Canada Lands Company Limited
Société immobilière du Canada Limitée

Innovation • Value • Legacy   Innovation • Valeur • Héritage

2001–2002 Annual Report

Proven results through a balanced approach

Canada

Innovation • Value • Legacy

CORPORATE PROFILE

What Is Canada Lands Company?

Canada Lands Company Limited is an arms length, self-financing Crown corporation reporting to Parliament of through the Minister of Infrastructure and Crown Corporations. The company optimizes the financial and community value from strategic properties no longer required for program purposes by its suppliers – Government of Canada departments, agencies and Crown corporations. It accomplishes this through its subsidiaries by purchasing land at fair market value, then improving, managing or selling it in order to produce the best possible benefits for both local communities and the company's sole shareholder, the Government of Canada.

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

- **Canada Lands Company CLC Limited (CLC)**, the core real estate business, active in 30 municipalities across Canada;
- **Parc Downsview Park Inc. (PDP)**, responsible for developing and managing Downsview Park in Toronto; and
- **Old Port of Montréal Corporation Inc. (Old Port)**, responsible for redeveloping the Old Port of Montréal and reporting to Parliament as if it were a parent Crown corporation.

VISION STATEMENT

Canada Lands Company CLC Limited builds innovative property solutions to create financial value and community legacies for all Canadians.

Letter to the Minister

June 28, 2002

The Honourable John Manley
Deputy Prime Minister and Minister of
Infrastructure and Crown Corporations
15th Floor, 55 Metcalfe Street
Ottawa, Ontario
K1A 0A3

Minister:

It gives me pleasure to enclose the Annual Report of Canada Lands Company Limited for the year ended March 31, 2002. This document includes various operating highlights, case studies and messages from myself and the president of the company.

Sincerely,

Marc Rochon
Chair, Canada Lands Company Limited

Marc Rochon,
Chair
Canada Lands Company Limited and Canada Lands Company CLC Limited

Message from the Chair

In passing the halfway point of my first year as Canada Lands Company Limited Chair, I am optimistic and enthusiastic about the road ahead. With a history of delivering value to the Government of Canada, the company looks forward to innovative new ways to build upon its impressive past successes.

As an arms length, self-financing Crown corporation, Canada Lands Company Limited, through its subsidiaries, continues to optimize the financial value and community benefits achieved from making unproductive strategic government real estate assets productive again. In doing this, we act in line with Government of Canada policy objectives and promote good overall stewardship of federal government assets.

Under the leadership of its experienced board of directors, Canada Lands Company CLC Limited operates essentially as a private sector company in abiding by municipal development processes, paying all taxes and optimizing the financial bottom line. It purchases properties from federal government departments, agencies and Crown corporations at fair market value, improves and revitalizes them, and then manages or sells them in order to produce the best possible benefits for both local communities and Canadian taxpayers.

Canada Lands Company Limited maintains high standards of professional excellence as it works in partnership with the Government of Canada, neighbourhoods, municipalities and provinces to achieve financial value and public good. I am very pleased to be part of this team and look forward to working with it to take advantage of future opportunities that maximize the enormous potential of the company.

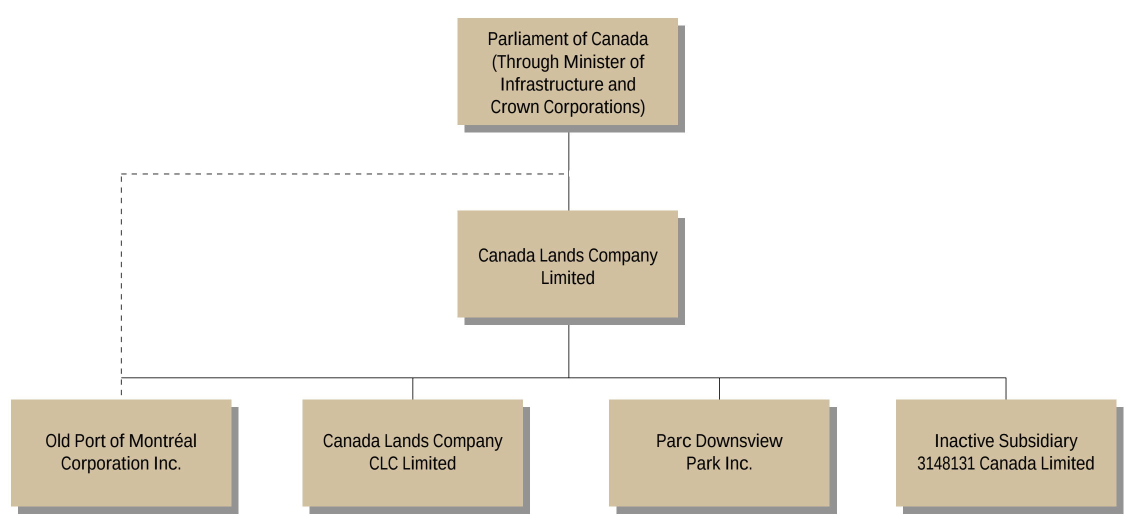
Corporate Governance

The year 2001–2002 was an eventful one for Canada Lands Company Limited in terms of corporate governance. Marc Rochon was appointed Chair of the corporation for a three year term, effective November 15, 2001. In January 2002, the corporation's reporting was realigned to the area of responsibility of the Deputy Prime Minister and Minister for Infrastructure and Crown Corporations. The terms of three directors come to an end in 2002 and the company has made recommendations to the minister responsible for Canada Lands Company Limited with respect to appointments or reappointments.

In response to the December 2000 Auditor General's report to Parliament on governance in Crown corporations, and keeping with its desire for continuous improvement, Canada Lands Company Limited has employed the services of a well-known expert in governance, to review current governance practices within Canada Lands. The first report, finding the company well governed, was presented to the Board of Directors in May of 2002.

The company has also engaged the services of a professional firm to make recommendations with respect to the governance relationship between Canada Lands Company Limited and two of its subsidiaries, Parc Downsview Park Inc. and the Old Port of Montréal Corporation Inc. This report will be submitted to the Government of Canada early in the new fiscal year.

Canada Lands Company Limited and its subsidiaries



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

Message from the President and CEO

The fiscal year 2001–2002 was an extremely active one for Canada Lands Company CLC Limited (CLC). Although the company's top strategic priority continues to be increasing its inventory of properties, the corporation has made progress in implementing a proactive approach to facilitating property transfers. In addition to obtaining approval for the five property transfers listed on page 20 of this report, CLC secured an important role in the Toronto Waterfront Revitalization Project in Ontario and also received title to the six properties listed below.

- 61.8 ha (153 acres) property at Canadian Forces Base Chilliwack in British Columbia;
- 29.7 ha (73.5 acres) Lester Road property in Ottawa, Ontario;
- 10,118 m^2 (108,801 sq. ft.) 685 Cathcart Street building in Montréal, Québec;
- 2.3 ha (5.8 acres) Gladstone property in Halifax, Nova Scotia;
- 373.6 ha (924.7 acres) Canadian Forces Base Shearwater in Halifax, Nova Scotia; and
- 104.2 ha (258 acres) Upton Farm property in Charlottetown, Prince Edward Island.

In a year that challenged us in a number of ways, our team surpassed many of its original goals, including exceeding budgeted revenues by approximately 25% and net income before taxes by 100%. At the same time, while incurring unplanned but prudent expenditures, we were also successful at reducing our general and administrative (G & A) expenses by 11% over the previous fiscal year.

To address both current and projected workload demands, the company has also merged three operating regions into two.

In a year that challenged us in a number of ways, our team surpassed many of its original goals, including exceeding budgeted revenues by approximately 25% and net income before taxes by 100%.

In the area of governance, we launched a study with a view to enhance our governance practices, committed to strengthen relationships between the parent company and its subsidiaries, and made our balanced scorecard the company's performance measurement tool. The balanced scorecard enables us to plan, monitor and assess our performance in five key result areas that reflect the interests of our five major stakeholder groups.

One of the company's key performance indicators is distribution to its shareholder, the Government of Canada, and to affiliated Crown corporations. Through note repayments and dividends, the company has made distributions of nearly a quarter of a billion dollars to date. This is an impressive accomplishment for CLC, a Crown corporation employing less than 100 people. In addition to this significant financial value creation, the company has also stimulated construction employment, private sector investment, new and refurbished residential units and managed the remediation of environmentally contaminated properties.

During its last quarter, the company underwent intense public scrutiny, which, by all indications, it weathered extremely well. Although we did not seek out this increased profile, the results have been quite favourable as widespread support for the organization has increased.

Over the coming plan period, we hope to leverage this support to improve the surplus property transfer process and achieve additional transfers. This, in turn, will enable CLC to continue to successfully carry out its mandate and further create both financial and non-financial value for the government and the people of Canada.

Building Innovative Property Solutions for the Government of Canada

CLC offers a combination of resources and expertise that allows it to develop innovative solutions to meet difficult strategic real estate challenges for federal departments, agencies and Crown corporations. This role, which the company has been carrying out since its reactivation in 1995, was formalized with its designation as the Government of Canada's sole disposal organization for strategic properties in the 2001 Treasury Board Secretariat policy on the disposal of surplus real property.

In late 2001, a Treasury Board Secretariat-led committee identified several properties as strategic and candidates for transfer to CLC. As a result, the strategic disposal process for ten properties has been launched by a number of custodian departments of the Government of Canada (the custodians). Throughout this process, CLC continues to work closely with each custodian to ensure that the necessary policy and process requirements are met. The company's knowledge of federal real property policy requirements and the operational needs of custodians, combined with its commercial real estate expertise, position it well to assist departments as they move from analysis of their portfolio holdings to the implementation of strategic disposals.

In the case of the Canadian Forces Base Griesbach transfer in Edmonton, Alberta, which was recently approved by Treasury Board, CLC worked closely with the Department of National Defence to fully familiarize itself with the rental housing requirements of military personnel and to ensure that the eventual redevelopment plan for the property would accommodate these on going needs.

Rem Westland,
Director General,
Realty Policy and Plans
Department of National Defence

"The Department of National Defence (DND) faces very great challenges when it is time to surplus our holdings. Most of the DND's land goes from military use to very different kinds of use after disposal. We almost always confront significant environmental issues, including unexploded ordnance, which raise complex land value issues in their turn. CLC has proven itself capable of understanding DND issues and finding solutions. Without a DND-CLC partnership, strategic disposals from the DND inventory would become almost impossible."

Building on the knowledge accumulated during the redevelopment of the former Canadian Forces Base Calgary, CLC was able to develop a tailored solution which met the department's military housing needs and integrated these needs into the overall planning context for the site. In addition, to assist with the department's exit strategy, CLC will meet the department's short-term operational requirements through leaseback arrangements. These arrangements will include necessary upgrades to housing units, significantly improving their condition. As part of its comprehensive service offering, CLC will also undertake the necessary environmental remediation work for the site on behalf of the custodian.

