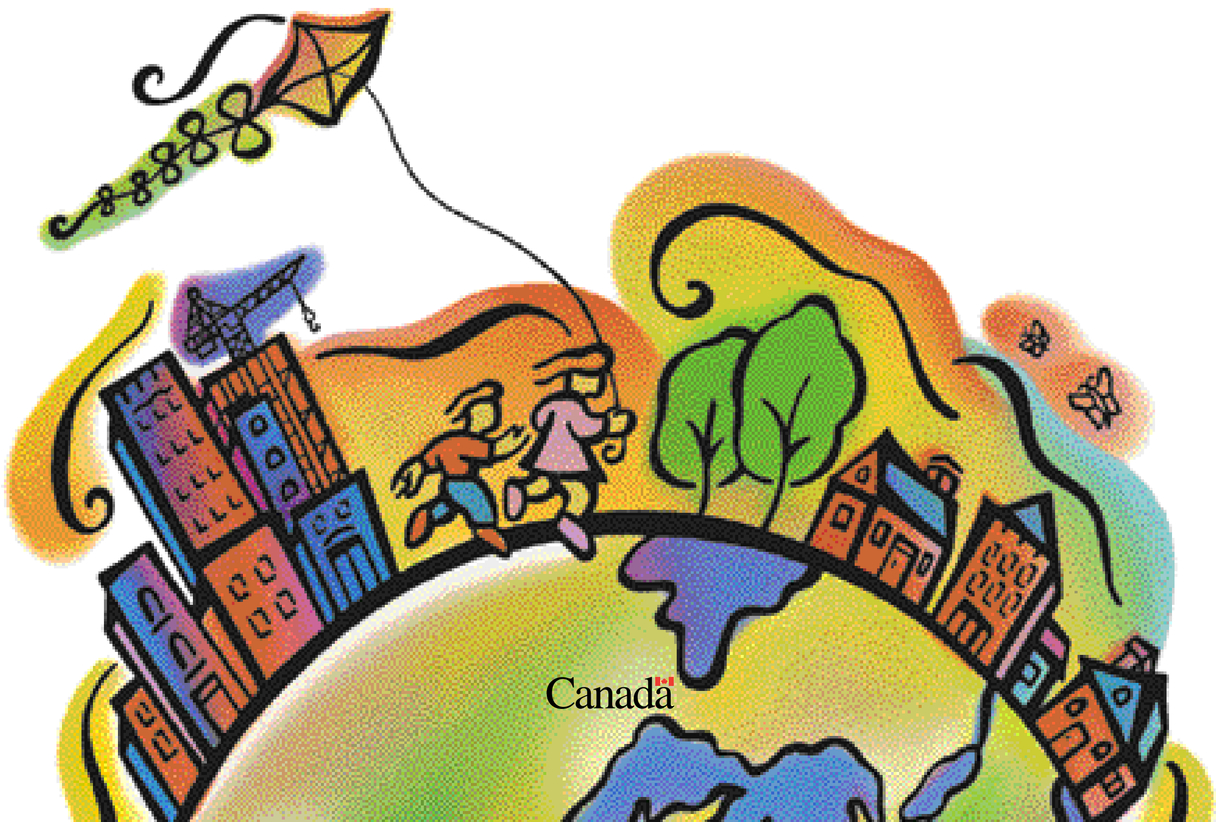
Canada Lands Company
Société immobilière du Canada

Enhancing Communities Creating Value

Canada Lands Company Limited

Annual Report 1998-1999



Canada

Vision: Stimulate economic growth, generate financial benefits and enhance the quality of life in communities where the Company conducts business.

Our Vision

Canada Lands strives to stimulate economic growth, generate financial benefits and enhance the quality of life in communities where the Company conducts business.

Our Values

Through community consultation and partnering with the private sector, Canada Lands applies its real estate expertise and creative property solutions to deliver lasting value for Canadians. The Company acts transparently, seeks to meet high standards of environmental stewardship, and respects heritage considerations and First Nations interests.

About the Cover

On the cover and throughout the Report, the Corporation focuses on twin directions of enhancing communities and creating value through economic development. The illustration on the cover juxtaposes elements and themes that convey the nation-wide nature of Canada Lands Company, serving all sectors of the community from urban development to parkland and housing for the betterment of communities across Canada.

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Letter to the Minister

30 June, 1999

The Honourable Alfonso Gagliano
Minister of Public Works and Government Services
18A1, Phase III
Place du Portage
11 Laurier Street
Hull, Québec
K1A 0S5

Minister:

It gives me pleasure to enclose the Annual Report of Canada Lands Company Limited for the year ended 31 March 1999. This document includes my message, a report from the President and a review of activities, together with the financial statements of the Corporation and the auditors' report.

Yours truly,

Jon K. Grant
Chairman of the Board

Our Chairman On: Canada Lands' Vision for the Future

As Canada Lands embarks upon its fifth year of operations, the Company is better equipped than ever before to deliver financial benefits, contribute to economic growth, appreciate the needs of all stakeholders and enhance the quality of life in communities where it conducts business.

With a clear corporate vision and set of operating values, this uniquely-mandated Crown corporation will tackle its dual commercial-social role with renewed focus and vigour as the positive effects of economic revitalization begin to make their impact across Canada.

It is precisely the Company's financial self-sufficiency and commercial focus that has allowed it to respond to community needs in a positive and sensitive manner without placing any financial burden on the Government of Canada or the Canadian taxpayer.

At our 455-acre former Canadian Forces Base ("CFB") Calgary site, for example, Canada Lands has been able to accommodate the interim needs of a variety of social agencies during the planning process because of their local importance. We have furthermore helped the City of Calgary to respond to an increased need for subsidized and emergency residential accommodation. Our total contribution in these areas, over a 24-month period, exceeds $1 million – and we have done this while staying within our annual operating budget for the former CFB Calgary site.

Canada Lands is a company whose corporate philosophies are its strength. Upholding corporate values such as transparency of operations, in-depth public consultation, and participation in environmental stewardship requires an experienced Board of Directors committed to the highest level of corporate governance, and a team of qualified managers and employees that truly believes in applying the Company's creative approach to day-to-day operations.

As Canada Lands' initial five-year mandate draws nearer to its conclusion, we take pride in the knowledge that the Company's track record of steadily increasing annual cash distributions and successful community development speaks for itself. We remain confident that in taking responsibility for new property transfers, Canada Lands' unique ability to create both financial and community value will continue to be of substantial benefit to the Government and people of Canada well into the future.

"Canada Lands is a company whose corporate philosophies are its strength"

Jon K. Grant
Chairman of the Board

Our President On: A Balanced Approach

This year, Canada Lands will make a cash distribution to the Government of Canada of $62.7 million – the highest to date in the Company's four-year history, bringing the total distribution to our Shareholder to approximately $147 million. While the Company continues to generate substantial value from Government of Canada properties acquired at fair market prices, it considers its ability to stimulate economic revitalization and enhance the quality of life in local communities an equal measure of ongoing success.

At Canada Lands, our core business of "value creation" means more than the generation of profit and the increase of cash flow. These important objectives are balanced by an approach to business that ensures recognition of all stakeholder interests which seeks to create sustainable, lively and prosperous neighbourhoods. Far from being simply "sellers" of real estate, our focus is really on determining the optimum use of each of our assets through effective public consultation, while respecting good planning principles and attracting private sector participation.

Since the Company's inception in 1995, initiated projects have a combined potential private-sector investment of approximately $4.7 billion, including the projected creation of 16,000 residential units, 68,000 person-years of construction employment, and over 46,000 full and part-time jobs. In addition, over $20 million will have been spent to bring environmentally challenged lands back into productive use. Local multiplier effects, such as tourism, retail sales, and income and property taxes, propel these benefits beyond cash distributions to the Shareholder.

In order to measure its ability to generate community benefits together with financial success, the Company employs a measurement system called the "Balanced Scorecard". Through this system, strategic objectives become linked to a set of financial and operational measures, which clarify and communicate the objectives and ensure that activities are aligned from field office through to the President and Board of Directors.

With its dedicated, professional team of highly-qualified employees, Canada Lands looks forward to developing creative strategic solutions for new properties that require productive re-integration. In carrying out this important mandate, the Company will continue to emphasize a balanced approach, seeking to contribute to financial value and an enhanced quality of life in communities across Canada.

