revitalize

renewal

redevelop

refurbish

restore

2004–2005 annual report

Canada Lands Company Limited
Société immobilière du Canada Limitée

Canada

Canada Lands Company

CORPORATE PROFILE

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

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

- Canada Lands Company CLC Limited (CLC), a non-agent Crown corporation, which carries out the core real estate business, owns and manages the CN Tower, and is active in 22 municipalities across Canada;
- Old Port of Montréal Corporation Inc. (OPMC), an agent Crown corporation, which is responsible for redeveloping the Old Port of Montréal and which reports to Parliament as a deemed parent Crown corporation; and
- Parc Downsview Park Inc. (PDP), an agent Crown corporation, which was incorporated in 1998 to manage and develop the former Canadian Forces Base (CFB) Toronto lands as Downsview Park, and which also reports to Parliament as a deemed parent Crown corporation.

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Front cover: *Glenlyon Business Park – Burnaby, British Columbia*

Letter to the Minister

JUNE 30, 2005

The Honourable John Godfrey
Minister of State (Infrastructure and Communities)
Ottawa, Ontario

Minister:

It gives me great pleasure to enclose the annual report of Canada Lands Company Limited (CLCL) for the fiscal year ended March 31, 2005.

Over the past year, the company has worked closely with the Government of Canada to explore ways in which CLCL might better respond to the government's strategic objectives. In addition to its achievements in real estate, the company has successfully integrated its CN Tower operations, increasing attendance figures and revenues since it reassumed management of the property just over one year ago. The company's most significant strategic challenge in 2004–2005 continued to be the lack of property transfers received from the government.

This report outlines CLCL's achievements in adding value to strategic surplus properties, and how it is making positive contributions to communities across the country, as well as to the Government of Canada's "New Deal" program for communities.

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

Yours truly,

Marc Rochon
Chairman
Canada Lands Company Limited

A Message from the Board of Directors

LEADING THE WAY WITH SOUND CORPORATE GOVERNANCE

Canada Lands Company Limited (CLCL) has come to be recognized by many in both the public and private sectors as a leader in demonstrating sound corporate governance.

This is exemplified by the fact that the company was selected in 2004 by the Treasury Board Secretariat to participate in an Organisation for Economic Co-operation and Development (OECD) panel to make recommendations on best practices for the governance of state-run organizations.

In 2003–2004, CLCL commenced the first stage of certification of financial statements by its President and Chief Executive Officer and its Vice President, Finance and Chief Financial Officer. Many companies are beginning to explore the next step, involving the certification of financial controls. CLCL will closely monitor developments in this area and assess how it should proceed.

As a good governance initiative and in line with its core commitment to the principle of corporate social responsibility (CSR), CLC undertook a trial "social audit" of its performance in non-financial areas assessed against best practices. This audit was carried out by an independent party. Although a very positive report was received, CLC will respond to a number of recommendations in order to further improve its CSR program.

As steward of the corporation, the CLCL board oversees strategic direction, ensures the integrity of corporate and financial systems, deals with risk management issues and guides the management of the organization. It has a non-executive chairman and consists of seven directors: the chairman of the board and six outside members appointed by Governor in Council (with one position currently vacant). During the 2004–2005 fiscal year, the company did not incur any regulatory fines.

The board would like to thank past President and CEO Kathy Milsom for her four excellent years with the company, and would also like to thank Jim Lynes for agreeing to step in as Acting President and CEO until the position is filled permanently.

Looking Forward

Looking ahead, CLCL will continue to demonstrate leadership in corporate governance. The company's board will continue to monitor and enhance practices through its regularly updated governance action agenda. With a foundation of sound corporate governance firmly in place, the board looks forward to the many new challenges and opportunities to come.

Marc Rochon[1,2]‡ served as President of the Canada Mortgage and Housing Corporation from 1995 to 2000. Mr. Rochon also served in several senior positions within the Government of Canada, including Senior Councillor at the Privy
Council Office, Deputy Minister at the Department of Canadian Heritage, as well as the Department of Communications, giving him a wide range of experience in such areas as corporate governance and social policy issues.

Stephanie Felesky[1,2]*†‡ is a board member of the Calgary Homeless Foundation, the *Calgary Herald* Advisory Board and the Board of Governors of the University of Calgary as well as Co-Chair of the Calgary Children's Initiative. She is past member of the Board of Star Choice Communications and past Chair of the Board of Directors for the United Way of Calgary.