Another example of CLC's ability to develop tailored solutions to assist custodians with their real estate challenges occurred at a former military storage site in Halifax, Nova Scotia. Defining the environmental remediation costs of this property proved extremely difficult in the absence of municipal zoning approvals. In response to this challenge, CLC was able to design an environmental backstop, which shared risk between the custodian and CLC.

In serving custodial departments, CLC continues to work closely with both the Real Property Services group and the Appraisal Directorate of Public Works and Government Services Canada (PWGSC). Continuing in this spirit, CLC and PWGSC signed a memorandum of understanding in February 2002 outlining their respective roles, along with potential areas for further coordination and cooperation.

An Introduction to Canada Lands Company's Balanced Scorecard

Since its reactivation in 1995, CLC has achieved a notable record of accomplishment in both financial and non-financial value creation, primarily attributable to the outstanding team efforts of its employees. In meeting objectives, CLC has repeatedly demonstrated that these priorities are not mutually exclusive, but rather complementary. What is good for the local community is ultimately good business for the company.

This philosophy is central in the company's core commitment to the principle of corporate social responsibility or CSR. CLC pursues financial value optimization, but it does so in a way that benefits the community. It pursues profit, but with a community purpose in mind. This approach to business has become commonplace in several sectors of the European economy, but is only now being acknowledged in North America, by such prestigious groups as the Conference Board of Canada, as being the way stakeholders will increasingly demand that business be conducted in the future.

Canada Land's Balanced Scorecard Approach

- CLC will strive to achieve its vision with customers and in communities in which it operates.
- CLC will strive to succeed financially and excel at its business.
- CLC will strive to motivate and challenge its employees.
- CLC will strive to create solid partnerships with the cities and provinces in which it operates.
- CLC will strive to meet the needs of its shareholder and board of directors.

The balanced scorecard is a tool used by the company to document, measure and report on performance in five key result areas. 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 shareholder.

Within each key result area are a number of objectives that are cascaded down through the company's operations through annual performance objectives at the company level as a whole, at each regional or functional group, and then at the level of each employee. The five key result areas of the balanced scorecard are summarized on the facing page, along with their corresponding objectives for the 2001–2002 fiscal year. Pages 10 to 19 of this report present CLC's annual achievements in the balanced scorecard format for the first time.

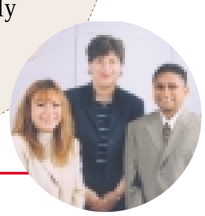
Community/Legacy

evaluate opportunities for strategic donations related to major projects where CLC operates • create legacies as a part of each major project • seek input from and engage the community in all major projects • partner with local organizations wherever possible

Business/Financial

increase property transfers • explore expansion of services and new business lines • enhance customer relations • increase financial performance • proactively address First Nations issues on CLC properties

be recognized as an employer of choice • communicate with and consult employees extensively



Human Resources

Municipal/Provincial Interest

provide economic stimulation in communities where CLC operates • champion social policy objectives to reach consensus among various levels of government • promote sustainable development

continuously improve governance practices • appropriately position company communications • improve internal financial and qualitative measures and performance • work towards achieving bilingualism for all designated positions within the company's workforce

Shareholder/Board of Directors

A Balanced Approach to Business and Financial Interests

Objective: Increase Property Transfers

CLC optimizes the financial and community value of strategic properties no longer required for program purposes by the Government of Canada. This is accomplished by purchasing land at fair market value, then improving, managing or selling it in order to produce the best possible benefits for both local communities and the corporation. The company's property inventory is comprised of acquisitions from Government of Canada departments, agencies and Crown corporations.

CLC sees itself as a policy tool for assisting the government in maintaining good stewardship of its real estate assets. This allows the government to divest itself of unproductive properties it no longer wishes to carry. Expediting property transfers to CLC would enable the company to better serve its shareholder through economies of scale and sustained operations capable of providing service in all regions of the country where unproductive government properties are located.

The company would like to work with the Government of Canada in a proactive role to help identify underutilized federal property assets and develop tailored solutions for transfers, in addition to offering its other services to custodian departments, agencies and Crown corporations. In doing this, action plans to facilitate title transfers would be implemented to expedite the process of property transfers.

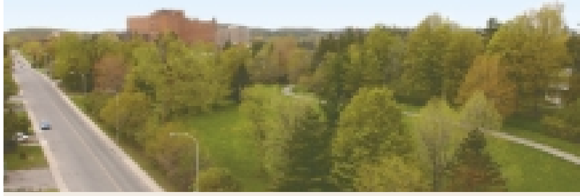
Going forward, the fundamental challenge for CLC will be to work with custodians to identify potential surplus strategic properties and to assist them in preparing their divestiture strategy to meet operational needs, while respecting Treasury Board Secretariat policy objectives of good stewardship for real property assets.

"In acquiring the Canadian Forces Base Shearwater property, we worked closely with the Department of National Defence to identify the issues that had to be resolved prior to transfer and those that could wait until afterwards. Everything went smoothly because both parties stayed focused on resolving the necessary issues until the deal was finalized."

Ron Pachal,
Senior Director, Real Estate (Atlantic Provinces)
Halifax, Nova Scotia

"Due to the fact that our helicopter operations were to remain at 12 Wing at Shearwater, we worked closely with CLC to ensure that military activities could carry on uninhibited by the transfer. We were very pleased with CLC's ability to understand and address our needs while driving the transfer process forward. The company has developed a very successful working relationship that has greatly facilitated the roles of each party."

Major Jim McLean,
(CFB Shearwater)
Halifax, Nova Scotia



Canadian Forces Base Shearwater, Halifax, Nova Scotia

Among the properties purchased by CLC in the fiscal year 2001–2002 were the surplus lands at Canadian Forces Base Shearwater, which were transferred from the Department of National Defence (DND) on March 28, 2002. The transfer resulted in the company acquiring 373.6 ha (924.7 acres) of property on the northeast side of Halifax harbour approximately 15 kilometres from the downtown core. This property transfer represents an excellent mixed-use opportunity for the Halifax Regional Municipality marketplace.

As with all transfers, the Shearwater property presented a number of unique challenges. Given that the property had been used as a military base, CLC and DND understood that environmental considerations had to be addressed. CLC and DND staff worked diligently to prepare an environmental disclosure agreement that allowed the transfer to proceed, while at the same time satisfying the respective operating requirements of both parties.

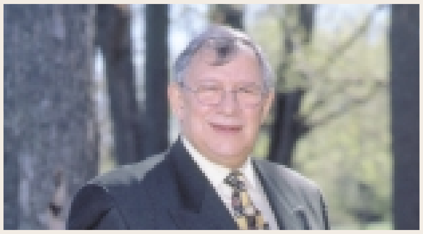
Another feature of the transfer involved arriving at terms and conditions in the sale that would satisfy DND's operational and security requirements associated with those lands to be retained by DND for ongoing military operations. Both parties cooperated very effectively and achieved a successful resolution of all issues.

Gamelin Property, Gatineau, Québec

CLC completed the acquisition of the Gamelin property in the National Capital Region from PWGSC, Environment Canada and Agriculture and Agri-Foods Canada. One interesting aspect of this transaction was that on the same day that CLC acquired the property, it sold it to the National Capital Commission (NCC), thereby allowing it to complete infrastructure divestiture plans with the City of Hull (now the City of Gatineau).

The divesture of this property to Hull permitted the city to realize its recreational public use development plans on the Gamelin site, guaranteed the protection of the recognized heritage landmark, Scott House, and made the site accessible for public use and community needs.

In exchange, CLC received from the NCC a parcel of vacant land at Lester Road in Ottawa next to it's Albion Road property. The company will be proceeding to redevelop this property for residential and public uses.



"Our greatest challenge in the negotiation of the Gamelin transaction was the consolidation of the interests of six parties into an agreement that responded to the individual interests of each of the parties while at the same time meeting the government's overall strategic objectives."

Paul Page,
General Manager, Real Estate
(National Capital Region)
Ottawa, Ontario

"What I thought was going to be a relatively routine disposal when we first started negotiations, evolved into one of the most complex transactions I've been a part of to-date. The sale of the Gamelin property involved numerous stakeholder interests at all levels of government and CLC, via the strategic disposal process, was instrumental in making it all happen."

Linda Griffin,
Senior Advisor, Administration and Environmental Management Directorate
Environment Canada
Ottawa, Ontario

Key Result Area: Business Financial

CLC will strive to succeed financially and excel at its business.

OBJECTIVE: INCREASE PROPERTY TRANSFERS	**Initiatives** Proactively identify federal property assets that are underutilized, develop tailored solutions for transfers and offer services to custodian departments. Formulate property specific action plans to facilitate title transfers. **Key performance indicators** Obtain necessary approvals for eight transfers over the course of the fiscal year. Achieve transfer of title for eight properties. **Achievements** Approval for six property transfers received. Six transfers of title achieved. Assistant Deputy Ministers interdepartmental committee identifed 11 new possible strategic property transfers to CLC in December 2001.
OBJECTIVE: PROACTIVELY ADDRESS FIRST NATIONS ISSUES ON CLC PROPERTIES	**Initiatives** Implement a proactive approach to addressing First Nations issues, and identify site-specific strategies. **Key performance indicators** Establish and present to the board a plan to address First Nations issues. Develop site-specific strategies for at least two test sites. **Achievements** Proactive planning developed and approved by the board. Site-specific strategies developed for six test sites. CFB Chilliwack title transfer (Parcel A) occurred on December 2001.
OBJECTIVE: EXPLORE EXPANSION OF SERVICES AND NEW BUSINESS LINES	**Initiatives** Explore the need for and, if appropriate, develop rationale for expansion into areas of core competency, other than disposal, in a manner that mitigates risk and ensures success. **Key performance indicators** Secure role for CLC in the Toronto Waterfront Revitalization Initiative. Secure necessary authorities on a project basis with respect to either a build to suit or environmental remediation initiative. **Achievements** CLC was confirmed to lead the Port Lands environmental remediation of the Toronto Waterfront Revitalization Initiative on behalf of the Government of Canada. Approval was obtained for one build to suit project in Glenlyon Business Park.
OBJECTIVE: ENHANCE CUSTOMER RELATIONS	**Initiatives** Develop customer satisfaction monitoring methodology and apply to target groups in each region. **Key performance indicators** Achieve a minimum overall customer satisfaction score of 75%. **Achievements** Chilliwack residential survey indicated an 83% satisfaction score. 277 Front Street commercial building survey achieved a score of 80%. Crowne Plaza Hotel survey achieved a score of 89%.
OBJECTIVE: INCREASE FINANCIAL PERFORMANCE	**Initiatives** Continuously seek to create financial value for the shareholder in the context of the company's mandate. Ensure sustainability of business through focus on future developments. **Key performance indicators** Achieve reduction in general and administrative (G & A) expenses from time of Special Examination. Meet or exceed financial targets (net income before taxes (NIBT) and cash flow before capital expenditures) set in the corporate plan. Value of new initiatives commenced during the fiscal year, but to be concluded in future years. **Achievements** G & A reduced by 11% (approx. $1.8 million) from fiscal year 2000–2001. NIBT resulted in a positive variance of $5.0 million. Cash flow before distributions and capital expenditures resulted in a positive variance of $16.3 million.

