,021

4. CASH AND CASH EQUIVALENTS

In thousands of dollars	2003	2002
Cash	**$ 1,457**	$ 347
Cash equivalents	**56,500**	45,000
Restricted cash	**751**	2,253
	$ 58,708	$ 47,600

At 31 March 2003, cash equivalents are comprised of discounted notes and term deposits with an original term to maturity ranging from 25 to 91 days.

Cash and cash equivalents include restricted cash of $0.8 million representing holdback money owing primarily for the Nokia Building Construction project (2002 – $2.3 million).

5. AMOUNTS RECEIVABLE AND OTHER ASSETS

Amounts receivable and other assets are comprised as follows:

In thousands of dollars	2003	2002
Mortgages and secured notes	**$ 55,211**	$ 58,979
Assignment of rents	**5,987**	6,179
Rents and other	**12,097**	15,548
	$ 73,295	$ 80,706

a) Mortgages and secured notes receivable bear interest at a weighted average rate of 5.79% (2002 – 5.88%), and are receivable as follows:

In thousands of dollars

Years ending 31 March	2004	$ 11,181
	2005	9,702
	2006	6,476
	2007	3,520
	2008	3,802
Subsequent years		20,530
		$ 55,211

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

c) Mortgage receivables that are greater than 10% of the CLC receivables balance include City Place (52.2%) and Malvern (17.0%).

6. NOTES PAYABLE

The notes payable were issued in consideration for the acquisition of real estate properties (Note 11), and are due to the government. The notes are repayable on the earlier of their maturity dates, or the dates on which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued. Interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average rate of 5.6% (2002 – 5.3%).

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

In thousands of dollars

Years ending 31 March	2004	$ 16,638
	2005	6,467
	2006	6,902
	2007	6,412
	2008	5,268
Subsequent years		10,423
		52,110
Less amounts representing imputed interest		18,517
		$ 33,593

7. CAPITAL STOCK

The corporation is authorized to issue three shares, which shall only be transferred to a person approved by the Minister of Transport ("the Minister"). 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 the corporation.

8. INCOME FROM PARK OPERATIONS

Income from the park operations of PDP is as follows:

In thousands of dollars	2003	2002
Revenues	**$ 12,804**	$ 8,882
Expenses	**14,062**	10,810
	(1,258)	(1,928)
Government funding	**1,381**	1,774
Income (loss) before income taxes	**$ 123**	$ (154)

9. INCOME TAXES

The corporation'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. The corporation is considered a non-taxable Crown corporation for Ontario and Alberta income tax purposes. A reconciliation of the company's income tax provision to a provision calculated at the combined federal and provincial statutory rate is as follows:

In thousands of dollars	2003	2002
Expected statutory rate of tax	**38%**	41%
Expected income tax expense	**$ 5,615**	$ 6,185
Increase (decrease) in tax expense resulting from:		
Non-taxable portion of capital gains	**(612)**	(29)
Income not taxable in certain provinces	**(987)**	(1,503)
Large corporations tax	**461**	496
Other	**(2,555)**	(1,048)
Actual income tax expense	**$ 1,922**	$ 4,101

The corporation has $0.05 million in non-capital loss carry-forwards for tax purposes, the benefits pertaining to which have not been recognized in these financial statements. The loss carry-forwards will expire in 2008.

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

In thousands of dollars	2003	2002
Future tax liabilities		
Income producing properties	**$ (1,700)**	$ (2,028)
Notes payable	**(1,172)**	(1,795)
Capital assets	**(138)**	(311)
Deferred costs	**(41)**	(61)
Reserves	**(323)**	–
	(3,374)	(4,195)
Future tax assets		
Property under development	**394**	1,795
Reserves	**–**	343
Benefits of non-capital loss carry-forwards	**11**	198
Deferred funding	**318**	351
Net future tax asset (liability) before valuation allowance	**(2,651)**	(1,508)
Less valuation allowance	**(150)**	(177)
Net future tax asset (liability)	**$ (2,801)**	$ (1,685)

10. OTHER LIABILITIES AND COMMITMENTS

a) The corporation has a commitment under certain agreements to fund payments currently estimated at $2.0 million annually. The agreement expires in 2083, at which time the corporation is obligated to buy back the property at a nominal price, subject to earlier termination in 2009 under certain circumstances. The corporation's estimate of this obligation, which is based on assumptions regarding future events and economic circumstances, is included in accounts payable and accrued liabilities.

b) Capital commitments for servicing requirements and other development costs at 31 March 2003 total $19.3 million (2002 – $15.3 million).

c) CLC has a $50 million line of credit with the Bank of Montreal. This line is presently used for letters of credit issued for the fulfillment of certain obligations totalling $11.7 million at March 31, 2003 (2002 – $15.4 million).

d) The corporation 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 the corporation.