"The Company will continue to emphasize a balanced approach, seeking to contribute to financial value and an enhanced quality of life in communities across Canada"

Erhard Buchholz
President and Chief Executive Officer

Company Profile

In 1995, Canada Lands Company Limited ("Canada Lands") was reactivated with a mandate to optimize the value gained from the management or development and orderly disposal of lands on behalf of the people of Canada, through its sole Shareholder, the Government of Canada. In fulfilling this role, the Company reports to Parliament through the Minister of Public Works and Government Services.

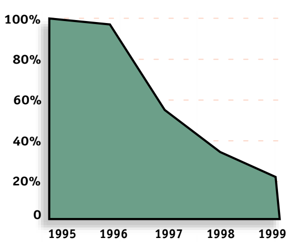
Canada Lands has three wholly-owned subsidiaries:

- **Canada Lands Company CLC Limited** is the core real estate operation of the parent company, and currently owns approximately 4,500 acres of property across Canada.
- **CLC Downsview Inc. ("CLCD")** is a subsidiary responsible for overseeing the management and development of an urban park at the 640-acre decommissioned CFB Toronto at Downsview.
- **Old Port of Montréal Corporation Inc.** is a subsidiary possessing a mandate to redevelop the Old Port of Montréal through infrastructure work, and provide recreational and cultural programming. It reports as a separate parent Crown corporation to the Minister of Public Works and Government Services.

Canada Lands and its subsidiaries respect and abide by the appropriate Government of Canada policies and practices concerning First Nations land claims issues, environmental management, official languages and heritage considerations (see Company "vision" and "values" on inside cover). These key governmental objectives are pursued by the Corporation in a balanced manner, in concert with its commercial objectives, as it strives to operate with proficiency and integrity across Canada.

Canada Lands' operating strategy is to act transparently and with integrity, engaging in broad-based consultations with stakeholders, promoting wide market exposure, and encouraging private sector investment in its projects. The Company maintains a relatively small staff and contracts out much of its project-related work to local professionals.

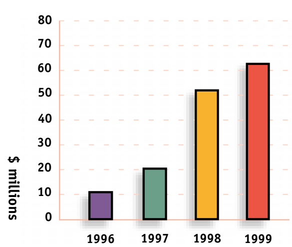
Marketing of Initial Property Portfolio*



Percentage unsold

*excludes CN Tower

Distribution to Shareholder by Year



Since its inception, the Company has undertaken the successful development of the Glenlyon Business Park in Burnaby, British Columbia; the planning, rezoning and reuse of the former CFB Calgary site in Alberta; the planning and marketing of the CityPlace lands in Toronto, Ontario; the redevelopment of Saint-Hubert Garrison in Saint-Hubert, Québec; and the environmental remediation and planning of the former Moncton Shops Property in Moncton, New Brunswick.

In addition to Canada Lands' core disposal program, there are several owned and managed properties that are not for sale. The most notable among these are the CN Tower and Downsview Park in Toronto. In the case of the CN Tower, Canada Lands has entered into a public-private partnership with TrizecHahn Corporation, which has led to an initial investment of over $30 million and a subsequent planned investment exceeding $100 million over the next five years. The Downsview Park lands are to be held in perpetuity by Canada Lands' subsidiary, CLC Downsview Inc., on behalf of the Government of Canada, to foster the self-funding operation of an urban recreational greenspace for future generations.

In disposing of surplus Government of Canada lands, the Company is mandated to operate in a self-financing manner with no reliance on government appropriations, while paying all taxes and adhering to the appropriate development approval processes.

As a non-agent Crown corporation, Canada Lands must act transparently and have regard for various other interests as appropriate in specific circumstances, such as those of provinces, territories, municipalities and individual communities. Its operations are conducted in a manner that will not unduly impair or disrupt local real estate markets, but instead contribute to regional and local economic growth.

Canada Lands holds several significant assets which are not for sale, most notably, Toronto's CN Tower.

The new Canada Lands subsidiary, CLC Downsview Inc., is mandated to hold the Downsview Park in perpetuity, as agent on behalf of the Government of Canada.

Downsview Park

The Year in Retrospect: Operating Highlights

Financial Highlights

In millions of dollars	**98/99**	97/98	96/97	95/96
Income before taxes	**22.0**	22.2	20.2	1.4
Expenditures on operating and investment properties	**63.1**	53.1	53.9	22.7
Mortgages repaid	**36.9**	0.1	23.1	12.7
Income taxes	**8.2**	8.9	9.8	0.9
Cash flow before reduction of capital stock	**64.7**	52.7	22.2	(0.2)
Distribution to Shareholder	**62.7**	52.0	20.4	10.9

Objective: Optimize Financial and Community Value for Shareholder

- **Distribution to Shareholder** – For the fiscal year 1998-1999, Canada Lands has announced a cash distribution of $62.7 million. This represents the largest cash distribution to the Shareholder to date, and brings cumulative distributions to approximately $147 million.
- **Balanced Performance** – In addition to the Company's financial achievements, Canada Lands has continued to initiate projects which stimulate significant economic growth and enhance the quality of life in the communities where the Company operates. Examples include the creation of new parks, schools, environmentally-remediated sites and other projects mentioned throughout this report.
- **Elimination of Mortgage Debt** – Through the sale of its 50% interests in the Toronto-Dominion Centre project in Winnipeg, Manitoba, and the 900 Howe Street Building in Vancouver, British Columbia, Canada Lands has now eliminated the remainder of its original mortgage debt of approximately $72 million.

Objective: Expedite Transfer of Real Properties from the Government of Canada

- **CMHC Property Transfers** – In April 1998, the residential land holdings of the Canada Mortgage and Housing Corporation ("CMHC"), valued at over $62 million, were transferred to the Company for management and disposal.
- **Property Transfer Process** – During the past fiscal year, the Company received title to 4 properties located in Calgary, Ottawa, Montréal and Moncton in addition to the 31 properties included in the CMHC land transfer. Canada Lands proactively worked to improve the property transfer process.
- **National Capital Office** – In January 1999, Canada Lands opened a corporate office in Ottawa, in order to facilitate a coordinated review of surplus government properties with various government departments and thus expedite the disposal program.

Objective: Facilitate Resolution of First Nations Land Claims Issues in British Columbia

- **First Nations Land Claims** – Canada Lands respects First Nations' interests, promotes open communications, and provides opportunities for First Nations' participation in Canada Lands' activities through a right of first offer process. While land claims continue to present a substantial challenge to operations in British Columbia, the Company continues to seek creative solutions such as the Memorandum of Understanding that was signed with the Nanaimo First Nation in April 1998, for planning and development of part of former CFB Nanaimo.

Objective: Create a Corporate Structure for the Development of Downsview Park

- **CLC Downsview Inc.** – In July 1998, CLC Downsview Inc. was incorporated as a wholly-owned subsidiary of Canada Lands to oversee development and management of Downsview Park – a large, financially self-sustaining urban park at the 640-acre decommissioned CFB Toronto at Downsview, Ontario.
- **Downsview Official Plan Amendment** – In July 1998, unanimous approval was obtained from the City of Toronto for an Official Plan Amendment allowing for the future development of Downsview Park.

Objective: Advance Significant Corporate Goals

- **Special Projects** – Canada Lands has made plans to carry out several major initiatives linked to the Millennium which will help build a commitment among Canadians to ensure that natural spaces are recognized and nurtured as an essential part of urban ecosystems into the 21st century and beyond. The Company is also an official sponsor of the 8th Francophone Summit taking place in Moncton, New Brunswick in September 1999.
- **Review of Mandate** – In preparation for the Shareholder's review of the Company's mandate, Canada Lands has supplied information which recognizes that the Company's activities create benefits that extend beyond cash distributions to the Shareholder and that a compelling need exists for operations to continue.
- **Year 2000 Compliance** – The Company has carried out a comprehensive review of all management, information and building systems, and is well underway towards achieving its goal of Year 2000 compliance by mid 1999. The Company's contingency plans will be reviewed by external consultants, and by the National Contingency Planning Group within the Department of National Defence.