Kevin Garland[1,2]*‡ is Executive Director of the National Ballet of Canada. Formerly Executive Director of the Canadian Opera House Corporation and Senior Vice President of Corporate Real Estate at CIBC Development Corporation in Toronto, she holds a Master of Science degree in Urban and Regional Planning, and has extensive experience in both urban planning and real estate management.

John McManus, CA[1,2]*‡, is Senior Vice President of Borealis Capital Corporation in Toronto, a leading Canadian investment and asset management company. He is currently on the board of Bruce Power, chair of its pension committee and member of its audit committee.

Philip Star, Q.C.[1,2]†‡ is one of the founding members of the law firm of Pink Star Murphy Barro in Yarmouth, Nova Scotia. Mr. Star is active in many community initiatives, including his role as President and Board Member of Big Brothers / Big Sisters of Yarmouth, and is the first Vice President of the Nova Scotia Barristers' Society and member of the Criminal Lawyers' Association.

Marco Veilleux[1,2]*†‡ is a senior partner with the law firm Cain Lamarre Casgrain Wells, Montréal. A Canadian Olympian, Mr. Veilleux is former President of Aquatic Federation of Canada and Vice President of the 2005 FINA World Championships in Montréal. He is also a member of the Board of Directors of Swimming Canada.

Jim Lynes is Acting President and CEO and has over 31 years of property and financial management experience. The former CEO of Canada Ports Corporation, a Crown corporation responsible for 13 of the largest commercial ports in Canada, he has also held numerous senior positions within the federal government. He joined CLC in 2000.

(1) Canada Lands Company Limited
(2) Canada Lands Company CLC Limited
* Member of the Audit Committee
† Member of the Human Resources Committee
‡ Member of the Governance Committee

Jim Lynes
Acting President and CEO
Canada Lands Company Limited and
Canada Lands Company CLC Limited

President's Message

CREATING VALUE IN URBAN DEVELOPMENT

It has been an honour and a pleasure to act as President and CEO for CLC over the past months. The company has completed a truly outstanding year, with net income before taxes exceeding its budgeted target by 79%. Just as importantly, the company has exceeded many non-financial targets in support of its balanced scorecard.

This report highlights achievements at key projects over the past year. Building on the tradition of new urban development at our properties in Calgary and Edmonton, our development at the former CFB Chilliwack is setting the bar even higher. Building on our success in gaining community and municipal approval for our Benny Farm redevelopment plan in Montréal, work is now underway for the renovation or construction of more than 200 cooperative and non-profit housing units.

CLC reassumed management of the CN Tower just over one year ago. Since that time, the Tower has exceeded all targets for revenues and attendance, approaching pre-SARS, pre-9/11 levels. Work has begun on plans for the redevelopment of the base of the Tower to further enhance its value for the company and for all Canadians.

During the past year, CLC also continued to place emphasis on its enterprise risk management function, bringing the function in-house as a new Internal Controls department.

A key issue facing CLC continues to be the low volume and slow rate of transfer of strategic surplus properties from the federal government. That is not to say that no progress has been made. CLC has been working closely with the Government of Canada to explore ways in which the company can help improve the transfer process and support the government's policy agenda.

In addition, the company played a role in resolving the 25-year impasse between Fisheries and Oceans Canada and the Musqueam First Nation regarding the 137-acre (55.4 hectares) former Garden City transmitter property in Richmond, B.C. This historic agreement has resulted in a CLC-Musqueam joint venture that opens up possibilities for further projects in British Columbia.

CLC's mandate to optimize the value of strategic federal surplus properties is in line with the government's objective of maximizing efficiency. Furthermore, CLC's role in redeveloping surplus properties to meet the needs of cities and communities provides the federal government with a unique instrument to further its agenda of urban renewal.

CLC possesses a talented team of employees who constantly challenge the status quo in the spirit of continuous improvement. Their successes in projects across the country are showcases for the best in urban development.

Future nature trail at Albion Road in Ottawa, Ontario

Corporate Governance

COMMITTEES OF THE BOARD

Corporate Governance

The governance committee is made up of the whole board, in part because the board is relatively small, but also because the board attaches a great deal of importance to governance issues. The committee continues to review the company's governance practices in the spirit of continuous improvement. The company maintains a clear and concise board of directors profile to assist with the selection of board members, and all directors are subject to a conflict of interest policy. There is also an established process for reviewing the board's performance.

Human Resources

The human resources committee oversees corporate policies relating to human resources and its oversight is all-encompassing in the area of human resources development. It is responsible for putting in place human resources policies, reviewing and approving the goals of the President and CEO, and monitoring performance in order to make recommendations relating to and directing management with respect to programs and succession planning. The committee is comprised of three members.