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 $12.2 million (2002 – $11.3 million) 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 the corporation or the assumption of debt by the purchasers in the amount of $5.9 million (2002 – $20.6 million) have been excluded from the financing, investing and operating activities in the consolidated statement of cash flows.

During the year ended 31 March 2003, interest received totalled $2.9 million (2002 – $3.1 million), interest paid amounted to $0.6 million (2002 – $1.4 million) and income taxes paid totalled $4.1 million (2002 – $5.7 million).

12. RELATED PARTY TRANSACTIONS

The corporation is related in terms of common ownership to all government departments, agencies and Crown corporations. The corporation enters into transactions with these entities in the normal course of business.

In addition to transactions previously disclosed, during the year ended 31 March 2003:

a) The corporation acquired an interest in real estate properties from government departments and Crown corporations for an aggregate purchase price of $9.7 million (2002 – $14.9 million). Consideration for these assets was cash payment or the issuance of notes payable (Note 6).

b) CLC paid interest totalling $0.6 million (2002 – $1.4 million) to a Crown corporation.

c) PDP received or expects to receive from a government department funding of $1.2 million (2002 – $1.6 million) and rental revenue of $1.4 million (2002 – $1.5 million).

d) CLC received management fees of $0.2 million from a Crown corporation (2002 – $0.2 million). PDP received management fees from a government department of $0.2 million (2002 – $0.2 million).

e) The corporation has a receivable of $0.05 million from a federal agency and department for reimbursement of costs (2002 – $0.04 million).

f) The corporation received audit services without charge from the Office of the Auditor General of Canada.

13. FINANCIAL INSTRUMENTS

The carrying values of the corporation's amounts receivable, notes payable and lease assignment obligation approximate their fair values based on future cash flows discounted at market rates available to the corporation 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

The corporation is developing this property on behalf of the Canada Mortgage and Housing Corporation ("CMHC"). The corporation's arrangement with CMHC has a mechanism to share profits in the future, should positive cash flows be generated in excess of the existing non-recourse liabilities of the project. The corporation does not expect to reach a positive cash flow position in the future. The corporation has not recorded any activity in its accounts. Conversely, CLC is under no obligation to transfer or use its own assets in settling liabilities of the project.

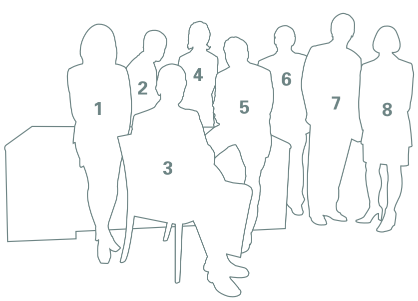
15. SUBSEQUENT EVENT

Subsequent to year end, the corporation has received authority from the board of directors to enter into an agreement of purchase and sale for an asset of approximately $50 million. This purchase is subject to a number of conditions, including approval by the corporation's shareholder.

16. COMPARATIVE AMOUNTS

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

Senior Management Team



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Corporate Secretary

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Vice President, Public and Government Affairs

4) **Brenda Buchanan**
Director, Human Resources

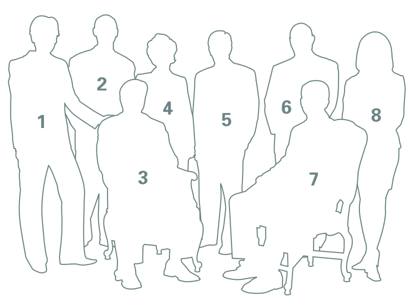
5) **Doug Kester**
Vice President, Real Estate, Western Region

6) **Brian Evans**
Vice President, Finance and Chief Financial Officer

7) **Jim Lynes**
Vice President, Real Estate, Eastern Region

8) **Monique St. Laurent**
Director, Information Services

Board of Directors



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Lawyer, Yarmouth, Nova Scotia

8) **Kathy Milsom** (2) (Audit, Human Resources and Governance Committees of CLC)
President and CEO, Toronto, Ontario

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