A Balanced Approach to Community Legacy

Objective: Create Legacies as a Part of Each Major Project

"Your people showed a sensitive, intelligent and committed attitude towards the environment and the community... In my opinion CLC's behaviour was exemplary and raised the bar in terms of co-operation with community and commitment to the environment, and set a standard to which industry in general should aspire."

Kevin Ade,
Friends of Brandt's Creek (Founder)
Kelowna, British Columbia

"Canada Lands has demonstrated commitment to environmental values and to the community's needs. We thank them for the asset they have contributed to the City which provides an opportunity for all citizens to enjoy the creek environment with the addition of a walkway and a park as part of the restoration."

Mayor Walter Gray,
Kelowna, British Columbia

Brandt's Creek Crossing, Kelowna, British Columbia

In building innovative property solutions for its larger projects, CLC attempts to leave behind a lasting legacy for the local community. This legacy can vary from a monument commemorating the heritage of the site, to a public green space, or a carefully planned interpretive walking tour. The resultis usually the same – local community support facilitating the company's activities and increased financial value.

When CLC acquired the CN Rail Yards in downtown Kelowna in 1995, the objective was to create a vibrant, pedestrian friendly, mixed use neighbourhood, which focused on its centre point, Brandt's Creek. The challenge was to find a way to save and restore the portion of the creek running down the centre of the site in culverts and shallow ditches. CLC's solution lay in developing a 1.8 ha (4.4 acres) stream protection corridor, which reinstated Brandt's Creek as a 350 metre waterway.

"A revitalization project of this magnitude doesn't happen overnight and it certainly doesn't happen without the goodwill and generous support of some very willing participants. I am grateful to have had the opportunity to be part of this wonderful initiative. As we embark on the development of Brandt's Creek Crossing, we look forward to creating a lasting legacy for our community."

Dale Knowlan,
Project Manager,
Brandt's Creek Crossing
Kelowna, British Columbia

The new native plantings and natural structures have restored the stream bank and in stream character of Brandt's Creek. Success is evident by the deer tracks along the trails, the need to protect trees from beavers, and the return of otters and muskrats to the lower reaches of the Creek. Flycatchers and kingfishers are now found in the bulrushes, and osprey patrol the creek regularly. Perhaps the most welcome sign of the success of the project, is the return of the Great Blue Heron.

Garrison Woods, Calgary, Alberta

As one of Canada's largest and most significant urban revitalization projects, CLC has now almost completed Garrison Woods' transformation into a unique urban village. The 71 ha (175 acres) site is located just minutes from the Calgary city centre and is scheduled for completion by the end of 2002. Built on a portion of the former Canadian Forces Base Calgary, this residential development is the result of a collaborative planning and redevelopment process designed to ensure reintegration of the site into the urban fabric of the surrounding community.

Retaining mature trees, and enhancing the extensive green space and pathway system were a priority. In addition, the development incorporated several well-proportioned European-style parks. The property has won numerous awards for its ingenuity and environmental sensitivity.

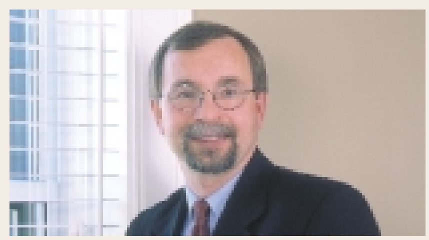
As a part of the company's legacy initiative, CLC has honoured the memory of the men and women who served and lived on the former base through a number of commemorative parks, and unique landscape features. One of these efforts drew upon the strong military heritage of the site and resulted in the creation of the 0.4 ha (one acre) Garrison Square. A granite inscription on the central stone podium of the square describes how the park's architectural features and landscape integrity recognize the site's military legacy.

An interpretive legacy walk reflecting World War I and II battles involving Canadian Forces connects the square with the Museum of the Regiments and other heritage sites on Currie Barracks. The streets of Garrison Woods also preserve Canada's military history by taking on the names of significant battles.

Garrison Woods is a special and unique place that answers the future needs of its residents, but never forgets the pride of its former heritage. It is a quality neighbourhood within an established community, which residents are proud to call home.

"Our continuing challenge has been to maintain the support of the City of Calgary in implementing creative and innovative approaches to the redevelopment of the former Canadian Forces Base Calgary. There is a tendency within parts of the Civic Administration to revert to a suburban approach to development, which would not respect the strategic nature and important legacy elements of this site."

Marc McCullough,
General Manager, Real Estate (Alberta)
Calgary, Alberta



"We have admired the Garrison Woods project since it started and when an opportunity arose to acquire a site that met our development expertise, we were very excited. What sets Garrison Woods apart is the sensible combining of different density forms and uses into a real inner city community that works. Working with Mark McCullough and Ken Toews from Canada Lands and their consultants added value to our project."

Melvin Foht,
Vice President, Development
Royop Corporation
Calgary, Alberta

Key Result Area: Community / Legacy

CLC will strive to achieve its vision with customers and in communities in which it operates.

OBJECTIVE: EVALUATE OPPORTUNITIES FOR STRATEGIC DONATIONS RELATED TO MAJOR PROJECTS WHERE CLC OPERATES

Initiatives

Review, evaluate and act upon potential areas of financial support, or in-kind donations.

Key performance indicators

Measure and report on the value of the in-kind donation component of an overall development strategy for a project over the course of the fiscal year.

Utilize one percent of NIBT of the previous year for donations and sponsorships.

Achievements

As of March 2002, the value of in-kind donations reported by CLC's three operating regions was approximately $6.2 million.

As of March 2002, 1% of the 2000–2001 NIBT was spent on donations and sponsorships.

OBJECTIVE: CREATE LEGACIES AS A PART OF EACH MAJOR PROJECT

Initiatives

Implement legacies or community investment initiatives as part of the overall project development strategies.

Key performance indicators

Legacy or community investment initiatives associated with active projects.

Achievements

A precinct of 65 affordable housing units in Calgary was built.

The MacKenzie and Mann Park was constructed in Edmonton.

A section of Brandt's Creek in Kelowna was restored.

Approximately 4.9 ha (12 acres) of woodlot at McLevin Woods was transferred to the City of Toronto.

OBJECTIVE: SEEK INPUT FROM AND ENGAGE THE COMMUNITY IN ALL MAJOR PROJECTS

Initiatives

Undertake broad-based public consultation for each major project in Toronto as part of planning approval processes.

Key performance indicators

Community acceptance and support of proposed development plan.

Achievements

Municipal plan approved for McLevin Woods project in Toronto.

Municipal government approval for a neighbourhood area structure plan for the 249 ha (618 acres) Griesbach site in Edmonton.

Emmerson Business and Technology Park received development appoval.

OBJECTIVE: PARTNER WITH LOCAL ORGANIZATIONS WHEREVER POSSIBLE

Initiatives

Seek innovative ways to partner with local organizations and service providers.

Key performance indicators

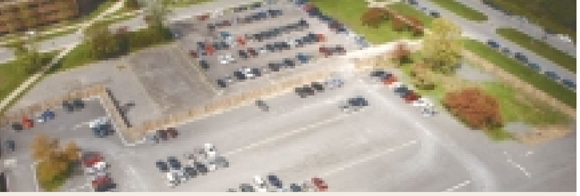
New partnerships formed over the course of the fiscal year.

Achievements

A partnership agreement was formed with Giffels Enterprises in Moncton to develop a business park.

A partnership with the City of Calgary and Calhomes was formed for a 65 unit affordable housing project.

A partnership was formed with Options for Homes for a 430 unit affordable housing project at 650 Lawrence in Toronto.



A Balanced Approach to Municipal and Provincial Interests

Objective: Promote Sustainable Development

"The biggest challenge we faced in the Goldenrod project was planning for every contingency. Due to the fact that the building on the site had formerly housed a small nuclear reactor in the basement, innovative contract provisions and safety precautions were developed to address associated risks. We were able to successfully address the issues of safety and remnant radioactivity to the satisfaction of all parties."

Rick Hughes,
Project Manager
Ottawa, Ontario

20 Goldenrod Street, Ottawa, Ontario

In its general course of business, CLC seeks to incorporate sound principles of sustainable development into all of its initiatives. This includes finding innovative ways to recycle or reuse demolition or construction waste materials. Success for CLC is measured not only by what is completed, but also how it is completed. This is reflected in the company's balanced scorecard, which sets percentage targets for recycling or reusing materials from demolition and construction projects.

The 20 Goldenrod Street site in the Tunney's Pasture area of Ottawa presents an excellent example of CLC putting sustainable development practices to work. As the former home of the Atomic Energy of Canada Limited's (AECL's) Commercial Products Division, the property consisted of a building that was initially constructed in 1953, and ultimately vacated in 1984.

CLC became involved in purchase discussions for this building in the spring of 2000 as part of negotiations surrounding the overall AECL portfolio. Previous acquisition discussions between AECL and PWGSC had not resolved the issue of liability for the environmental cleanup.

CLC's objectives in acquiring the site were to help the Government of Canada meet its need for additional office accommodation, to demolish the vacant and deteriorating AECL building in an environmentally responsible manner and to redevelop the property while optimizing the financial return and ensuring harmonious integration into the surrounding community.

CLC's demolition program for the building was completed in September 2001 and a waste management goal had been set to divert 80% (by volume) of the waste materials generated from landfill to recycling or reuse. The result achieved was an impressive 91% diversion, with the bulk of the materials that were sent to landfill being gravel layered bituminous paper roofing material, which is a product that is difficult to recycle efficiently. Throughout the demolition, AECL monitored the site to ensure that there were no radiation emissions.

In December 2001, CLC completed the construction of a temporary parking lot on the site for lease to PWGSC. At present, the company is finalizing negotiations with the department for the development of a new federal office building on the site.

Moncton Properties, Moncton, New Brunswick

After years of use as a locomotive repair facility, the 115 ha (285 acres) former Moncton Shops site in New Brunswick was in desperate need of environmental remediation. After sitting vacant for eight years, the lands had become viewed by neighbouring residents as an eyesore. When the property was transferred to CLC in 1996 as part of the CN land portfolio acquisition, the company's first action was to address the environmental challenges of the site.

Using an innovative risk management approach, the company completed its $12 million environmental remediation program for the site in the fall of 2000 and then explored ways to bring the property back into productive use. An agreement was soon reached with the City of Moncton that would benefit the whole community. A partnership was formed whereby CLC sold 43 ha (107 acres) of the property to the city and was hired by the city to act as project manager for the development of a major public recreation facility, known as Moncton Common.