Audit

The audit committee advises the board on the soundness of the financial management of the corporation, and assists the board in overseeing internal control systems, financial reporting, risk management, and the audit process. The committee is composed of four directors who are neither officers nor employees of the corporation or any of its affiliates and whose Chair is a chartered accountant. It has the authority to investigate any activity of the corporation, and all employees are obliged to cooperate.

Corporate Governance (continued)

Year in Review

CLCL's commitment to improving its governance practices and the transparency of its operations has been instrumental in its successes. Over the past five years, the company has acted proactively to improve its governance and management practices, and has received widespread recognition for its leadership in this area. Listed below are a number of corporate governance highlights from the past fiscal year.

- A one-day training session in November 2004 for board members on the role of members of the audit committee and the awareness of financial issues required of them; members of the senior management team also attended.
- The audit committee undertook a self-assessment early in the year, which concluded with an action plan to monitor recommended improvements.
- The company implemented interim procedures as issued by Treasury Board in March 2004 with respect to the appointment of directors, chairs and CEOs. The terms of reference of the governance committee were amended to provide for a nominating committee, and an executive search firm was hired to assist in the search for a director for British Columbia, as well as a new President and CEO.
- The mandate and composition of the corporate social responsibility (CSR) committee were reviewed and it was agreed that the responsibilities currently carried out by this committee are ongoing management responsibilities and thus the senior management team should have a standing item at every meeting to ensure oversight of CSR. The former committee has thus been dissolved. It was further agreed that CSR should be a standing item at every board meeting to ensure board oversight, and that the Governance Committee would deal with any CSR audits.
- CLC undertook a pilot "social" audit in 2004–2005, the results of which are currently being reviewed.
- The senior management team succession plan was reviewed and updated during the year.
- CLC implemented a risk management and internal controls framework, including the appointment of a Director of Internal Controls. Implementation of this framework is an ongoing process that encompasses the identification and assessment of the key risks to the company, along with solutions for managing them.

Pay Policy

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

- CLC's compensation philosophy is to pay a competitive total compensation package in order to attract and retain exceptional resources, while remaining accountable to all stakeholders through transparent compensation practices.
- CLC's pay policy provides base compensation at the median of market comparators primarily on a national basis, while earned incentive compensation generally does not exceed the 70th percentile. Annual salary reviews are conducted and approved by the human resources committee. Increases are administered based on internal equity, external competitiveness (market data) and individual performance.
- Reinforcing a performance culture and providing compensation that is competitive and appropriate for the company, eligible employees must meet above-average performance criteria in order to be eligible for incentive pay. The target incentive, ranging from 4% to 35% of salary for eligible employees, is based on exceeding key performance objectives.
- The position of President & CEO is a Governor in Council (GIC) appointment and, as such, the GIC sets the rate of compensation pursuant to the *Financial Administration Act.*

Beauty abounds at Griesbach in Edmonton, Alberta

Policies

In an ongoing effort to ensure that the policies of the company were in line with its strategic direction and that the transparency of its operations was addressed, as well as to ensure proper accountabilities, the company undertook major revisions to its policies dealing with *Code of Conduct and Conflict of Interest*, *Marketing and Sales* and *Contracting*. A number of other board-related policies were reviewed and updated during the year including corporate relations with aboriginal groups, directors' expenses, political donations, and corporate philanthropy.

In addition, the company's *Internal Disclosure of Information Concerning Wrongdoing in the Workplace* policy was updated and approved by the board in June 2004. This policy provides employees with a process for raising with management issues relating to wrongdoings and provides that they may, as appropriate, communicate directly with the President and CEO, the Vice President, Administration, or the chair of the audit committee.

Director Attendance and Compensation

There were seven CLCL board meetings during the fiscal year. Attendance at board meetings was 88%. There were four meetings of the human resources committee, three meetings of the audit committee and four meetings of the governance committee. Attendance at committee meetings was 93%.

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

Balanced Scorecard

BALANCING FINANCIAL AND COMMUNITY BENEFITS

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

CLC acknowledges the importance of all of its key stakeholder groups. It recognizes not only the different priorities and needs of these key groups, but also that they are all inter-related. CLC's balanced scorecard enables it to identify goals, manage and measure performance and, ultimately, report on achievements that relate to the priorities of each stakeholder group.

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

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

Administration and Human Resources

"Strong leadership is essential in any business, and the success of CLC can be attributed to the people involved."