Presentation of annual cash distribution to Hon. Alfonso Gagliano (left), Minister of Public Works and Government Services and Minister responsible for Canada Lands. Representing Canada Lands at this Moncton, New Brunswick ceremony in July 1998, were Jon Grant (middle), Chairman, and Erhard Buchholz (right), President and CEO.

Operating Highlights...continued

Objective: Advance Development of Major Projects

- **Glenlyon Business Park** – Development of the Glenlyon Business Park in Burnaby, B.C. is proceeding well, with 4 completed buildings and 2 additional buildings under construction. The completed buildings were leased to such tenants as B.C. Tel, Inex Pharmaceuticals, Future Shop and Ballard Power Systems. All completed buildings have now been sold on the open market and have provided a very satisfactory return on the Company's investment.
- **Garrison Woods** – The new and renewed residential community formerly known as CFB Calgary East is currently under construction and won the 1999 Award of Excellence for Environmental Design from the Alberta Association of the Canadian Institute of Planners. Presently, over 100 residential units have been sold to builders or the public for renovated reuse, over 500 existing Private Married Quarters have been leased, 56 new town homes are under construction, and 178 condominium apartments have been approved for development.
- **Saint-Hubert** – New uses at this former military base near Montréal, Québec include a cinema studio, a variety of high tech business operations, educational and municipal facilities and residential development. Full development of the site is projected to involve a total investment of $100 million and the creation of an estimated 3,500 permanent jobs.
- **Moncton Shops Property** – In October, the Company was awarded the 1998 Excellence Award (Environment Category) from the Greater Moncton Economic Commission and Chamber of Commerce, for remediation of this property. The remediation is now nearing completion, at an investment to date of approximately $12 million. The City of Moncton approved zoning for a 60-acre site on the property called "Emmerson Business and Technology Park".

The Canada Mortgage and Housing Corporation (CMHC)/Canada Lands Company (CLC) Land Transfer Agreement signed at Ottawa, April 1998. *L. to r., standing*: E. Buchholz, President and CEO (CLC); Marc Rochon, President, CMHC. *Seated*: J. Grant, Chairman (CLC); Alfonso Gagliano, Minister of Public Works and Government Services and Minister responsible for CLC; Peter Smith, Chair, CMHC.

Corporate Governance

Sound corporate governance remains an area of strength and continued focus for Canada Lands. The Company is a partner in the Centre for Renewing Governance Project exploring governance issues in both the public and private sectors. Canada Lands Directors have participated in a variety of educational seminars dealing with the roles and responsibilities of Directors of Crown corporations, and the Chairman has been asked to speak on the subject at several conferences over the past year. The Company is also a participating member of the Public Policy Forum.

The Board of Directors of Canada Lands has responsibility for strategic direction of the Company. Directors are appointed by Governor-in-Council with input from Canada Lands. The seven Directors who currently make up the Board represent regional, linguistic and gender balance and have expertise in the areas of governance, real estate, law, finance, industrial relations, communications, First Nations and community affairs. In November 1998, the Chairman of Canada Lands was re-appointed for a second three-year term as were two other Directors in April 1999, thus providing excellent continuity of direction for the Corporation.

Annual fees paid to Directors

The meetings are held in the different parts of the country where the Company has property holdings.

Chairman	$6,500
Directors	$4,500
Subsidiary Chair	$4,500
Subsidiary Directors	$4,500

Directors are also paid a per diem of $375 per meeting, and $250 for conference calls. The Board met 8 times during the fiscal year 1998-1999, and the overall attendance average for these meetings was 95%.

The Board has established Audit and Human Resources Committees for the parent and its subsidiaries. The Audit Committee's role is to satisfy itself that the Company has implemented adequate and appropriate procedures concerning such matters as risk identification, internal controls, regulatory compliance, good accounting practices and fair presentation of financial information. The Audit Committee also maintains direct relationships with both the external and internal auditors.

The Human Resources Committee deals with policies and programs related to personnel of the Company including compensation, succession planning and hiring practices. The Committee sets and approves annual objectives for the President and CEO and evaluates performance against these objectives.

The Board has also approved policies or guidelines relating to conflict of interest, environment, heritage, land sales, official languages, outside board membership, contracting, charitable sponsorships and donations, and corporate relations with First Nations.

An important objective for the coming fiscal year will be to maintain an appropriate governance structure for the newly established CLC Downsview Inc. subsidiary. The objective is to maintain effective parent-subsidiary Board representation and relationships that ensure sound governance.

The Balanced Scorecard

Canada Lands' vision is "to strive to stimulate economic growth, generate financial benefits, and enhance the quality of life in communities where the Company conducts business". The Company has adopted an enhanced measurement system called the "balanced scorecard", which has in reality evolved into a management system motivating breakthrough performance by achieving a balance of both financial and community objectives.

The purpose of the balanced scorecard is to translate the Company's vision into measurable strategic objectives in order to gain an overall perspective of operations and closely monitor progress. The scorecard is published quarterly and is conveyed to all employees on the Company's intranet site. The following indicators are regularly considered:

Financial

- Net Income / Cash Flow
- Distributions to Shareholder
- Reduction of Company Debt
- Value Creation
- Income Taxes

Internal

- Property Transfers
- Transparent Processes
- Master Planning
- Property Marketing

Community Benefits

- Job Creation
- Private Sector Investment / Partnering
- Environment / Heritage / Parks
- First Nations
- Consultation

Learning and Growth

- Code of Conduct / Ethics
- Real Estate Expertise
- National and Local Presence
- Management Information Systems
- Employee Retention / Training / Competence

Giving Back to the Community...

In enhancing the quality of life in local communities, Canada Lands makes selected in-kind charitable contributions to needy organizations or interests that it has the capacity to assist. It also maintains a modest charitable sponsorships and donations budget, which provides funds to assist various charitable groups. The Company's millennium projects will furthermore lead to the greening of several urban areas across Canada.

Canada Lands Company
Société immobilière du Canada

The purpose of the balanced scorecard is to translate the Company's vision into measurable strategic objectives.

The Company's enhanced measurement system (balanced scorecard) motivates performance by achieving a balance of both financial and community objectives.

A selection of Canada Lands Company Awards

- Glenlyon Business Park – Inaugural Environmental Award for Planning and Development, June 1996
- Downsview Lands Redevelopment Project – Professional Merit Award , August 1998
- CN Tower – Federal Energy Innovator Award, June 1996
- Moncton Lands – 1998 Excellence Award (Environment Category), October 1998

Former CFB Calgary, Calgary, Alberta

Canada Lands is responsible for the management, planning and redevelopment of 455 acres of the former CFB Calgary lands on the edge of Calgary's inner city.

A variety of interim tenants, including many from the movie industry, have occupied space while planning continues for the former CFB West lands. The Proposed Master Plan for this portion of the site will be presented to Calgary City Council for approval in the Fall of 1999.

Garrison Woods – Plans for a 174-acre, 2,000-unit residential development called Garrison Woods (formerly CFB Calgary East) were approved by Calgary City Council in April 1998, and construction is presently well underway. The plan recognizes the considerable value of existing housing stock, infrastructure and mature trees and recognizes the site's military legacy through community squares, street names, parks and retention of a Museum of the Regiments. Canada Lands received the 1999 Award of Excellence for environmental design from the Alberta Association of the Canadian Institute of Planners for this plan.

CFB REDEVELOPMENT-MODEL FOR COUNTRY
Calgary Herald October 3, 1998

Extensive Public Participation

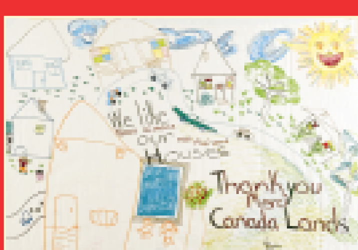
- The joint plan preparation team is comprised of the City of Calgary, the Province of Alberta and Canada Lands.
- Public involvement occurs through the Citizens' Advisory Roundtable ("CAR"), which liaised with the public and provided input for the site's emerging Master Plan.

Economic Benefits

- Much of Calgary's $51 million-dollar film industry has been attracted to the site's hangars and office space, creating professional, high-paying employment.
- Potential Canada Lands investment of $100 million plus private sector investment of $400 million by project completion.
- Annual property taxes to the City of Calgary are estimated to increase from $3 million to $8 million by project completion.