The Moncton Common sports field complex consists of ten baseball fields, two football fields, two full-sized soccer fields, two smaller soccer fields and trails, representing 10 ha (25 acres) of the site. Coinciding with its opening to the public in the fall of 2002 will be the completion by the city of a $15 million, four-pad arena complex, which is situated between the baseball fields, and soccer and football fields.

CLC takes pride in knowing that its commitment to environmental stewardship and sustainable development has provided the City of Moncton with a long-term public recreational greenspace that will provide economic and social benefits for years to come.

In July 2001, CLC entered into a commercial contractual agreement with Giffels Enterprises for the entire 24.2 ha (60 acres) Emmerson Business and Technology Park. The transaction with Giffels, a full-service, consulting and contracting organization, will provide significant development opportunities for the park and indicates the first step towards a meaningful economic enhancement initiative for Moncton and the continued revitalization of its urban core.

"Moncton Common will be the premier outdoor/indoor youth and community recreational facility in Atlantic Canada. Comments from the community have been extremely positive. For the City of Moncton's minor sports programs it will provide sixteen high quality playing fields (baseball/softball, football, and soccer) and four ice surfaces."

Ron Leblanc,
Director of Special Projects,
City of Moncton
New Brunswick

"CLC's commitment to supporting and working with stakeholder groups allowed the Moncton properties to be developed in a timely manner while removing the environmental stigma that had become attached to the property. After only a few short years, it has become Atlantic Canada's crown jewel, and has created renewed economic growth and invigorated City of Moncton community pride."

Don J. MacCallum,
Project Manager (PEI) and
Corporate Environmental
Coordinator
Charlottetown, Price Edward Island

Key Result Area: Municipal / Provincial Interests

CLC will strive to create solid partnerships with the cities and provinces in which it operates.

OBJECTIVE: PROVIDE ECONOMIC STIMULATION IN COMMUNITIES WHERE CLC OPERATES	**Initiatives** Promote timely construction development of sites. **Key performance indicators** Stimulated private sector investment. Amount of estimated increase stimulated in municipal tax base. **Achievements** Approximately 53,000 person years of potential construction employment created. Estimated 31,000 potential permanent jobs created as a result of CLC developments. Anticipated taxes for local municipalities upon completion of projects $70 million.
OBJECTIVE: CHAMPION SOCIAL POLICY OBJECTIVES TO REACH CONSENSUS AMONG THREE LEVELS OF GOVERNMENT	**Initiatives** Explore the feasibility of contributing to affordable housing with each major residential development project. Utilize environmentally/fiscally responsible means of remediating contaminated sites. **Key performance indicators** Number of affordable housing units created. Investment in environmental remediation initiatives. **Achievements** A precinct of 65 affordable housing units was created in Calgary. Over $1 million invested in environmental remediation. Participated in the planning for 25 homes to be used for affordable housing in Albro Lake.
OBJECTIVE: PROMOTE SUSTAINABLE DEVELOPMENT	**Initiatives** Incorporate sound principles of sustainable development for each development initiative. Explore and implement innovative means of recycling and/or reusing demolition or construction wastes. **Key performance indicators** Creation of strong sense of community, belonging, or neighbourliness for projects. Attractive public areas that encourage walking and socializing. Quantities of recycled or reused materials from demolition or construction. **Achievements** CLC produces the Glenlyon Business Park Newsletter and created the Glenlyon Web site. The opening of Brandt's Creek in Kelowna with its walking/biking trails and scenic views. CLC's property at 20 Goldenrod achieved a level of 91% waste diversion.

"From the day I started at CLC, I was pleased to be asked to share my opinions and ideas about the company's operations. While our company's offices are spread out geographically, everyone shares information rather well. This results in a better overview of our work and allows us to better contribute to the common goal."

Natalie Cléroux,
Senior Secretary
Acquisition and Business Development
Ottawa, Ontario

A Balanced Approach to Human Resources

Objective: Communicate With and Consult Employees Extensively

Through their day-to-day activities and interactions with the company's stakeholders and partners, CLC's employees are the most valuable part of the equation in achieving the company's objectives. CLC recognizes that employees are much better able to contribute to the overall performance of the company when they are well informed and encouraged to take an active part in shaping their work environment. For this reason, CLC has made regular two-way communication and contact with employees, through formal and informal channels, a priority.

The company employs a number of different vehicles to inform employees of corporate achievements, events, business directions and other areas of interest. The first new step in communicating with employees during the 2001–2002 fiscal year was the introduction of the company newsletter, *The Carillon*. This quarterly newsletter, which is written by employees, features content and issues that are important to them such as an explanation of any management changes and media reports.

For time-sensitive communications, the President and CEO and the senior management team regularly issue internal e-mail messages to keep employees advised. This includes breaking news on sales or transfers of properties to the corporation. The latest information on the company is also posted to the company's intranet site, *The Source*, to which all employees have access. CLC has furthermore developed a more formalized roll-out for internal communications that will be launched along with a new employee handbook in the coming fiscal year.

CLC's annual strategic planning exercise, which leads to the production of the annual five year corporate plan, features a group-planning process that engages the input of all employees. This input alongside consultations with external stakeholders is then considered by the senior management team and board in formulating the plan.

Employees also participate in regular national conferences to exchange information and ideas with senior management.

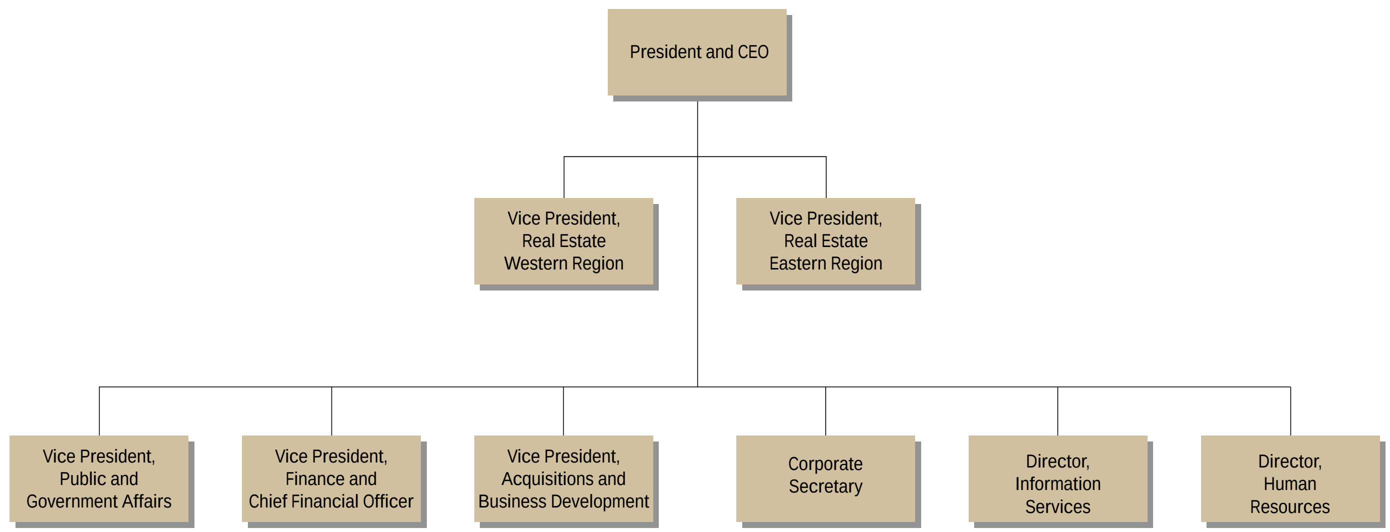
Employee Survey Results

This year the company issued its first employee survey, to determine the level of satisfaction of employees and to come up with new ideas for improving the work environment and human resources programs. The survey was well received, because it enabled employees to voice their concerns and it enabled the company to refine its human resource programs to more fully and appropriately respond to employee needs. It also provided a significant amount of information useful for directing the redesign of the company compensation program general working conditions.

The results of the survey indicated that, while employees were generally satisfied with their working conditions and were very positive about the challenges of their work and the quality of their colleagues, there were specific elements that needed to be changed. The survey allowed for these elements to be identified, prioritized and then acted upon through a review of the compensation and benefit programs. Many of the recommendations resulting from this survey have now been implemented, and employees have indicated their satisfaction with participating in such a meaningful manner. The company will continue the practice of communicating and consulting with its employees at every opportunity.

The survey was well received, because it enabled employees to voice their concerns and it enabled the company to refine its human resource programs to more fully and appropriately respond to employee needs.

CLC's Senior Management Team



Key Result Area: Human Resources

CLC will strive to motivate and challenge its employees.

OBJECTIVE: BE RECOGNIZED AS AN EMPLOYER OF CHOICE

Initiatives

Develop and issue an employee workplace satisfaction survey.

Review and, based on employee input, modify the new human resources programs to resolve issues and difficulties.

Strive to create a challenging and positive work environment.

Key performance indicators

Achieve baseline employee satisfaction score.

Refine the performance evaluation process.

Review and simplify titles and re-evaluate positions that require it.

Maintain voluntary employee turnover rate at below 5%.

Achievements

Achieved a baseline employee satisfaction score of 67% in an internal survey.

Goal-setting completed and performance expectations more clearly articulated than in the past.

Positions have been re-evaluated throughout the year.

Review of titles deferred to next fiscal year as part of overall program refinement.

Voluntary turnover rate was 2.7%.

OBJECTIVE: COMMUNICATE WITH AND CONSULT EMPLOYEES EXTENSIVELY

Initiatives

Inform employees regularly through both formal and informal means including regular meetings and the employee newsletter.

Determine matters of greatest importance and concern for employees, to enable the company to modify and refine its human resources programs and practices to more fully address employee needs.

Engage employees more fully in the company's annual strategic planning process.

Engage employees more fully with respect to corporate financial and non-financial performance.

Key performance indicators

Issue employee newsletters at least quarterly and hold regular meetings.

Issue an employee survey.

Ensure each employee has the ability to provide input into strategic planning and the annual corporate plan.

Achievements

Employee newsletter issued quarterly.

Employee survey issued, with a 57% participation rate achieved.

Process for employee input into the annual strategic planning exercise designed and implemented.

Employee survey generated input on wide ranging topics.

Input is utilized to refine the compensation and benefit programs.

A Balanced Approach to Shareholder and Board Interests

Objective: Improve Internal Financial and Qualitative Measures and Performance

CLC's balanced scorecard was developed as a means to improve the company's internal financial and qualitative measures and performance. The scorecard works as an internal self-assessment tool that will make it easier for the company to measure and report on its progress in a number of financial and non-financial areas. It also enables the company to:

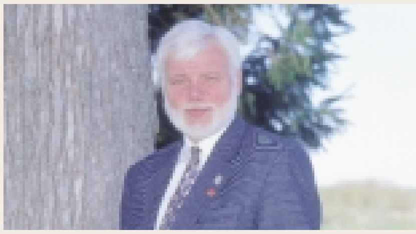
- develop relevant, meaningful indicators;
- diagnose and evaluate performance;
- move from measurement to management;
- pinpoint and focus performance improvement efforts;
- optimize value added from resource allocation; and
- align operational activities with strategic priorities.