Public and Government Affairs

"Effective stakeholder communication requires listening, in addition to the transmission of timely and accurate information. That is why we keep a finger on the pulse of our stakeholders."

Finance and Accounting

"The bottom line is important, but so is being socially responsible. We pride ourselves on making a profit and making a difference."

Information Services

"We support, secure, and enable CLC's access to business information while building the future with up-to-date technology and services."

2004–2005 Objectives	Performance Targets	Performance Assessment
Operations		
Provide financial benefits to the Government of Canada	Increase total cumulative distributions to the government in the form of dividends, note repayments and cash acquisitions by $14.7 million	$10.6 million in distributions ($5.0 million in dividends, $5.6 million in note repayments, and no acquisitions)
	Increase cumulative annual operating expenses relieved from Government of Canada departments and agencies at point of purchase by CLC to $1.7 million	Annual operating expenses relieved increased to $1.6 million Annual property tax savings increased to $17 million
Complete risk management assessment to identify risks to the company	Address all areas of significant risk, including the implementation of an information services data recovery plan, a business continuity plan and implementing a records management program	A data recovery plan is now in place; the internal controls function has been brought in-house for closer scrutiny and to continue development of an overall business continuity plan; and a records management program is being implemented
Bilingualism		
Ensure compliance with Government of Canada Official Languages action plan	Training plan presented	New official languages policy developed by management Communications plan for application of official languages policy to employee base developed
	Assess all appropriate managers' bilingual skills and identify any further training required	All company positions reassessed in terms of bilingual requirements Bilingual skills and training requirements for designated positions are being assessed

2004–2005 Objectives	Performance Targets	Performance Assessment
Financial Performance Optimize financial value and returns	Achieve net income before tax of $9.8 million	Net income before tax of $17.6 million achieved – the increase is due to unanticipated sales of properties and higher prices on some planned sales
	Achieve revenues of $127.5 million	Revenues of $132.3 million achieved – the increase is due to additional sales of properties
	Achieve capital expense of $82.2 million	Capital expense of $38 million incurred – the variance is due in large part to transfers not being approved ($10.6 million) and delays at redevelopment projects in CFB Griesbach and Glenlyon ($27.6 million)
Business Development Achieve property transfers	Assist in expediting approvals for five property transfers	No property transfer approvals were given during 2004–2005
	Receive title transfers for eight properties	No title transfers received (other than 12 pre-arranged Seaway properties worth approximately $670,000)
Customer Relations Continue to improve customer satisfaction	Minimum overall customer satisfaction score of 75% for operating divisions	CN Tower achieved a score of 82%; real estate divisions did not conduct surveys

Community / Legacy

2004–2005 Objectives	Performance Targets	Performance Assessment
Legacy Creation Implement legacy initiatives	Commemorate former uses for the following projects: Calgary, Griesbach, and Chilliwack	Held Peacekeepers' Day in Calgary – unveiled the Peacekeeper Statue and the Wall of Remembrance Unveiled a statue of Mrs. Griesbach at the Village at Griesbach in Edmonton as part of Edmonton's centennial celebrations Beginning of Legacy Walk in Chilliwack, B.C.
Corporate Philanthropy and In-kind Support Evaluate and act upon potential areas of corporate philanthropy	Contribute up to 1% of net income before taxes ($124,000) to corporate philanthropy, in line with the company's corporate philanthropy policy	Contributed $141,805 to corporate philanthropy initiatives, including $59,320 to match employee contributions to the United Way

Human Resources

2004–2005 Objectives	Performance Targets	Performance Assessment
Work Environment Create and maintain positive and safe work environment, and recognize and reward employees appropriately	Maintain voluntary employee turnover rate at less than 5% for real estate divisions	Voluntary employee turnover rate is 3% (includes corporate)
	Implement corporate wide Occupational Health and Safety program	In final stages of implementation
	Establish a respect in workplace program	Program established and implemented