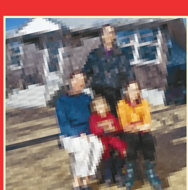
Community Benefits

- Potential creation of 4,000 full and part time jobs, and 14,000 person-years of construction employment.
- Canada Lands assistance in the form of temporary housing to social agencies has helped the City respond to the need for subsidized and emergency accommodation.
- Over 500 homes have been leased, alleviating the present shortfall of affordable housing in Calgary.
- A variety of businesses and educational institutions have made use of existing buildings on the site.



This children's artwork was sent to Canada Lands by a family living at the Garrison Woods residential development in Calgary, Alberta.

A variety of tenants, including many from the movie industry, have occupied space while planning continues for the former CFB West lands.



"CLC was instrumental in responding to a need for more housing in our city."

The Simard Family
– Lincoln Park residents

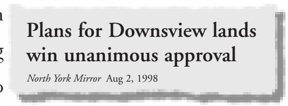
"In providing space for six film productions, CLC has contributed to substantially enhance economic activity."

Grace Gilroy – *Co-Producer, Snow Day Productions Inc.*

Downsview Park, Toronto, Ontario

Located in the heart of the Greater Toronto Area, the 640-acre former Canadian Forces Base Toronto at Downsview is on its way to becoming a world-class mixed-use park. This long-term redevelopment project began in 1995, when the Government of Canada dedicated the park lands in perpetuity to the people of Canada, through the creation of an "urban recreational greenspace for the enjoyment of future generations". Downsview Park will be this new greenspace.

CLC Downsview Inc. was incorporated as a Canada Lands subsidiary in July 1998 with its own Board of Directors, and is responsible for ongoing development and management of the Park. The Company is mandated to ensure that the park is self-financing, enhances the natural environment, creates cultural and recreational opportunities, and revitalizes the economy of the surrounding area.


Plans for Downsview lands win unanimous approval
North York Mirror Aug 2, 1998

An extensive public consultation program contributed to the current land-use plan which was approved by Toronto City Council in July 1998. Within an all-encompassing park setting, consisting of a major greenspace and a recreational/cultural campus, it provides for two residential enclaves, a research and technology business centre, sports and entertainment uses, and some residual military uses. A variety of interim tenants, including numerous film production companies, lease space while the park planning and development process continues.

Extensive Public Participation

- A series of over 100 public meetings and open houses have been held to inform and gather input for uses of the park, environmental planning and heritage commemoration.

Economic Benefits

- Potential private sector investment of approximately $800 million for total development of the site, with potential annual property taxes of approximately $10 million.
- Downsview Park helps support Toronto's $1.5 billion annual film industry through providing the shooting location for 3 to 5 per cent of Toronto's total days of shooting.

Community Benefits

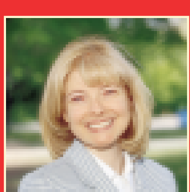
- Approximately 12,700 person-years of construction employment and 10,000 permanent jobs are projected to be created through total development of the Downsview Park lands.
- Up to 1,200 residential units will be built.
- As the planning continues, the Park has been opened up to the general public for a variety of activities.

CLCD Board of Directors

From left to right:

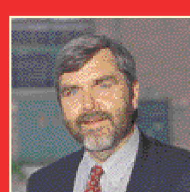
Gino Matrundola, Rocco Maragna,
Toni Varone, Betty Steinhauer,
Martin Goldfarb, Pamela Hardie,
David Bell, Gordon Farquharson (Chair),
Reginald Lewis, Rina Camarra,
Brian Richardson, Roman Winnicki.

The 640-acre former Canadian Forces Base Toronto at Downsview, is on its way to becoming a world-class mixed-use park.



"We are grateful to CLC Downsview for providing our school a unique venue to learn in."

Nancy Waddington – *Teacher, Northview Heights Secondary School*



"We have been able to develop a facility that has become recognized as an important centre for public auctions."

Ron Coyne – *Vice President, Canadian Auction Group*

TechnoBase Saint-Hubert, Saint-Hubert, Québec

In 1997, Canada Lands Company was given the task of redeveloping the decommissioned Canadian Forces Base Saint-Hubert near Montréal, Québec. The property, which has been re-named "TechnoBase Saint-Hubert", consists of approximately 200 acres of land and 40 buildings, and has attracted a variety of industrial, commercial and residential developments.

One major development of note is CinéCité Montréal, which provides a variety of services to the movie industry and has recently announced an investment plan of $25 million in 1999.

Approximately 30 acres have been redeveloped and sold or leased by Canada Lands to companies predominantly involved in manufacturing. This represents approximately 65% of the area available for industrial development on the site. Another 50 acres has been redeveloped and sold or leased for institutional or high tech uses. This represents approximately 50% of the area reserved for commercial development.

> **Technobase Rive-Sud attire plusieurs entreprises**
>
> *Les Affaires* September 5, 1998

Two residential parcels are also being developed on the site. The first parcel will comprise approximately 3 acres devoted to condominiums, to be completed in September 1999. The second parcel, comprising approximately 46 acres, is targeted for single family units and will be developed as demand allows.

Extensive Public Participation

- Canada Lands worked through TechnoBase Saint-Hubert to consult with the 4 municipalities of the South Shore region of Montréal to ensure that community objectives were represented in the site's Master Plan.

Economic Benefits

- Potential total capital investment from Canada Lands and private sector partners of $100 million by project completion.
- A direct investment of $35 million was made between 1997 and 1999 – $10 million from Canada Lands and $25 million from private sector redevelopment partners.
- Annual property taxes for the City of Saint-Hubert are anticipated to increase to $3 million by 2002.

Community Benefits

- Approximately 3,500 permanent jobs, mainly in high-paying professional industries, are expected to be created by project completion.
- The numerous residential units to be built on the site will accommodate increased economic activity in the local economy and contribute to beautification of the neighbourhood.

One development located at Saint-Hubert is CinéCité Montréal, which provides a variety of high tech and film-related services to the movie industry.

"Technobase Saint-Hubert" consists of approximately 200 acres of land and 40 buildings, and has attracted industrial, commercial and residential developments.

Pierre Trudeau – *Police Chief*

"Now we can clearly see that the new direction of the site is contributing to our economy."

Martin Fontaine – *President, CinéCité Montréal*

"Canada Lands showed a tremendous amount of creativity in helping us realize our vision."

Former Moncton Shops Property, Moncton, New Brunswick

The former Moncton Shops Property consists of approximately 285 acres of land located in the centre of the Greater Moncton Area, and was used as a major railway repair facility for 85 years. In 1996, after the lands had stood vacant for 8 years, Canada Lands undertook an award-winning $12 million "brownfield" environmental remediation program to bring the lands back into productive use.

After the implementation of a public consultation process to obtain community input and consent for the site's environmental remediation process, part of the site was designated as "Emmerson Business and Technology Park". Named after a prominent community leader of the early 1900's, this premier business campus will accommodate a wide range of high tech uses.

CANADA LANDS INVITES SCRUTINY
Times Transcript March 26, 1998

Another part of the site, located next to Moncton's Centennial Park, is to become a 64-acre residential development accommodating up to 450 residential units. Recreational open space uses are being contemplated for the remainder of the property.

Extensive Public Participation

- A Community Round Table on Brownfield Development was created to obtain citizen input and consent for the site's remediation process.
- A series of open houses, site tours and town hall style meetings open to the general public were held, which included presentations from scientists on the site's environmental condition and question and answer periods.