This year, the scorecard comprises 18 objectives which contain a total of 41 key performance indicators that were used to measure the company's performance for the 2001–2002 fiscal year. CLC's objectives and key performance indicators will be reassessed each year and modified as necessary to ensure that the company continues to support the interests of its diverse group of stakeholders.

In the process of designing its balanced scorecard, CLC developed a relationship with the Conference Board of Canada. The company became a member of the Business Advisory Group for the Conference Board's Corporate Social Responsibility Benchmarking Project and participated in developing a comprehensive CSR tool, conducting multi-stakeholder consultations that generated valuable input into the development process, tool content and beta testing the CSR assessment tool.

In order to maximize the efficient use of internal resources and adjust to anticipated work flows in various parts of the country, CLC realigned its operating regions in April of 2002. The company's western, central and eastern operating regions have been replaced by just western and eastern which are divided along the Manitoba-Ontario border.

The company is also in the process of refining the method through which it determines and monitors value creation beyond dividends in areas such as private sector investment stimulation, potential construction jobs, amount of estimated increase in municipal tax base and investment in environmental remediation initiatives for the fiscal year.



"Some say nothing of value is measured in dollars. Others say nothing has value except dollars. Deep down, we all know the truth falls somewhere in between – probably closer to the former than the latter. CLC's scorecard is our best effort to balance these two extremes. I'll not claim we've perfected it. But if we keep working on it, maybe it will help perfect us."

Rick Legault,
Regional Controller
(Eastern Region)
Ottawa, Ontario

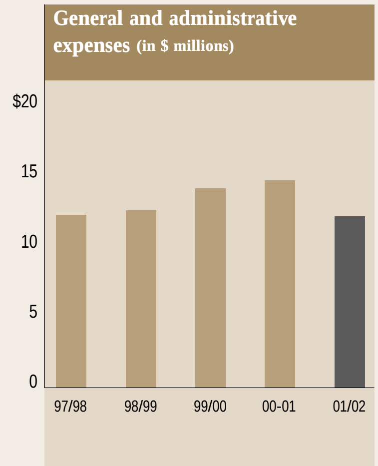
"The Conference Board of Canada, in partnership with the Canadian Centre for Philanthropy, is working with an advisory group of leading organizations, to develop a practical tool that will help companies better manage and measure their corporate social responsibility performance. Canada Lands' participation in this advisory group is indicative of the organization's efforts to make CSR an integral part of doing business."

George Khouri,
Director, Corporate Social Responsibility, Conference Board of Canada
Ottawa, Ontario

Reducing the company's general and administrative expenses

During its mandate review process in 2000, CLC participated in an assessment by an independent company that benchmarked the company's financial performance against the top private sector real estate firms in the country. Although the report assessed the company as performing very well in most areas, it was recognized that due to its extra reporting and government responsibilities as a Crown corporation, the company was incurring higher general and administrative (G&A) expenses than those incurred by comparable real estate companies in the private sector.

CLC recognized this as an area for improvement and through cost efficiencies, reduced its general and administrative expenses by 11% for the 2001–2002 fiscal year, to their lowest recorded level while still improving services in many areas. The company has set a further reduction target for the fiscal year 2002–2003.



Establishing and measuring market value for the company

In exploring other means to measure the financial performance of the company, a method for calculating market value was designed to determine its forward progress. Market value can be used to evaluate realized and unrealized financial value creation and will be determined annually and compared to the previous year's value. Initial value will be based on the company's holdings as at March 31, 2002 and each year's value will be adjusted for acquisitions and dispositions which occurred during the year, thereby offering an indication of the financial value creation of the company during the year.

By comparing market value with accounting value and adjusting for dividends paid, the figure will demonstrate financial value creation of the company since inception.

Prior to this, realized financial value creation on properties was determined only after the property was sold. This practice did not take into consideration any income or expenses not directly related to the property. The new market value figure reflects all revenues and expenses of the company, including G&A, not just those directly related to properties.

Should the board adopt this new internal financial measure as part of the balanced scorecard, the company could accurately monitor its overall value creation performance and adjust business operations to futher enhance best value for its shareholder and the Canadian taxpayers.

Should the board adopt this new internal financial measure as part of the balanced scorecard, the company could accurately monitor its overall value creation performance and adjust business operations to ensure best value for its shareholder and the people of Canada.

Key Result Area: Shareholder / Board of Directors Interests

CLC will strive to meet the needs of its shareholder and board of directors.

Objective	Initiatives, Key performance indicators and Achievements
OBJECTIVE: APPROPRIATELY POSITION COMPANY COMMUNICATIONS	**Initiatives** Promote a consistent image for CLC across Canada, including incorporation of the Canada wordmark. Position the profile of CLC. Showcase CLC's accomplishments to stakeholders through project tours and events. **Key performance indicators** Introduce a corporate visual identity program. Ensure proper signage for all major projects. Conduct a minimum of five project tours for key stakeholders. **Achievements** Comprehensive visual identity program launched in January 2002. Proper project signage is in place for all major projects. The company conducted nine major project tours. Participation in the Prime Minister's caucus Task Force on Urban Issues took place in several cities.
OBJECTIVE: IMPROVE INTERNAL FINANCIAL AND QUALITATIVE MEASURES AND PERFORMANCE	**Initiatives** Set measures of performance – financial and non-financial – based upon which performance will be judged. Using the balanced scorecard, report on performance regularly to the board and the shareholder. Establish a 'market value' for CLC as a means of more appropriately measuring financial success. **Key performance indicators** Establish a minimum of ten key performance indicators (KPI). Report to the board quarterly and to the shareholder with a frequency to be determined by the board. Establish a 'market value' performance indicator for CLC. **Achievements** A total of 41 KPIs were developed for the 2001–2002 fiscal year. Regular updates provided through the reports of the president and the CFO at each board meeting. A 'market value' performance indicator has been developed with board input and will be presented to the board for formal consideration.
OBJECTIVE: WORK TOWARDS ACHIEVING BILINGUALISM FOR ALL DESIGNATED POSITIONS WITHIN THE COMPANY'S WORKFORCE	**Initiatives** Promote the use of and proficiency in both official languages for employees. Ensure management leads by example. **Key performance indicators** Number of non-bilingual employees in designated positions participating in language classes. Have 100% of senior management team possessing minimum basic skills in both official languages or be registered in language classes. **Achievements** Official language designation plan was finalized in December 2001. All members of the senior management team either meet the requirements of their job's language designation or are presently training to achieve it.
OBJECTIVE: STRENGTHEN CURRENT GOVERNANCE PRACTICES	**Initiatives** Explore and seek to further enhance governance practices. Review committee structure of the board. Conduct regular board assessments. Review and enhance strategic planning exercise as appropriate. **Key performance indicators** Achieve continuous enhancement of corporate governance practices. Modify or validate committee structure as appropriate. Conduct board assessments at least annually. **Achievements** A more comprehensive delegation of authorities was implemented. The committee structure for the board was reviewed and found adequate. The membership of the governance committee was increased to include the full board. Professional consultants engaged to review governance priorities and corporate structure issues. The strategic planning exercise was improved through increased consultations with employees, and new consultations with custodians and provincial and municipal representatives.

CLC's 373.6 ha (924.7 acres) Shearwater property in Halifax, Nova Scotia, was once part of 12 Wing Shearwater and was acquired in March 2002 from the Department of National Defence.

Highlights of the Year's Accomplishments

Acquisitions and Business Development

- successfully obtained approval for transfer of the following five properties to CLC:

  Department of National Defence
  - Canadian Forces Base Griesbach in Edmonton, Alberta
  - Canadian Forces Base Shearwater in Halifax, Nova Scotia
  - Gladstone Street property in Halifax, Nova Scotia

  National Capital Commission
  - Lester Road property in Ottawa, Ontario

  Public Works and Government Services Canada (PWGSC)
  - 685 Cathcart Street in Montréal, Québec

- assisted in the identification of eleven additional properties as potential strategic disposals, endorsed by the Assistant Deputy Ministers steering committee
- executed a memorandum of understanding with PWGSC and undertook preliminary discussions for potential build to suit project on CLC property for office accommodation
- worked with Treasury Board Secretariat to clarify CLC's role in the new disposal policy through training and orientation sessions across CLC
- converted company's land holding database to integrate it with the Treasury Board's Directory of Federal Real Property

CLC's President and CEO Kathy Milsom (right), signs a memorandum of understanding in February 2002 with Public Works and Government Services Canada Deputy Minister, Janice Cochrane (left), for cooperation between the two organizations.

One unique aspect of the naturalization of Brandt's Creek saw community volunteers and the consultant team transfer approximately 2,700 small fish and fingerlings from the old creek into buckets, and then into the new stream corridor.

Operational

- sold Kits Court (66 residential units) and Point Gray Manor (62 residential units) apartment buildings in Vancouver, British Columbia
- completed a lease agreement with Nokia to build a 8,370 m^2 (90,000 sq. ft.) office building in Glenlyon Business Park in Burnaby, British Columbia
- assumed title to the 61.8 ha (153 acres) of the former Canadian Forces Base Chilliwack, British Columbia
- completed a million dollar remediation project of Brandt's Creek, resulting in the return of fish and wildlife to the site in Kelowna, British Columbia
- received City Council approval for a Neighbourhood Area Structure Plan for the 249.7 ha (618 acres) former Canadian Forces Base Griesbach in Edmonton, Alberta
- received the Best Community and Best Innovation awards from the Calgary Home Builders Association for the Garrison Woods redevelopment project on the former Canadian Forces Base in Calgary, Alberta

CLC purchased its Goldenrod Street property from Atomic Energy Canada Ltd., in September 2000, with the intention of developing an office building on the property. The site is located within Tunney's Pasture, a major federal government employment node in Ottawa, Ontario.

In a complex transaction which took place in February 2002, CLC acquired its Gamelin property in the City of Gatineau, Québec and then sold it to the National Capital Commission in exchange for a parcel of land at Lester Road in Ottawa, Ontario.

- completed the due diligence for the transfer of surplus St. Lawrence Seaway lands in the Niagara Region, Cornwall, Ontario and the Montréal area in Québec, which will enable the transfer of 177 properties, totalling over 1,171.6 ha (2,900 acres) in the coming year
- completed servicing work and sale of half of the residential lots at McLevin Woods in Toronto, Ontario
- transferred 4.9 ha (12 acres) of woodlots adjacent to the McLevin Woods site to the City of Toronto
- assumed interim management responsibility of the Harbourfront Antique Market in Toronto, Ontario, on behalf of Queens Quay West Land Corporation
- demolished facilities on the 20 Goldenrod Street property in Ottawa, Ontario, with 91% of the material from the building being reused or recycled
- exchanged the Gamelin property in Hull, Québec, for a parcel of vacant land on Lester Road in Ottawa, Ontario, and will be proceeding to redevelop the site for residential development and public uses

In June 2001, CLC received title to Agriculture and Agri-Food Canada's Upton Farm property. Seen here from left to right: Pierre Corriveau, Director General, Asset Management and Capital Planning, Corporate Services Branch, Agriculture and Agri-Food Canada, Sylvie Archambault, then CLC Vice President, Eastern Region and Jon Grant, then CLC Chair.