Municipal / Provincial

2004–2005 Objectives	Performance Targets	Performance Assessment
Economic Stimulation Promote timely and appropriate development and construction of sites, and track activity in line with the company's guidelines on tracking benefits beyond dividends	Increase cumulative development expenditures stimulated by CLC and its project associates by $370 million	Increased by $400 million through the construction of residential units and industrial and commercial facilities
	Increase cumulative person-years of direct construction employment stimulated by CLC and its project associates by 2,960	Increased by 3,200 person-years
	Increase total area of non-residential buildings constructed, renovated, returned to active use, or to be constructed on sold sites by 1,170,000 ft^2 (108,700 m^2)	Increased by 3 million ft^2 (278,709 m^2) (includes 750,000 ft^2 (69,700 m^2) from prior year activity in Calgary not previously accounted for)
Social Policy Objectives Contribute to affordable housing and other social policy objectives, where feasible, with each major project	Increase the number of new or refurbished residential units stimulated by CLC and its project associates by 200	Increase of 1,000 housing units, including 147 affordable housing units
Utilize environmentally and fiscally responsible means of remediating contaminated sites	Increase environmental remediation investment in projects by CLC and its project associates by $366,000	Expensed $5.8 million for the future remediation of the City Place project in Toronto Spent approximately $700,000 removing asbestos from Benny Farm project Spent $242,000 removing hazardous materials from the Griesbach project
Sustainable Development Incorporate sound principles of sustainable development for each development initiative	Demonstrate innovative sustainable development approaches for Garrison Green, Village at Griesbach and Garrison Crossing	Garrison Crossing – renovating former PMQs, saving trees, using sediment and grease separators to return water to the city's aquifer Signed agreements for Benny Farm project, which led to the renovation of 78 previously uninhabitable units as affordable housing in 2004–2005
Recycling and/or reusing demolition and construction wastes	Divert a minimum of 60% of demolished materials from landfills	Successfully reused more than 80% of material at Benny Farm, Griesbach and Calgary

restore

Garrison Crossing is a 153-acre (61.9-hectare) site that is part of the former Canadian Forces Base (CFB) Chilliwack, in the upper Fraser River Valley. It is surrounded by beautiful mountain ranges and natural amenities unparalleled at any redevelopment project in Canada.

The company has received a great deal of positive support from the community in response to the project. This can be attributed to its continuing commitment to sustainable smart growth principles and its approach in creating compact, efficient communities instead of contributing to the extension of suburban sprawl.

Chilliwack team

A variety of housing types for a variety of lifestyles

CHILLIWACK www.garrisoncrossing.ca

Garrison Crossing's dedication to sustainable development is evident in the restoration and reuse of housing on the base. The project integrated 20 former military housing units into its first phase, rather than having them demolished and sending the materials to landfills. A further 40 units will be refurbished in the second phase, and 32 existing rowhouses are also being restored. It is anticipated that approximately 50% of the 388 existing units on the site will be retrofitted over the life of the redevelopment.

Great care was taken to save and refinish the original fir floors, and all restored homes were taken down to the original framework so that new plumbing, wiring, windows, hardy plank siding and insulation could be installed. Front porches and back sundecks have been added, and exteriors have been designed to complement the surrounding environment.

In October 2004, Garrison Crossing held an open house for realtors to view the completed show homes for both types of phase one housing, the refurbished military housing units and the new single-family houses. More than 130 realtors attended, and offered very positive comments on the quality of the development.

Garrison Crossing also held a grand opening for the public to view the show homes. More than 4,000 people attended this very successful event.

When Garrison Crossing is completed, it will include 1,200 to 1,500 residential units comprising new and refurbished single-family homes, new and restored townhouses, rental and condominium apartments, seniors' accommodation and service-related retail.

Garrison Crossing is Chilliwack's premier new neighbourhood, and is sure to develop into one of the most desirable residential neighbourhoods in the entire Fraser Valley.

The redevelopment of the former 620-acre (250.9-hectare) Griesbach Barracks in north central Edmonton provides a unique revitalization opportunity for Alberta's capital city.

Developed to be family-friendly, the Village at Griesbach provides an old-fashioned sense of community living, focusing on maintaining and enhancing the natural amenities that have evolved over the past 50 years.

Griesbach team

Melding the best of two worlds

EDMONTON www.villageatgriesbach.ca

During 2004, construction commenced on three additional phases on the site. This included a lake and park, new high-end and mid-range homes in the vicinity of the lake, and a residential area that includes a veterans' facility.

CLC is working with the City of Edmonton and the Department of National Defence to build on the military heritage of the area. In October 2004, the Village at Griesbach unveiled a magnificent statue of Mrs. Janet Griesbach, who played an important role in Edmonton's history through her support of military families and charitable work throughout the city.

From refurbished homes, rebuilt from the frame up, to new houses, townhomes and a new apartment complex, the community has been planned to preserve and take full advantage of the mature urban forests and surrounding communities, public transportation, playgrounds, schools and shopping.