Economic Benefits

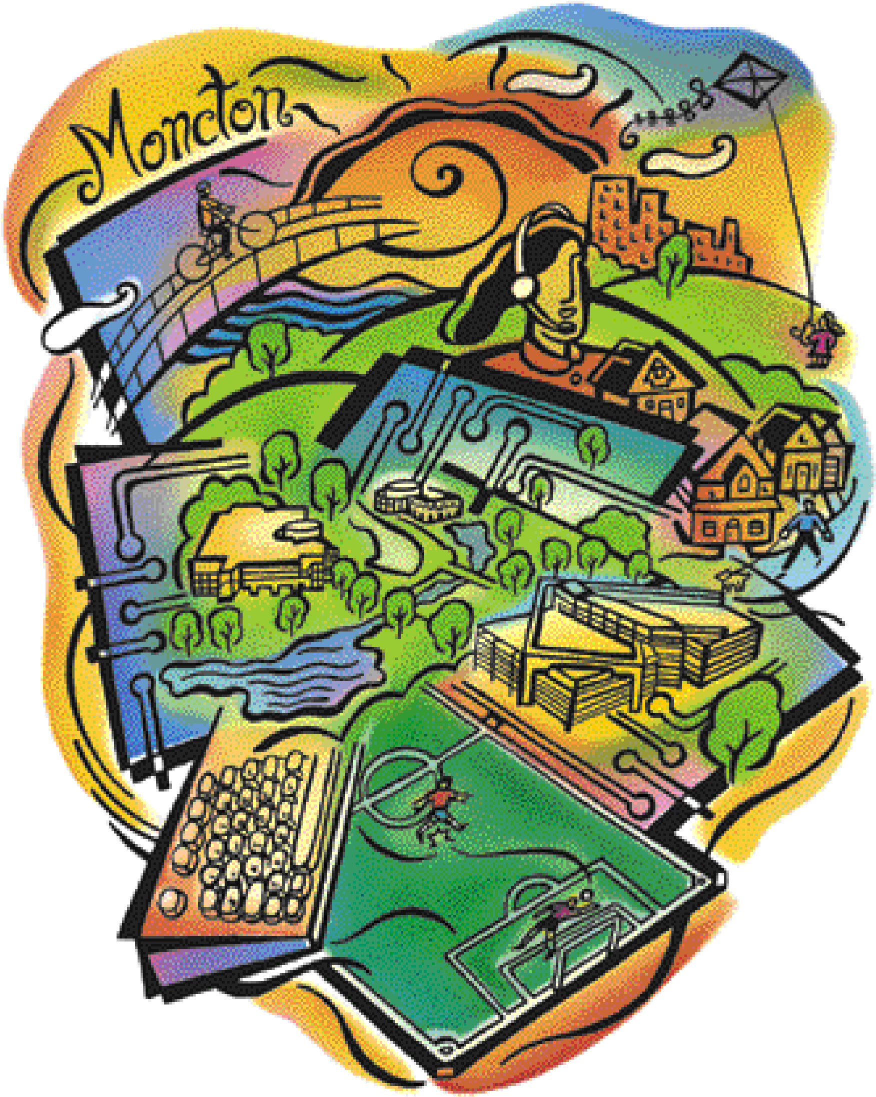
- Projected private sector investment totals close to $200 million for development of the site, along with a total potential property tax base increase of from $0.2 million to $9 million.

Community Benefits

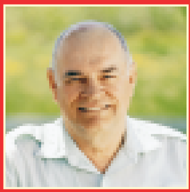
- Potential creation of approximately 2,000 person-years of construction employment and 5,000 jobs through remediation work and construction of Emmerson Business and Technology Park and neighbouring residential development.
- Up to 800,000 square feet of building area and up to 450 residential units may be built, attracting a variety of high tech industry tenants to the Greater Moncton Area.

GREATER MONCTON
EXCELLENCE AWARDS
PRIX D'EXCELLENCE
DU GRAND MONCTON

Canada Lands embarked upon a major environmental remediation program in 1996 to help restore the vacant Moncton Shops Property. The Company received the 1998 Excellence Award (Environment Category) from the Greater Moncton Economic Commission and Chamber of Commerce.



After a public consultation process for the site's environmental remediation process, part of the site was designated as "Emmerson Business and Technology Park".



Gerry Chaulk – *Member of Community Round Table*

"I was very impressed with the openness and transparent approach during the remediation of the site."

Todd G. Bursey – *President, Sugar Shack Construction Ltd.*

"Economically, the entire community has benefited from this project."

Management's Discussion and Analysis OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The Corporation's real estate business activities are carried out through Canada Lands Company CLC Limited ("CLC"), its principal wholly owned subsidiary, and reference herein to "Canada Lands" and the "Corporation" includes CLC.

In July 1998, CLC Downsview Inc. ("CLCD") was incorporated as a wholly owned subsidiary of the Corporation, with the mandate of creating a self-financing, urban park on the former Canadian Forces Base Toronto, Downsview, Ontario. CLCD was inactive during the period ended 31 March 1999 and all expenditures relating to the former base were borne by the Department of National Defence ("DND"). It is anticipated that CLCD will become operational and park development activities will commence in the 1999/2000 fiscal year.

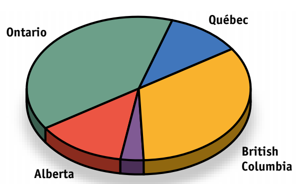
Results of Operations

For the year ended 31 March 1999 ("YE 99"), Canada Lands earned revenues of $189.2 million, income of $22 million before tax and generated cash of $64.7 million before distributions to its Shareholder, the Government of Canada, and affiliates (the "Shareholder"). Of the $64.7 million cash generated, approximately $2 million is expected to be utilized for park development and operating purposes at the Downsview base. The $62.7 million balance of the cash will be available for distribution to the Shareholder by way of reduction of capital stock or redemption of notes payable to the Federal Government or affiliated Crown corporations.

Compared with the results of operations for the year ended 31 March 1998 ("YE 98"), revenues increased slightly by $1.8 million, income before tax fell marginally by $0.2 million and cash generated before distribution to the Shareholder increased by $12 million.

Property sales for YE 99 totalled $144.9 million, compared with $133.9 million in YE 98. During the year, 40 properties were sold for a gain of $18.1 million compared with 48 property sales in YE 98 for a gain of $19.4 million. Since 31 March 1999, contracts of sale for an additional 10 properties with sales proceeds of $33 million have been finalized with closings scheduled in 1999.

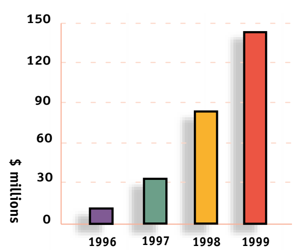
Property distribution by region by book value*



$257.6 Million

*At 31 March 1999

Cumulative distribution to Shareholder



In YE 99, the Corporation continued to experience good demand for its real estate holdings, particularly residential lands, reflecting a stable economic environment and affordable mortgage interest rates. By the end of March 1999, Canada Lands had disposed of nearly 80% of the original property portfolio acquired in 1995 from Canadian National Railway Company ("CN") and anticipates that most of this remaining property portfolio will be sold within the next two years.

Gross rental revenues fell by $11.0 million over last year, with an accompanying reduction in rental operating costs of $8.8 million, reflecting the Corporation's continuing sale of income properties. Net rental revenues after direct expenses, but before depreciation, amounted to $9.9 million, a reduction from the $12.1 million earned last year.

Canada Lands is subject to Federal and certain Provincial taxes at corporate rates. Income taxes of $8.2 million for YE 99 represents an effective rate of 37.5% of income before tax. This is lower than the expected combined rate 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.

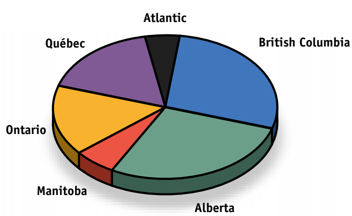
Properties

The property holdings of the Corporation fall into three main categories, namely income producing properties, properties under development and land held for development or sale.

The Corporation's income producing properties comprise the CN Tower in Toronto, and office, industrial and mixed-use buildings in various locations across Canada. At the end of March 1999, Canada Lands owned and managed 10 income producing properties with a carrying value of $109.8 million which compares with 12 properties with a $137.7 million carrying value at March 1998. This reduction reflects the sale of properties during the year, including all major joint venture properties owned by the Corporation.

Properties under development comprise six property holdings totalling some 600 acres, with a carrying value which increased by $6.3 million over last year. This increase arose mainly from servicing, construction and other development expenditures at the residential site in Vaughan, Ontario and at the decommissioned Canadian Forces Bases in Calgary, Alberta and Saint-Hubert, Québec, net of a reduction from property sales. Construction also commenced on a new building for Ballard Generation Systems at the Glenlyon Business Park in Burnaby, British Columbia.