In July 2001, Giffels Enterprises entered into a commercial agreement with CLC for the entire 60 acres Emmerson Business and Technology park in Moncton, New Brunswick.

- sold the 4.9 ha (12.1 acres) Peel/St. Jacques property in downtown Montréal to a Canadian real estate developer who is expected to realize a $250 million mixed-use development including up to 1,400 residential units, a major hotel/convention centre, a supermarket and office towers
- sold 32.8 ha (81.1 acres) of land and several buildings at the TechnoBase Saint-Hubert property in Québec for residential, recreational, industrial and other uses
- disposed of 28 vacant housing units on the Benny Farm site in the West End of Montréal, Québec to a local residential developer
- entered into a long-term agreement with Giffels Enterprises of Toronto to develop the 24.2 ha (60 acres) Emmerson Business and Technology Park in Moncton, New Brunswick
- opened a new CLC project office in Charlottetown, Prince Edward Island in June of 2001
- obtained title to the 104.2 ha (258 acres) Upton Farm property in Prince Edward Island
- sold a 14.4 ha (35 acres) commercial site in Mount Pearl, Newfoundland, to a developer for transformation into a major commercial development

CLC acquired its 26.5 ha (65.5 acres) property in Mount Pearl Newfoundland in December 1998 from Canada Mortgage and Housing Corporation and has since sold most of it to the private sector for a variety of mixed uses.

Downsview Park: The Transformation Continues

"Watching kids improve their skills and build confidence while having fun playing sports is a rewarding experience. It's nice to be able to use this old building for a great community purpose."

Dan Berger,
Ontario Soccer Association
Toronto, Ontario

"It's been a thrilling experience watching Downsview Park transform into a busy, self-contained film community. I find I can't take two steps without running into friends and associates working on neighbouring shows."

Tashi Bieler,
Production Manager,
"The Associates"
Season I & Season II
Toronto, Ontario

Parc Downsview Park Inc. (PDP), a subsidiary of Canada Lands Company Limited, continues to make progress in transforming the former Canadian Forces Base Toronto into a federal public space known as Downsview Park. The park is alive with the sights and sounds of people engaged in a variety of recreational activities.

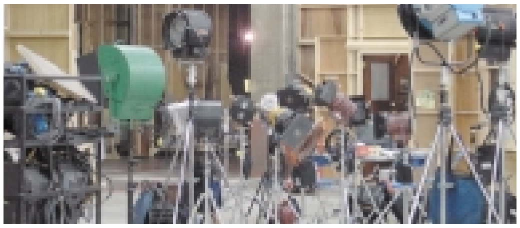
Fiscal year 2001–2002 began with Downsview Park's annual Earth Day event, co-sponsored with Earth Day Canada, which entailed the planting of close to 1,000 trees on the site. Springfest was held on Mother's Day and attracted more than 6,000 people with musical performances, equestrian exhibitions, midway rides and children's activities, including that great Canadian icon, the RCMP Musical Ride.

Downsview Park's third annual Canada Day event drew 65,000 people, to celebrate the great accomplishments of our nation. A full day of activities was capped by a fantastic fireworks display. As well, a citizenship court ceremony marked the 135th year of our country, by swearing in 135 new citizens.

The park also hosted its first Fall Fair in October with the theme "a little bit of country in the heart of the city" and included hay rides, pony rides, a corn roast and singing by the campfire. In January, the park's second annual Winter Wonderland drew an estimated 10,000 people who enjoyed midway rides, a petting zoo and other activities.

Throughout the year, schools and community groups continued to take advantage of the broad range of activities available at Downsview Park. During the winter months, the Hangar is used by thousands of people for indoor soccer, while school, daycare, and other groups enjoy spring and summer visits to the butterfly garden. Other nature-themed field trips occur through a variety of curriculum-based programs all year round. The "Our Canada" Millennium Quilt, made with contributions from school children across Canada, continued its journey to visit all provinces and territories.

Pictured right is
Parc Downsview Park Inc.,
Board of Directors.



A number of film and television production studios have established themselves at Downsview Park to take advantage of the large amount of indoor space available in the former military facilities for sets and sound stages.

In January 2002, Downsview Park's second ever Winter Wonderland event drew more than 10,000 people to the park to enjoy many exciting activities.

The park has also experienced an increase in commercial activity over the past year, with a greater than 20% increase from the previous year in commercial revenues. This continued financial growth will enable PDP to fulfill its mandate to create a federal urban green space in a self-financing manner.

Downsview Park Studios were active with television and movie productions, including *The Associates, Soul Food, Mutant X, Leap Year, Relic Hunter, Bleacher Bums, Screech Owls and the Jennifer Estess Project.* New commercial and industrial tenants welcomed to Downsview Park this year include Ultimate Adventures (Paintball) and BMW Driver Training. A successful dot com business, Grocery Gateway, continues to call the park home, as do Nova Pack, The Ontario Native Plant Company and the Toronto Wildlife Centre.

In July, Downsview Park will host World Youth Day 2002. Hundreds of thousands of people are expected to attend a Vigil and Papal mass at the park and on the adjacent de Havilland property. This event provides a unique opportunity to showcase Downsview Park's future possibilities and plans to an international audience.

Downsview Park's innovative Tree City design plan was created by an international team of distinguished landscape architects and artists who share the park's vision for public spaces in the 21st century. It is a phased plan that will gradually transform the site into a lush and unique recreational green space to be enjoyed for generations to come.

As Downsview Park takes shape, all Canadians will be able to make use of and take pride in a green space that is truly unique and innovative.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

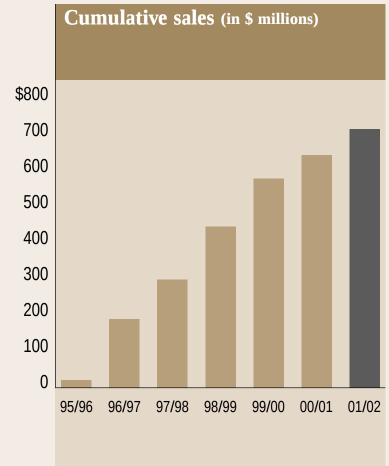
The real estate business activities of Canada Lands Company Limited (CLCL) are carried out primarily through its wholly owned subsidiary, Canada Lands Company CLC Limited (CLC). In July 1998, Parc Downsview Park Inc. (PDP), was incorporated as a wholly owned subsidiary of CLCL with the mandate of creating 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, and the development plans have not yet been finalized.

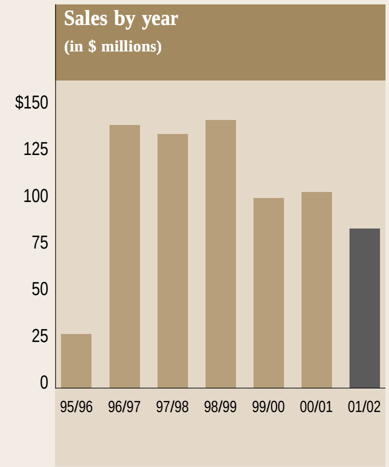
RESULTS OF OPERATIONS

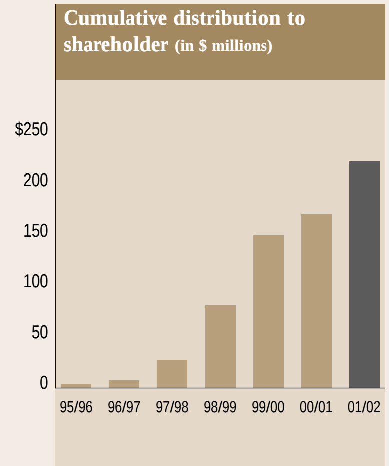
For the year ended March 31, 2002 (YE 02), CLCL earned revenues of $114.9 million, income of $15.1 million before tax and generated cash of $0.5 million before distributions to the Government of Canada (the government or shareholder) and affiliates. In this context, distributions refers to repayment of notes payable and dividend payments. Compared with the results of operations for the year ended March 31, 2001 (YE 01), revenues decreased by $5.8 million, income before tax increased by $6.4 million and cash flow before distributions to the shareholder decreased by $61.3 million.

The net profit on sales was $19.7 million compared with $15.8 million in YE 01.

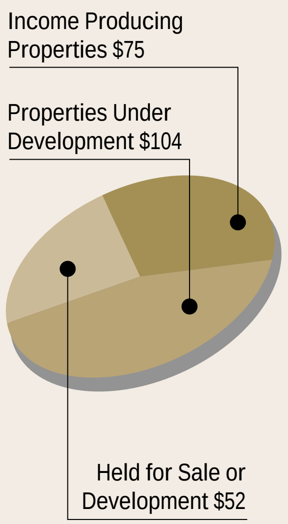
Property sales for YE 02 totalled $83.3 million, compared with property sales of $114.1 million average per year over the five-year period 1996 to 2001. The decrease in sales reflects the reality of a lack of new properties transferred from the government to replace the original property inventory CLC has sold off. By March 31, 2002, CLC had disposed of 87% of its original property portfolio acquired in 1995 from the Canadian National Railway Company (CN) and anticipates that most of the remaining CN lands will be sold within the next two years.





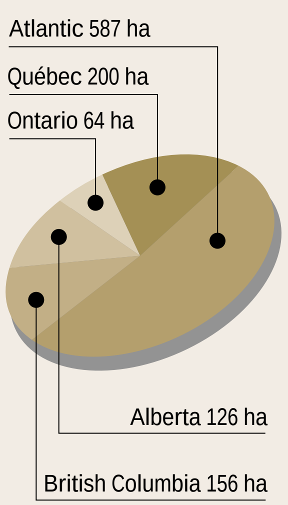


Properties by category by book value* (in $ millions)



$231 million
*2001/02

Property distribution by region* (in hectares)



1,134 hectares
*2001/02

CLCL is subject to federal and certain provincial taxes at corporate rates. Income taxes of $4.1 million for YE 02 represent an effective rate of 27% of income before tax. This is lower than the expected combined rate of 41% due mainly to 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 $1.9 million before government funding compared with $2.4 million in YE 01. Park operations generated revenue of $8.9 million compared with $27.4 million in YE 01. Included in YE 01 revenue is the $20.9 million sale of the Wilson Avenue surplus lands not required for park purposes. The loss after government funding for the year was $0.2 million compared to a profit of $1.2 million in YE 01.

Initial financial assistance for PDP operations has been provided by the current property owner, the Department of National Defence (DND), but such assistance is only temporary and PDP is currently seeking an alternative source of funding. PDP does not have leasehold interest in or vacant possession of all the lands. Consequently, PDP is currently unable to develop certain of the commercial lands and thereby generate the necessary revenues to construct Phase I of the park.