CLC's commitment to environmental stewardship means that residents of the Village at Griesbach will enjoy extensive green spaces. From the traditional regimental parks, to playgrounds and tot lots, the waterway and winding pathways, the community will be built around existing natural amenities, not through them. There is a true commitment to creating an environmentally integrated community within the site.

The Village at Griesbach melds the best of two worlds – the location, amenities, landscape and charm of an established downtown community combined with the contemporary space and convenience that modern homebuilding designs provide.

re develop

The former CFB Calgary is one of the most complex and innovative urban redevelopment projects in North America. It has evolved into a coveted location for residential, office and commercial development, and features some of Calgary's most desirable neighbourhoods.

From the beginning, CLC has had a vision of a vibrant, sustainable, mixed-use community with a sense of its heritage. By implementing thorough and effective planning, commemorating the military heritage, maintaining a commitment to environmental stewardship, and taking a diligent approach to architectural integrity, CFB Calgary has become just that.

Calgary team

Remembering the past, looking toward the future

C A L G A R Y www.clccalgary.ca

The first part of the site to be redeveloped was Garrison Woods. While many developments across the country have resulted in the perpetuation of urban sprawl, the major objective for Garrison Woods was to create a compact, mixed-use, pedestrian-friendly neighbourhood. The neighbourhood is home to 1,600 housing units and 70,000 ft^2 (6,500 m^2) of retail development.

An additional theme in the redevelopment of the former CFB Calgary builds on the heritage of the site. In August 2004, CLC, in partnership with the Canadian Association of Veterans in United Nations Peacekeeping, unveiled two additions to Peacekeepers Park in Garrison Green. The Wall of Honour, bearing the names of Canadian peacekeepers killed on United Nations assignments, and The Peacekeeper statue were planned and built to recognize the military heritage of the site and celebrate the important role of Canadian peacekeepers.

Residential development in the first phase of Garrison Green continues; the first home was occupied in February 2005. This initial phase of Garrison Green accommodates a variety of housing styles, including single units, refurbished and new semi-detached units, units above garages in select locations, new townhouses and two four-storey apartment complexes, one exclusively for seniors.

Plans are underway to redevelop the Currie Barracks, the final development on this site. A complete transformation of the barracks will include several types of housing, and a significant portion of the area will be devoted to parks and outdoor recreation and entertainment spaces. It is anticipated that this neighbourhood will accommodate 3,000 housing units, 200,000 ft^2 (18,580 m^2) of retail development, and 300,000 ft^2 (27,870 m^2) of office space.

CFB Calgary has won numerous awards, and is the largest site in Alberta to receive a provincial heritage designation.

refurbish

Located in the eastern part of Toronto, McLevin Woods is the final property to be developed on a 1,500-acre (607-hectare) piece of land that was first designated for development in 1967.

There is no place like home

TORONTO

McLevin Woods team

McLevin Woods is a 41-acre (16.6-hectare) site that features approximately 600 residential units consisting of a mixture of semi-detached homes, street townhouses and block townhouse units. Careful attention to planning details has resulted in a residential community that appeals to a diverse group of residents.

Large areas of open space have been incorporated into the development, the result of an extensive consultative process involving CLC, local environmental groups and the City of Toronto. A total of ten acres (four hectares) in the development have been designated specifically for use as open space and woodlots.

McLevin Woods is also home to some of the newest affordable housing units in the country. Habitat for Humanity is currently building on the last parcel of land available for development on the site. The land, valued at $2.3 million, was made available to Habitat under the Surplus Federal Real Property for Homelessness Initiative, a component of the Government of Canada's National Homelessness Initiative.

The shortage of affordable housing in Canada affects every community. The Government of Canada stated in its 2005 Budget that a new deal is needed for Canada's communities. McLevin Woods is an excellent example of the Government of Canada's commitment to helping Canadians gain access to safe and affordable housing.

This project shows how government departments and Crown corporations can work together with non-profit organizations to create successful partnerships that address community challenges across Canada.

renewal

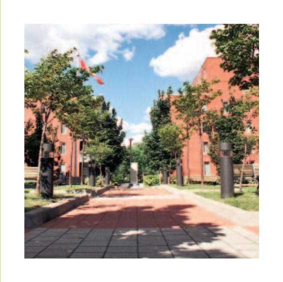
Located in the Notre Dame de Grâce (NDG) area of Montréal, CLC's Benny Farm redevelopment has been the subject of many years of community discussion and debate. An innovative approach to dealing with the community was adopted in order to move this redevelopment forward and ensure that all stakeholders' needs were addressed.