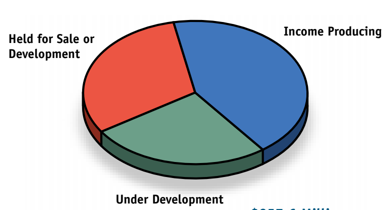
Property tax payments by region*



$7.3 Million

For year ended 31 March 1999

Properties by category by book value*



$257.6 Million

At 31 March 1999

Management's Discussion and Analysis...continued

Land held for development or sale consists of approximately 70 property holdings located across Canada, totalling some 3,800 acres. At the end of March 1999, the carrying value of this category of land totalled $80.5 million, a substantial increase from the $64 million held a year earlier. During YE 99, the Corporation incurred expenditures of $18.2 million on site servicing, environmental remediation, and other costs of preparing these lands for sale. The increase in carrying value reflects the purchase of some 23 mainly residential land holdings from CMHC referred to below, net of a reduction from property sales which took place during YE 99.

During the year, the Corporation completed the acquisition of part of the residential real estate portfolio of Canada Mortgage and Housing Corporation ("CMHC") for a price of $61.1 million. This portfolio included four income producing residential apartment buildings and approximately 3,200 acres of undeveloped land. By the end of March 1999, $25.7 million of these assets had been sold.

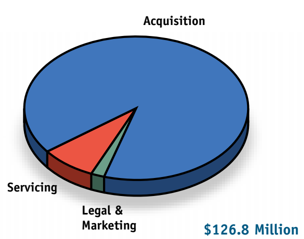
Changes in Financial Position

Cash provided by operating activities during YE 99 amounted to $82.3 million compared with $52.8 million in YE 98. The increase of $29.5 million occurred mainly as a result of the increased level of sales, and federal and provincial tax refunds.

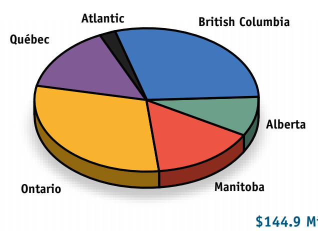
Expenditures on properties totalled $63.1 million and included $7.7 million to complete the MacMillan Bloedell building in Glenlyon Business Park and make minor improvements to other income producing properties. The balance of $55.4 million was spent on site servicing, environmental remediation and other costs associated with properties under development and the preparation of properties for sale.

Cash applied to financing activities totalled $1.1 million, compared with $1.8 million in YE 98. During the year, the Corporation's sales activities resulted in the discharge of the remaining $36.9 million of mortgages payable assumed on the purchase in 1995 of the original CN property portfolio. The Corporation also completed the sale for $19.4 million of part of a rental stream receivable under an assignment agreement. The sales proceeds are being treated for accounting purposes as a lease assignment obligation and will be amortized to income over the 5 year term of the rental stream. In YE 99, the Corporation distributed $52 million to the Shareholder by way of a $46.6 million reduction in capital stock and a $5.4 million

Cost of Property Sales 1998/1999



Sales Transactions by Value*



*For year ended 31 March 1999

redemption of notes payable. New notes issued totalled $68.5 million and included $61.1 million issued to CMHC as consideration for the purchase of their residential property portfolio and $7.4 million to the Federal Government.

Canada Lands anticipates making a total distribution to the Shareholder and affiliated Crown corporation of $62.7 million in respect of YE 99. The distribution will comprise a reduction of capital stock and redemption of notes payable to both the Government and CMHC for properties sold during YE 99. This will result in total distributions, being net cash generated from real estate activities, amounting to over $146 million since inception of the Corporation in late 1995.

As its investment activity, the Corporation acquired properties worth $68.5 million from the Crown and CMHC during YE 99, a substantial increase from the previous year's acquisitions of $18.7 million.

In summary, the Corporation's cash balances increased by $12.7 million during YE 99 after the $52 million distribution to the Shareholder. This resulted in cash generation of $64.7 million for YE 99 compared with $52.7 million for the previous year.

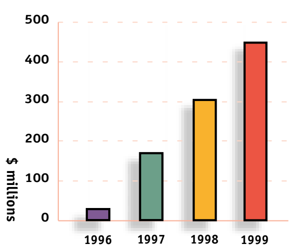
Financial Condition and Liquidity

At the end of March 1999, the Corporation had cash and short-term deposits of $64.7 million and an established line of credit of $40 million with a Canadian chartered bank.

During YE 99, the Corporation eliminated the mortgage debt of $36.9 million which was outstanding at 31 March 1998, and no longer has any secured borrowings. The $57.7 million notes payable to the Government of Canada and the $61.1 million notes payable to CMHC, an affiliated Crown corporation, are unsecured obligations, and are repayable only from the net proceeds of sale of the underlying properties in respect of which the notes were issued. During the year ending 31 March 2000, repayments of the notes payable for properties sold in YE 99 will total $36.0 million.

In the coming year, Canada Lands anticipates spending approximately $70 million on properties in order to complete construction projects, carry out site servicing, environmental remediation and generally prepare the land inventory for sale. Major expenditures will be incurred on the decommissioned military bases and the Glenlyon Business Park site. Development of the Downsview Park will commence, but it is anticipated

Cumulative Sales



Management's Discussion and Analysis…continued

that substantial funds will not be spent by CLCD until the following year, depending on the timing of land transfers and financing transactions.

Based on the current level of cash balances and short-term deposits and the existing bank line of credit, the Corporation expects to be able to fund all anticipated property expenditures and operating cash requirements for the year ahead. In addition, currently contracted sales and ongoing sales anticipated to be made during normal business operations, should generate sufficient cash proceeds to enable further significant distributions to be made to the Shareholder.

Risks and Uncertainties

The mandate of Canada Lands is the management and orderly disposal of strategic real properties on behalf of the Government of Canada to ensure that optimal value is realized from these assets. Optimal value recognizes financial value realized, economic stimulation, and contribution to quality of life in local communities. Due to negligible inflation and relatively stable and low interest rates being experienced, the real estate markets in which Canada Lands participates continue to enjoy a period of modest but steady demand.

At 31 March 1999, the Corporation had a land bank of 4,500 acres and is currently in discussions with Government departments and agencies concerning the review and possible transfer of a further 5,000 acres over time. At present however, no definite agreement exists for the transfer of these properties. The properties under review are located across Canada and are suitable for a variety of residential, industrial, commercial and recreational uses. It is this geographical and potential "end use" diversity which lessens the Corporation's exposure to fluctuations in local real estate markets and economies. In addition, and as far as can be determined at this time, any future transfers of properties from the Government are expected to be similarly diverse as to geographical location and potential or proposed uses. As an example of this diversity, current uses or users of the Currie Barracks/Lincoln Park decommissioned military base in Calgary include schools, residential housing, film studios, and commercial office tenants.

In January 1999, Canada Lands opened an office in Ottawa to facilitate the identification and transfer of surplus strategic Federal properties and to manage development and sales activities in the National Capital Region. Many of the potential transfer properties are substantial in size, approximately 300 acres to 1,200 acres per property. Community consultation, preparation of re-use business plans, development, servicing and sales activities will necessarily extend over a number of years, exposing the Corporation to fluctuations in local real estate market conditions. Under existing financial arrangements however, the purchase consideration for the properties to be transferred will be interest free promissory notes and repayment of the notes will be made from the net proceeds of sale of the specific properties.

During the year under review, Canada Lands continued to invest substantial funds and human resources in environmental review and remediation of certain properties. As part of the ongoing program, $6 million was spent in YE 99 on environmental remediation costs at the former CN Railway Shops in Moncton, New Brunswick, with further funds still to be spent to complete the project. This is the largest brownfield program currently being undertaken in Canada, being some 285 acres in area and has required substantial excavation, soil treatment and removal. After review of all existing property holdings, it is considered that adequate provision has been made in assessing land carrying values for anticipated environmental costs.

Apart from the rental income arising from leasing the CN Tower, rental revenues from income producing properties are not a major source of revenue for Canada Lands, and will continue to decline as properties are sold.

In British Columbia, the Corporation's land holdings and potential transfers of new properties are affected by First Nations land claims issues. Progress continues to be made in establishing guidelines and procedures for advancing commercial transactions which do not prejudice the Treaty Process with First Nations. The Corporation continues to meet and discuss local issues with the First Nations bands interested in land holdings managed by the Corporation. It is encouraging to note the progress being made by both the Federal Government and the British Columbia Provincial Government in reaching settlements and agreeing outstanding claims with certain First Nations bands.