PROPERTIES

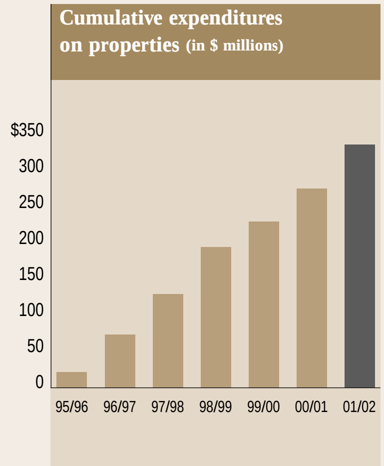
The property holdings of CLC, the subsidiary, fall into three categories, namely rental properties, properties under development and land held for development or sale.

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, an office building in Montréal, and parking facilities in Montréal and Toronto. At March 31, 2002, CLC owned seven rental properties with a book value of $75.0 million, which compares with nine properties with a book value of $93.9 million at March 31, 2001. CLC manages two other projects, an office and hotel complex in Toronto, and a residential complex in Montréal.

Properties under development comprise six property holdings totalling approximately 181.8 ha (450 acres), with a carrying value of $104.1 million, an increase of $29.7 million from March 31, 2001. The sites under active development are 401 Burrard in Vancouver, British Columbia, Glenlyon Business Park in Burnaby, British Columbia, the former Canadian Forces Base in Calgary, Alberta, the Oliver Village commercial project in Edmonton, Alberta, Malvern residential project in Toronto, Ontario and the former Canadian Forces Base in Saint-Hubert, Québec. CLC presently pre-leases or sells buildings prior to the commencement of construction.

Land held for development or sale consists of approximately 35 property holdings located across Canada totalling 953.4 ha (2,360 acres). At March 31, 2002, the carrying value of this category of land was $51.5 million, a $5.2 million decrease from the carrying value of $56.7 million at March 31, 2001, reflecting CLC's declining inventory level and the need to replenish inventory supplies.

During YE 02, CLC spent $55.2 million on construction, site servicing, environmental remediation and other costs on its various property holdings. In addition, CLC acquired six properties from the government, one of which it traded for another property, at a total cost of $14.1 million, satisfied by cash and the issuance of notes payable.

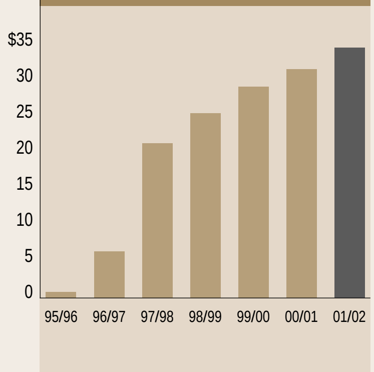


CASH FLOW

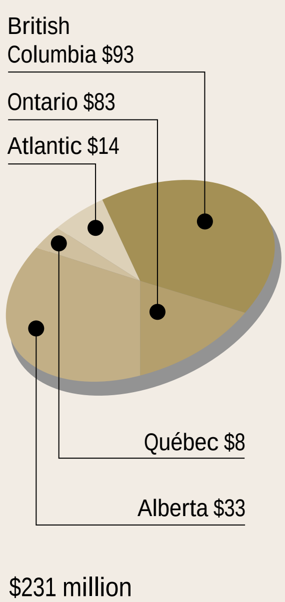
Cash provided by operating activities during YE 02 totalled $3.5 million, which is a decrease of $63.7 million over the $67.2 million generated in YE 01. The decrease basically arose from two main factors, increased expenditures on properties of $19.1 million and a decrease in the cost of sales of $29.8 million.

Cash used in financing activities for YE 02 amounted to $54.5 million, representing principally the note repayments to the government and to affiliates of $38.9 million, and a distribution to the government of $15.5 million. Note repayments to the government and to affiliates in YE 01 totalled $25.9 million.

Cumulative investment in environmental remediation (in $ millions)



Property distribution by region by book value* (in $ millions)



*2001/02

In summary, CLCL generated $0.5 million in cash flow in YE 02 prior to distributions to the shareholder and note repayments, as compared to $61.8 million in YE 01.

FINANCIAL CONDITION AND LIQUIDITY

At March 31, 2002, CLCL had cash and short-term investments totalling $47.6 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 $15.4 million.

Of the $47.0 million of notes payable at March 31, 2002, $38.8 million is payable to the government and $8.2 million is payable to Canada Mortgage and Housing Corporation. 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, 2003, CLC has estimated repayment of the notes payable of $24.6 million, including an estimated $19.8 million for properties sold in YE 02.

In the coming year, CLC anticipates spending approximately $68.7 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 and Edmonton, the Oliver Village commercial development in Edmonton, office project in Ottawa and the Albion Road residential site in Ottawa.

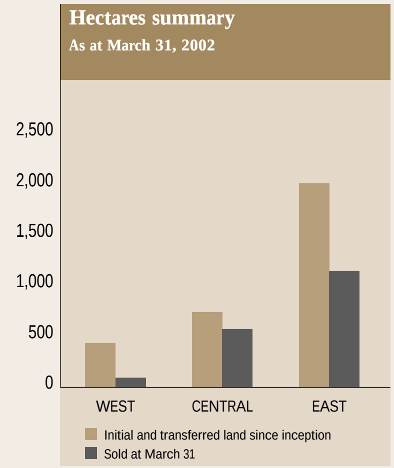
For the year ending March 2003, PDP estimates spending $12.8 million, commencing construction on the infrastructure needed to generate income from the commercial lands at Downsview Park, and starting the first phase of the park development program. This will not occur until PDP obtains adequate funding and leasehold interest in the land.

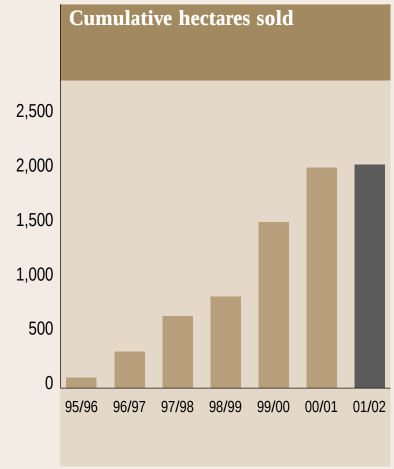
Based on the current level of cash and short-term investments, and the existing line of credit, CLC expects to be able to fund all operating cash requirements and anticipated expenditures on properties for the coming year. In addition, currently contracted sales and future sales anticipated to be made 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.

RISKS AND UNCERTAINTIES

CLCL, through CLC, manages and disposes of strategic real 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 achieved this mandate despite the downturn in the economic environment last year. The Canadian economy is showing signs of rebounding, which should increase the demand for CLC's commercial and residential land holdings.

During the year, 577.7 ha (1,430 acres) of land were transferred from government departments and agencies to CLC. As at March 31, 2002, CLC had a land bank of approximately 1,135.2 ha (2,810 acres). The Treasury Board Secretariat has approved additional transfers of a further 1,414 ha (3,500 acres), of which the St. Lawrence Seaway portfolio consists of 177 properties totalling 1,171.6 ha (2,900 acres). CLC is currently in negotiations with government departments and agencies concerning a further 844.4 ha (2,090 acres). If CLC were to receive no new property transfers from this point forward, its rapidly declining inventory would threaten the viability of the corporation as it currently stands. There will be a degree of uncertainty until a future supply of land inventory is established. During the year, the mandate review of the corporation was approved by Treasury Board. This is hoped to result in a greater commitment by government departments and agencies to release surplus lands. It is a fundamental fact that unless more of the government's surplus real estate is transferred to CLC, the corporation will be unable to continue the successful implementation of its mandate. The corporation is taking an active role in identifying appropriate surplus properties and working with the custodians to realize the transfers.





As many of the individual properties potentially available for transfer are substantial in size, ranging from 81 to 485 ha (200 to 1,200 acres), 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, and can affect demand while subjecting CLC to 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. 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 has been focusing on developing specific relationships with First Nations on a band-by-band basis. Such relationships could lead to mutually beneficial real estate development initiatives outside the treaty process. The transfer of CFB Chilliwack has resulted in the Soowahlie Band filing suit with the British Columbia Supreme Court in support of their specific claim to the base.

PDP has been working with DND for five years to obtain leasehold title to and vacant possession of the Downsview Park lands, but this work has yet to come to fruition. Until legal leasehold title and vacant possession is obtained, PDP cannot complete commercial transactions, which are vital to the self-financing mandate of the corporation, nor can it borrow any funds to complete the commercial infrastructure. The corporation will continue to work diligently to negotiate a lease with DND.

FUTURE PROSPECTS

As previously noted, the Canadian economy is showing signs of recovery after a mild downturn last year. This is due to the massive stimulus provided by monetary and fiscal easing in both Canada and the United States. A strengthening US economy and a low Canadian dollar should bolster Canada's export-oriented manufacturing sector, materially affecting output in Ontario, Québec, Manitoba and New Brunswick. The brightest spot in the Canadian economy is the crude oil and natural gas industries in Alberta and Newfoundland. The growth rate in the Canadian economy is expected to increase to 3.0% from 1.5% last year. The low bank and mortgage interest rates could rise soon given the economy's strong momentum.

Real estate markets continue to vary across Canada. The housing market is in its biggest boom in a decade. 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. 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. CLC continues to experience interest in its Glenlyon Business Park in Burnaby, British Columbia, where plans are underway to construct an additional building.

CLC's recent sales activities continue to demonstrate that there is demand for its land holdings, and it can still create significant benefits from property portfolio, which is diverse as to location, value, size and current or potential uses.

A constant flow of new properties will enable CLC to continue to fulfill its original mandate of creating optimal value for the government, while integrating properties back into the community in a financially prudent and socially responsible manner. In certain 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 a strain on the corporation's cash resources. In light of this, discussions were held with central agencies of the government, and Public Works and Government Services Canada on an alternative method of determining dividend payments. It was agreed that the annual dividend will be the year end cash balance less any working capital requirements for the ensuing three years. CLCL will continue to make mandatory note repayments to the government or affiliated Crown corporations, in addition to the dividend payments as part of its total distributions to the government.

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

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 C.E.O.

B Evans

Brian Evans
Vice President, Finance
Chief Financial Officer

11 May 2002

AUDITORS' REPORT

To the Deputy Prime Minister and Minister of Infrastructure and Crown Corporations

We have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 2002 and the consolidated statements of income and retained earnings and cash flow 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 2002 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 another matter to Parliament's attention regarding Parc Downsview Park Inc., a wholly owned subsidiary of the corporation. For the past two years the external auditors have reported that 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 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 is currently reviewing this matter. Note 1 also discloses the Government's intentions for the creation of the park.

The financial statements as at 31 March 2001 and for the year then ended were audited by KPMG LLP and the Office of the Auditor General of Canada who expressed an opinion without reservation in their report dated 11 May 2001.