Benny Farm is an 18-acre (7.3-hectare) property that was originally the site of veterans' housing. With the arrival of a large number of veterans and their families at Benny Farm in the late 1940s, it became a true community. The spirit of the original residents lives on among the veterans who still make their homes on the site.

Moving full circle

MONTRÉAL www.bennyfarm.org

Benny Farm team



When CLC embarked upon the process of establishing a master plan vision for the undeveloped portion of the site, many community groups came forward to express their views on what should be done. To accommodate these diverse views, CLC created the Benny Farm Task Force to establish objectives for the site.

As a result, the Benny Farm redevelopment plan combines several objectives. It responds to NDG's need for affordable housing and community services, it takes into consideration concerns for social diversity, and it pays particular attention to housing for groups with the greatest need.

Over the past year, CLC has sold several parcels of land to organizations supported by the City of Montréal for the renovation or construction of more than 200 cooperative and non-profit housing units at Benny Farm. In October, the redevelopment welcomed its first new residents at an emotional and symbolic ceremony where veterans handed keys to a new generation of Benny Farm residents.

When completed, Benny Farm will provide approximately 550 affordable housing units for both tenants and homeowners, including housing for families, seniors and young mothers.

The Benny Farm redevelopment is well underway and construction is advancing rapidly. By working in partnership with various municipal, provincial, federal, and community organizations, CLC turned controversy into a viable vision and moved this project forward from what had previously been a standstill.

Benny Farm has moved full circle – from postwar housing for veterans and their families, to seniors' housing for aging veterans, to a new family neighbourhood providing intergenerational housing.

Canada's National Tower www.cntower.ca

Canada's National Tower (CN Tower) defines the Toronto skyline, and is a symbol of Canadian achievement. Widely regarded as the defining symbol of tourism for Toronto, and a Canadian architectural triumph, this wonder of the modern world continues to be a major telecommunications hub, a first-class dining and event centre, and the must-see attraction when visiting Toronto.

In January 2004, CLC reassumed responsibility for the operation of the CN Tower. In completing its first full year under CLC management, the CN Tower:

- reduced general and administration costs by approximately $1 million versus budget through increased efficiencies within the marketing and public affairs and sales and catering divisions
- increased attendance to 1,530,112
- the retail store provided 38% gross margin on revenues of $6 million
- increased overall revenues by $1.5 million over budget
- food and beverage gross revenues were $1.6 million ahead of budget

2004 was another rebuilding year for tourism in the City of Toronto. Lingering issues continued to have adverse effects on U.S. travel to the city. Conversely, international travel (beyond the U.S.) and group visitors to the CN Tower rebounded positively. The CN Tower continued to be a leader in the tourism industry, as its attendance rose 29% over the previous year.

360 Restaurant
a Distinguished Restaurant of North America (DiRONA)

The CN Tower revised its marketing and sales strategies to gain a larger share of the local and domestic market. Its sales team was restructured to provide a dedicated outbound sales effort and a dedicated catering and events execution team, and results of this long-term initiative showed immediate gains especially in the hospitality segment.

With Toronto continuing to rebuild tourism after the challenges of 2003, the CN Tower's strategy was to provide creative solutions by seeking opportunities and partnerships to present this Canadian icon in a fresh and relevant way. CityPass®, a ticket passport that bundles the most-visited attractions in the region into one convenient, value-packaged offering, was introduced in April of 2004 with the CN Tower as the lead attraction. In its first year, sales exceeded projections by 37%.

In the fall of 2004, the CN Tower partnered with Tourism Toronto, and Ontario Tourism Marketing Partnership Corporation (OTMPC) in securing *The Secret Life of Sets: Set Decorators at Work*. This exhibition was organized by the Academy of Motion Picture Arts and Sciences with the generous support of *Architectural Digest* in cooperation with Tourism Toronto, OTMPC, and the CN Tower. The Academy of Motion Picture Arts and Sciences designated Toronto as the only Canadian city, and the CN Tower as the exclusive Canadian venue for this exhibition. Celebrating the art of contemporary set decoration, the exhibition featured interactive movie sets from seven recent blockbuster releases. Behind the scenes displays featured film clips, artwork and photos, as well as interview footage with the set decorators.

The exhibition demonstrably increased awareness and attendance levels at the CN Tower during its four month run, with an overall increase of 11% and over 43,000 dedicated visits to the exhibit.

Other initiatives have resulted in new space management programs. Refurbishments to the lobby in thematic and wayfinding signage, as well as the installation of a new group check-in desk have improved the arrival experience and customer satisfaction. New party and meeting rooms, as well as the reallocation of attraction space at the base of the CN Tower will provide new revenue streams throughout the coming years.