Year 2000

The Corporation has actively continued its ongoing program to deal with the Year 2000 issues arising in its accounting, financial and building management systems and operational hardware. Testing has taken place of all accounting and financial systems which are now Year 2000 compliant and is nearing completion on the building management systems.

Overall control of the compliance process rests with the Corporation's Year 2000 project team, which has managed and implemented the necessary changes required. A comprehensive inventory of systems has been compiled, evaluated and assessed, with upgrading and remediation action taken as appropriate. Suppliers, vendors, tenants, building managers and other relevant parties have been contacted to confirm compliance and operational locations visited to ensure that any required changes to building equipment are carried out.

Canada Lands Year 2000 compliance program has been reviewed by external consultants and any resultant recommendations are being followed. It is anticipated that the Corporation will have its business critical systems compliant in summer 1999 in order to minimize risk in this area. Contingency plans are being developed and will be adopted as necessary in risk sensitive areas.

Future Prospects

Although there is no guarantee for the future, recent experience has been that bank and mortgage interest rates have remained relatively stable over the past year and inflation has not been a major factor in the economy. The residential rental, resale and new housing markets have varied across Canada, with sustained strong demand in Ontario and Alberta, but weaker demand in British Columbia, Québec and the Atlantic provinces. Vacancy rates for commercial, industrial and office space have continued a gradual downwards

Management's Discussion and Analysis…continued

trend, with British Columbia unfortunately still suffering from the reduced demand for its natural resource products as many East Asia countries struggle to rejuvenate their weak economies. One notable exception is suburban Vancouver, where the Corporation continues to experience strong tenant interest in its hi-tech Glenlyon Business Park in Burnaby. This interest creates a demand for one to two buildings a year on a 'build to suit' basis, as Canada Lands continues its successful development plan for this project.

Canada Lands recent sales activities have demonstrated that there is a good demand for its land holdings, and the Corporation continues to benefit from the nature of its property portfolio, which is diverse as to location, value, size, and current or potential uses.

Canada Lands continues to explore with various Governmental departments and agencies the basis on which surplus properties can be identified and transferred to the Corporation for ultimate disposal. The Corporation is currently participating in a review process dealing with the Reform of the Disposal System for Federal Real Property, together with the Treasury Board Secretariat and the Department of Public Works and Government Services. Issues being examined include responsibility for major land disposals, the timely disposition of surplus program lands, establishing transfer values, possible custodial incentives and the funding of relocation costs. These issues are complex and require detailed consideration, but it is hoped that recommendations for improving the existing process can be made prior to the end of this year.

This detailed exercise, together with the impending Canada Lands mandate review, is expected to result in an improved and more timely and efficient property transfer process. Additional properties are required to replace the original CN property portfolio which has now been substantially sold. The constant flow of new properties will enable the Corporation to fulfill its original mandate of integrating properties back into the community in a fiscal and socially responsible manner. It must be noted, however, that new property transfers from the Crown generally create an initial cash drain on the Corporation's resources. In particular, decommissioned military bases transferred from DND typically require major expenditures for site servicing, remediation and infrastructure in order to make the properties suitable for community use. These expenditures are usually incurred well in advance of the first sales proceeds being received.

In the meantime however, provided that the economy continues to remain stable, but with growing demand, cash flow will continue to be generated from the sale of some of the remaining land holdings in the CN property portfolio, from property rentals and from the sale of properties transferred to date from CMHC and the Government.

Looking forward, Canada Lands anticipates another profitable year of operations with positive cash flow which should enable further significant distributions to be made to the Shareholder.

Management 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.

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 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 has 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.

E. Buchholz
President and Chief Executive Officer
14 May 1999

B.E. Richardson
Vice President, Chief Financial Officer
14 May 1999

Auditors' Report

To the Minister of Public Works and Government Services

We have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 1999 and the consolidated statements of income and retained earnings and changes in financial position 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 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 financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with 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.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada
Ottawa, Canada
14 May 1999

Chartered Accountants
Toronto, Canada
14 May 1999

Consolidated Statement of Income and Retained Earnings

For the year ended 31 March

In thousands	Note	**1999**	1998
Revenues			
Property sales		**$ 144,866**	$ 133,956
Rental		**22,449**	33,461
Interest and other	9	**21,866**	20,008
		189,181	187,425
Expenses			
Cost of property sales		**126,789**	114,510
Provision for diminution in value of assets		**6,050**	1,500
Rental operating costs		**12,536**	21,345
Interest and other financing costs		**3,334**	3,885
General and administrative		**13,635**	13,364
Other		**4,883**	10,626
		167,227	165,230
Income before taxes		**21,954**	22,195
Income taxes	8	**8,225**	8,911
Net income		**13,729**	13,284
Retained earnings, beginning of year		**24,190**	10,906
Retained Earnings, end of year		**$ 37,919**	$ 24,190

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheet

As at 31 March

In thousands	Note	**1999**	1998
Assets			
Properties			
Income producing properties	3	**$ 109,788**	$ 137,745
Properties under development	3	**67,316**	61,036
Land held for development or sale		**80,458**	64,016
		257,562	262,797
Other Assets			
Cash and short-term deposits		**64,794**	52,057
Amounts receivable and other	4	**106,852**	103,378
		171,646	155,435
		$ 429,208	$ 418,232

	Note	**1999**	1998
Liabilities and Shareholder's Equity			
Liabilities			
Notes payable	5	**$ 118,832**	$ 55,800
Lease assignment obligation	6	**19,375**	–
Mortgages payable		**–**	36,913
Accounts payable and accrued liabilities	9	**60,356**	61,995
Prepaid rents and deposits		**20,968**	21,017
		219,531	175,725
Shareholder's Equity			
Capital stock	7	**–**	–
Contributed surplus	7	**171,758**	218,317
Retained earnings		**37,919**	24,190
		209,677	242,507
Commitments	9		
		$ 429,208	$ 418,232

See accompanying notes to the consolidated financial statements

On behalf of the Board

Jon K. Grant
Chairman of the Board

Charles Pelletier
Director

Consolidated Statement of Changes in Financial Position

For the year ended 31 March

In thousands	Note	**1999**	1998
Operating Activities			
Net income		**$ 13,729**	$ 13,284
Recovery of real estate costs on sale		**126,789**	114,510
Expenditures on properties		**(63,051)**	(53,120)
Depreciation		**3,400**	5,984
Provision for diminution in value of assets		**6,050**	1,500
Deferred income taxes		**3,047**	1,390
		89,964	83,548
Net change in operating assets and liabilities		**(7,689)**	(30,727)
Cash provided by operating activities		**82,275**	52,821
Financing Activities			
Reduction of mortgages payable		**(36,913)**	(144)
Proceeds from lease assignment obligation	6	**19,375**	–
Reduction of capital stock	7	**(46,559)**	(20,400)
Reduction of notes payable		**(5,441)**	–
Issuance of notes payable	10	**68,473**	18,700
Cash applied to financing activities		**(1,065)**	(1,844)
Investment Activities			
Acquisitions	10	**(68,473)**	(18,700)
Cash applied to investment activities		**(68,473)**	(18,700)
Increase in cash		**12,737**	32,277
Cash, beginning of year		**52,057**	19,780
Cash, end of year		**$ 64,794**	$ 52,057

Cash includes cash and short-term deposits

See accompanying notes to the 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 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 Federal 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 Federal Government. It is anticipated that the disposal program will be completed over a number of years.

On 17 July 1998, CLC Downsview Inc. ("CLCD") was incorporated as a wholly owned subsidiary of the Corporation with the mandate to create an urban recreational park on the former Canadian Forces Base, Toronto, Downsview, Ontario. CLCD is awaiting the transfer of the Base Lands from the Department of National Defence.