Shahid Minto

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

Ottawa, Canada
10 May 2002

Ernst + Young LLP

Chartered Accountants

Toronto, Canada
10 May 2002

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended 31 March

In thousands	Note	2002	2001
REVENUES			
Sales		**$ 83,267**	$ 85,413
Rental		**21,195**	21,888
Interest and other	11	**10,442**	13,376
		114,904	120,677
EXPENSES			
Cost of sales		**63,539**	69,609
Provision for decrease in property values		**1,216**	6,081
Rental operating costs		**15,463**	16,490
General and administrative		**13,214**	14,779
Other		**6,233**	6,250
		99,665	113,209
INCOME BEFORE PARK OPERATIONS		**15,239**	7,468
Loss from park operations before government funding	8	**(1,928)**	(2,372)
Government funding for park operations	8	**1,774**	3,591
		(154)	1,219
		15,085	8,687
INCOME BEFORE TAXES			
Future income taxes expense (recovery)	9	**903**	(1,642)
Current income taxes expense	9	**3,198**	5,016
		4,101	3,374
NET INCOME		**10,984**	5,313
Retained earnings, beginning of year		**72,462**	67,149
Dividend payment		**(15,500)**	–
RETAINED EARNINGS, END OF YEAR		**$ 67,946**	$ 72,462

See accompanying notes to consolidated financial statements

CONSOLIDATED BALANCE SHEET

As at 31 March

In thousands	Note	**2002**	2001
ASSETS			
Properties			
Rental properties	3	**$ 75,021**	$ 93,912
Properties under development		**104,148**	74,403
Land held for development or sale		**51,496**	56,677
		230,665	224,992
Other Assets			
Cash and cash equivalents	4	**47,600**	101,484
Amounts receivable and other	5	**79,098**	62,777
Park landscaping and improvements		**7,716**	5,360
		134,414	169,621
		$ 365,079	$ 394,613
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Notes payable	6	**$ 46,965**	$ 71,317
Accounts payable and accrued liabilities	10	**51,721**	50,253
Prepaid rents, deposits and lease assignment obligation		**34,366**	36,500
		133,052	158,070
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		**67,946**	72,462
		232,027	236,543
		$ 365,079	$ 394,613
Commitments	10		

See accompanying notes to consolidated financial statements

On behalf of the Board,

Marc Rochon

Charles Pelletier

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 March

In thousands	Note	**2002**	2001
OPERATING ACTIVITIES			
Net income		**$ 10,984**	$ 5,313
Recovery of costs on sale		**42,939**	72,695
Expenditures on properties		**(58,445)**	(39,393)
Provision for loss on amounts receivable		**1,260**	–
Provision for decrease in property values		**1,216**	6,081
Depreciation		**3,060**	2,791
		1,014	47,487
Net change in non-cash operating assets and liabilities		**2,469**	19,717
CASH PROVIDED BY OPERATING ACTIVITIES		**3,483**	67,204
FINANCING ACTIVITIES			
Repayment of notes payable		**(38,886)**	(25,948)
Dividend paid		**(15,500)**	–
Government funding for park	12	**1,623**	1,899
Government funding used for park operating activities		**(1,774)**	(3,591)
CASH USED IN FINANCING ACTIVITIES		**(54,537)**	(27,640)
INVESTMENT ACTIVITIES			
Expenditures on park and building improvements		**(2,830)**	(3,716)
CASH USED IN INVESTMENT ACTIVITIES		**(2,830)**	(3,716)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(53,884)**	35,848
Cash and cash equivalents, beginning of year		**101,484**	65,636
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 47,600**	$ 101,484

Supplemental cash flow information (note 11)

See accompanying notes to consolidated financial statements

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) real 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 Canadian Forces Base located in the City of Toronto into an urban recreational greenspace to be held in perpetuity for the enjoyment of future generations.

The government has approved in principle the transfer to the corporation by way of freehold title or long-term lease of approximately 242.4 ha (600 acres) of land previously known as Canadian Forces Base Toronto, in Toronto, Ontario. It is the government's intention that approximately 121.2 ha (300 acres) of these lands will be used for park, cultural and recreational purposes, while the remainder will be made available for commercial activities to generate funds which will be used for the development and operation of the Park. It is management's estimate that over the next 20 years, the commercial activities will generate over $100 million, which will be used for park purposes. At 31 March 2002, PDP had not yet acquired an interest in the lands.

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 Parc Downsview Park Inc., nor has Parliament authorized the related spending of public funds. The Standing Committee on Public Accounts of the House of Commons held a hearing on these matters on April 9, 2002. Due to technical difficulties that prevented the recording of an official transcript of the session, a further hearing is scheduled in the near future. These hearings normally lead to the issuance of a report with recommendations by the committee.

During the year ended 31 March 2001, pursuant to the authority granted under an Order-in-Council, PDP acquired a property from a government department for consideration of the issuance of a $19 million non-interest bearing promissory note payable. The note is unsecured, subordinated to future indebtedness of PDP and repayable in 2050. The corporation, in its financial statements, recorded the property at its estimated fair market value of $19 million and recorded the consideration as Equity arising from note payable to the Government of Canada. The property was subsequently sold to a private sector company. The net proceeds of the sale are to be used for the development of the Park.

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 2001, the latest date for which audited financial statements are available, Old Port had assets of $15.5 million, liabilities of $15.5 million, and equity of Canada of ($0.01) million with revenue of $14.6 million and an excess of operating expenditures over revenue of $7.1 million for the year then ended.

c) Revenue Recognition

The corporation recognizes revenue as follows:

i) Sales

Sales revenues are recognized when the corporation has fulfilled all material conditions and received a payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

ii) Properties under development

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 interest capitalized totalled $0.6 million (2001 – $0.7 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 as new information becomes available.

f) Income Taxes

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

3. RENTAL PROPERTIES

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

In thousands of dollars	**2002**	2001
Land	**$ 10,214**	$ 20,666
Buildings	**82,799**	90,244
	93,013	110,910
Accumulated depreciation	**17,992**	16,998
	$ 75,021	$ 93,912

4. CASH AND CASH EQUIVALENTS

In thousands of dollars	**2002**	2001
Cash	**$ 347**	$ (439)
Cash equivalents	**45,000**	101,500
Restricted cash	**2,253**	423
	$ 47,600	$ 101,484

At 31 March 2002, cash equivalents are comprised of discounted notes and term deposits with an original term to maturity ranging from 3 to 89 days.

Cash and cash equivalents include restricted cash of $2.3 million representing holdback money owing primarily for 401 Burrard (2001 – $0.4 million).

5. AMOUNTS RECEIVABLE AND OTHER

Amounts receivable and other assets are comprised as follows:

In thousands of dollars	**2002**	2001
Mortgages and secured notes	**$ 58,979**	$ 45,227
Assignment of rents	**6,179**	6,343
Rents and other	**13,940**	11,207
	$ 79,098	$ 62,777

a) Mortgages and secured notes receivable bear interest at a weighted average rate of 5.88% (2001 – 7.5%), and are receivable as follows:

In thousands of dollars		
Years ending 31 March	2003	$ 13,558
	2004	10,827
	2005	3,593
	2006	3,302
	2007	3,567
Subsequent years		24,132
		$ 58,979

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 which are greater than 10% of the receivable balance include City Place (50.6%) and Malvern (14.7%).

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 and a Crown corporation. 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 5.3% (2001 – 5.7%).

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	2003	$ 24,599
	2004	11,557
	2005	7,197
	2006	10,617
	2007	1,434
Subsequent years		3,020
		58,424
Less amounts representing imputed interest		11,459
		$ 46,965

7. CAPITAL STOCK

The corporation is authorized to issue three shares which shall only be transferred to a person approved by the Deputy Prime Minister and Minister of Infrastructure and Crown Corporations (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	**2002**	2001
Revenues	**$ 8,882**	$ 27,424
Expenses	**10,810**	29,796
	(1,928)	(2,372)
Government funding	**1,774**	3,591
Income (loss) before income taxes	**$ (154)**	$ 1,219

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	2002	2001
Expected statutory rate of tax	**41%**	44%
Expected income tax expense	**$ 6,185**	$ 3,822
Increase (decrease) in tax expense resulting from:		
Non-taxable portion of capital gains	**(29)**	–
Income not taxable in certain provinces	**(1,503)**	(839)
Large corporation tax	**496**	681
Other	**(1,048)**	(290)
Actual income tax expense	**$ 4,101**	$ 3,374

The corporation has $894 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 2006 and 2007.

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

In thousands of dollars	2002	2001
Future tax liabilities		
Income producing properties	**$ (2,028)**	$ (2,248)
Notes payable	**(1,795)**	(3,026)
Capital assets	**(311)**	(367)
Deferred costs	**(61)**	(72)
	(4,195)	(5,713)
Future tax assets		
Property under development	**1,795**	3,026
Reserves	**343**	1,466
Benefits of non-capital loss carry-forwards	**198**	198
Deferred funding	**351**	385
Net future asset (liability) before valuation allowance	**(1,508)**	(638)
Less valuation allowance	**(177)**	(144)
Net future tax asset (liability)	**$ (1,685)**	$ (782)

10. OTHER LIABILITIES AND COMMITMENTS

a) The corporation has a commitment under certain agreements to fund payments currently estimated at $2.5 million annually. The main agreement expires in 2083, 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 and other development costs at 31 March 2002 total $15.3 million (2001 – $39.4 million).

c) Letters of credit issued at 31 March 2002 totalled $15.4 million (2001 – $16.9 million).

11. CONSOLIDATED STATEMENT OF CASH FLOW – SUPPLEMENTARY INFORMATION

Property acquisitions and additions which were satisfied by the issuance of notes payable in the amount of $11.3 million (2001 – $19.9 million) have been excluded from the financing and investing activities in the consolidated statement of cash flow.

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 $20.6 million (2001 – $17.0 million) have been excluded from the financing, investing and operating activities in the consolidated statement of cash flow.

During the year ended 31 March 2002, interest received totalled $3.1 million (2001 – $6.0 million), interest paid amounted to $1.4 million (2001 – $2.8 million) and income taxes paid totalled $5.7 million (2001 – $4.0 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 2002:

a) The corporation acquired an interest in real estate properties from government departments and Crown corporations for an aggregate purchase price of $14.9 million (2001 – $22.8 million). Consideration for these assets was cash payment, the issuance of notes payable (Note 6), or the exchange of land.

b) CLC paid interest totalling $1.4 million (2001 – $2.8 million) to a Crown corporation.

c) PDP received or expects to receive from a government department funding of $1.6 million (2001 – $1.9 million) and rental revenue of $1.5 million (2001 – $1.3 million).

d) CLC received management fees of $0.2 million from a Crown corporation (2001 – $0.1 million). PDP received management fees from a government department of $0.2 million (2001 – $0.1 million).

e) 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. COMPARATIVE AMOUNTS

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

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Kathy Milsom
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