2. Summary of Significant Accounting Policies

a) General

The consolidated financial statements are prepared in accordance with 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 Real Estate Companies, of which the Corporation is an associate member.

b) Consolidation

i) The Corporation consolidates the accounts of its principal wholly-owned subsidiary, CLC, and 3148131 Canada Limited and CLC Downsview Inc., both of which companies were inactive at 31 March 1999.

ii) The accounts of the Corporation's other subsidiary, Old Port of Montréal Corporation Inc. ("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.

c) *Income Recognition*

The Corporation recognizes income as follows:

i) Property sales

When the Corporation has fulfilled all material conditions and received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser.

ii) Income producing properties under development

When break-even cash flow after debt service is achieved but not later than one year after substantial completion.

d) *Properties*

i) Income producing properties are carried at the lower of cost less accumulated depreciation and net recoverable amount or, if intended for disposition, at the lower of cost less accumulated depreciation and estimated net realizable value.

ii) Properties under development and land held for development or sale are carried at the lower of cost and estimated net realizable value.

iii) Prior to sale, the Corporation capitalizes all direct deferred selling costs related to the properties.

iv) The Corporation capitalizes interest on specific debt on properties under development and land held for development or sale.

v) 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.

e) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 and fair market 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 which must be made in arriving at estimates of fair market value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

Notes to Consolidated Financial Statements...continued

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 fair market 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 deferral method.

3. Properties

a) Income Producing Properties

The Corporation's income producing properties consist of the CN Tower, office, industrial and mixed-use buildings.

In thousands	**1999**	1998
Land	**$ 24,100**	$ 24,980
Buildings	**98,483**	128,887
	122,583	153,867
Accumulated depreciation	**12,795**	16,122
	$ 109,788	$ 137,745

b) Properties Under Development

Properties under development consist of industrial office projects under construction, decommissioned military bases, and commercial, residential and industrial lands currently being developed.

In thousands	**1999**	1998
Income producing properties	**$ 3,880**	$ 2,170
Land	**63,436**	58,866
	$ 67,316	$ 61,036

4. Amounts Receivable and Other

Amounts receivable are comprised as follows:

In thousands	**1999**	1998
Assignment of rents receivable	**$ 34,971**	$ 35,062
Mortgages and secured notes receivable	**62,419**	52,653
Trade receivables	**8,408**	13,278
Other	**1,054**	2,385
	$ 106,852	$ 103,378

a) The Corporation has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income until 2013. At 31 March 1999, the assignment of rents receivable reflects the estimated payments to be received during the term of the agreement, less imputed interest, as follows:

In thousands		
Years ending 31 March	**2000**	$ 4,615
	2001	4,758
	2002	4,897
	2003	5,040
	2004	5,187
Subsequent years		60,523
		85,020
Less amounts representing imputed interest		50,049
		$ 34,971

In March 1999, the Corporation sold the right to receive substantially all of the rental income due up to 31 December 2003 (Note 6).

Notes to Consolidated Financial Statements...continued

b) Mortgages and secured notes receivable bear interest at a weighted rate of 6.4% (1998 – 6.5%), and are receivable as follows:

In thousands

Years ending 31 March	**2000**	$ 13,020
	2001	13,964
	2002	5,490
	2003	4,780
	2004	4,780
Subsequent years		20,385
		$ 62,419

5. Notes Payable

The notes payable are due to the Government of Canada or a Crown corporation (Note 10) and are repayable from the proceeds of the sale of the real estate properties in respect of which the notes were issued. Interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average interest rate of 5.23%.

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

In thousands

Years ending 31 March	**2000**	$ 36,023
	2001	34,779
	2002	16,624
	2003	23,024
	2004	5,422
Subsequent years		2,960
		$ 118,832

6. Lease Assignment Obligation

In March 1999, the Corporation sold the right to receive substantially all the rental income due under an assignment agreement until 31 December 2003 (Note 4a). The proceeds of $19.4 million have been recorded as a financing obligation. The recorded obligation represents the discounted value of the rental income stream during the term, as follows:

In thousands

Years ending 31 March	**2000**	$ 4,566
	2001	4,641
	2002	4,723
	2003	4,751
	2004	4,760
		23,441
Less amounts representing imputed interest		4,066
		$ 19,375

7. Capital Stock and Contributed Surplus

The Corporation is authorized to issue three shares which shall only be transferred to a person approved by the Minister of Public Works and Government Services. The three authorized shares have been issued and are held in trust for Her Majesty in right of Canada by the Minister of Public Works and Government Services. Nominal value has been ascribed to the three issued shares of the Corporation.

During the year ended 31 March 1999, in accordance with the *Canada Business Corporations Act*, the Corporation transferred $46.6 million (1998 – $20.4 million) of its contributed surplus to capital stock and subsequently reduced its capital stock by this amount by payment to the Shareholder.

Notes to Consolidated Financial Statements...continued

8. Income Taxes

The Corporation's income tax expense differs from the expected income tax expense using the combined Federal and Provincial rate, as follows:

	1999	1998
Combined Federal and Provincial Statutory Rate of Taxes	**45%**	45%
In thousands		
Expected income tax expense	**$ 9,879**	$ 9,961
Increase (decrease) in tax expense resulting from:		
Non-taxable portion of capital gains	**(411)**	(1,721)
Income not taxable in certain provinces	**(2,011)**	–
Other	**59**	81
Large corporations tax	**709**	590
Actual income tax expense	**$ 8,225**	$ 8,911

9. Other Liabilities and Commitments

a) The Corporation has a commitment under certain agreements to fund payments currently estimated at $2.6 million annually. The 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. The change in the obligation is included in interest and other revenues.

b) Capital commitments at 31 March 1999 total $11.1 million (1998 – $6.9 million).

10. Related Party Transactions

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

During the year ended 31 March 1999, CLC acquired an interest in real estate properties from Government of Canada departments and a Crown corporation for an aggregate purchase price of $68.5 million (1998 – $18.7 million). Consideration for these assets was the issuance of notes payable (Note 5).

The Corporation receives audit services without charge from the Office of the Auditor General of Canada.

11. Financial Instruments

The carrying amounts of short-term investments and trade receivables approximate their fair value due to their short-term nature.

The carrying amounts of the Corporation's assignment of rents receivable, mortgages and secured notes receivable, notes payable and lease assignment obligation approximate their fair value based on future cash flows discounted at market rates available to the Corporation for financial instruments with similar terms and maturities.

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

12. Information on Non-consolidated Subsidiary Company

Old Port of Montréal Corporation Inc. promotes the development of the lands of the Old Port of Montréal and develops, administers, manages and maintains Crown property in that location. As at 31 March 1998 this corporation, in thousands of dollars, had assets of $2,971, liabilities of $1,702 and equity of Canada of $1,269 with revenue of $8,175 and an excess of operating expenditures over revenue of $3,642 for the year then ended.

13. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after 1 January, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Comparative Figures

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

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Directors and Officers

Board of Directors

Jon K. Grant (1,2)•	Chairman of the Board, Peterborough, Ontario
Erhard Buchholz (2)	President and CEO, Montréal, Québec
Charles Connaghan (1,2)•	Management Consultant, Vancouver, British Columbia
Stephanie Felesky (1,2)*	Corporate Director, Calgary, Alberta
Kevin Garland (1,2)*	Real Estate Executive, Toronto, Ontario
Robert J. Metcalfe (1,2)*•	Lawyer, Businessman, Toronto, Ontario
Charles Pelletier (1,2)*	Chartered Accountant, Québec, Québec
Brigitte Robichaud (1,2)•	Lawyer, Moncton, New Brunswick

Corporate Officers

E. Buchholz (1,2)	President and Chief Executive Officer
G. K. McIvor (1,2)	Vice President, Public and Government Affairs
J. J. Morrison (1,2)	Vice President, Management Information Systems
B. E. Richardson (1,2)	Vice President, Chief Financial Officer
S. P. Round (2)	Vice President, Western Canada
B. E. Way (1,2)	Corporate Secretary
G. W. Wicklund (1,2)	Vice President, Human Resources
W. R. Winnicki (2)	Vice President, Eastern Canada

Canada Lands Company Limited (1)
Canada Lands Company CLC Limited (2)
* Member of the Audit Committee
• Member of the Compensation Committee

CLC Board of Directors

From left to right:
Robert James Metcalfe,
Charles Pelletier, Stephanie Felesky,
Kevin Garland, Brigitte Robichaud,
Chuck Connaghan

Seated:
Jon K. Grant (Chairman),
Erhard Buchholz (President and CEO)

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