Harry Potter and the Prisoner of Azkaban
The Secret Life of Sets: Set Decorators at Work
Set Decorator: Stephenie McMillan

The Cat In The Hat
The Secret Life of Sets: Set Decorators at Work
Set Decorator: Anne Kuljian

A Year in Review

CLC achieved the following results during the 2004–2005 fiscal year:

Financial Results

- Net income before tax of $17.6 million, which was 79% above budget.
- Gross profit on real estate sales of $19.7 million, which was $6.2 million higher than budget.

Operations Highlights

- Sold the George Derby property in Burnaby, British Columbia.
- Opened the sales presentation centre and display homes at Garrison Crossing in Chilliwack, British Columbia.
- Unveiled a statue of Mrs. Janet Griesbach as part of Griesbach Homecoming Weekend, which celebrated the first anniversary of the opening of the Village at Griesbach and the 50th anniversary of Major-General Griesbach School, and was part of the City of Edmonton's centennial celebrations in the Village at Griesbach development in Edmonton, Alberta.
- Held second annual Peacekeepers' Day event and unveiled two permanent memorials: The Peacekeeper statue and a granite wall showing the names of fallen Canadian peacekeepers at the former CFB Calgary, Alberta.
- Breakthrough build for Habitat for Humanity Toronto on CLC's McLevin Woods project in Toronto. The build is the largest ever for Habitat for Humanity in Canada.

Calgary
CLC celebrated Peacekeepers' Day with the unveiling of the Wall of Honour, bearing the names of Canadian peacekeepers killed on United Nations assignments, and the Peacekeeper statue.

Chilliwack
Visitors explored the new display homes at CLC's Garrison Crossing project.

$45.2 million

Cash flow before distributions

$10.6 million

2004/2005 distribution to shareholder

$17.6 million

Net income before taxes

- Hosted a Sawmill Creek Clean-Up Day, in collaboration with the City of Ottawa and the Rideau Valley Conservation Authority at its Lester Road property in Ottawa.
- Held a ceremony to welcome the first of hundreds of new residents at its Benny Farm site in Montréal.
- Sold the 685 Cathcart building in downtown Montréal after undertaking an extensive renovation of the building and an extensive marketing program.

Awards

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

- the GLOBE Award for Environmental Excellence from the Globe Foundation of Canada and the *Globe and Mail* for its excellence in brownfield development at its Moncton Shops project.
- the Certificate of Building Excellence for 277 Front Street West in Toronto from the Building Owners and Managers Association.

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

- $4.1 billion in development expenditures;
- 32,600 person-years of direct construction employment;
- $57.5 million invested in environmental remediation;
- 20,200 new or refurbished residential units;
- 700 affordable housing units built; and
- 14 million ft^2 (1,300,600 m^2) of non-residential construction.

Benny Farm
City of Montréal Mayor, Gérald Tremblay, welcomed new residents to Benny Farm.

Edmonton
As part of Edmonton's centennial celebrations, CLC held an event honouring some of the City's historic military figures.

Management's Discussion and Analysis

May 13, 2005

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

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

All real estate operations are carried out through CLC and are consolidated in CLCL. Discussion of financial results in this section of the annual report will occur from the perspective of CLC, even though the results are identical to those of CLCL for the 2004–2005 fiscal year.

In January 2004, CLC assumed responsibility for the operations of Canada's National Tower (CN Tower), a major tourist and communications centre. CLCL has two other wholly-owned subsidiaries, Parc Downsview Park Inc. and the Old Port of Montreal Corporation Inc. Both of these corporations report separately to the Parliament of Canada through the Minister of State (Infrastructure and Communities) as deemed parent Crown corporations. Accordingly, their results are not included in the results of CLCL.

Balanced Scorecard

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

Governance

In 2003–2004, CLCL commenced the first stage of certification of financial statements by its President and Chief Executive Officer and its Vice President, Finance and Chief Financial Officer. Many companies are beginning to explore the next step, involving the certification of financial controls. CLCL will closely monitor developments in this area and assess how it should proceed.

As a good governance initiative and in line with its core commitment to the principle of corporate social responsibility (CSR), CLC undertook a trial "social audit" of its performance in non-financial areas assessed against best practices. This audit was carried out by an independent party. Although a very positive report was received, CLC will respond to a number of recommendations in order to further improve its CSR program.

CLCL's board of directors is composed of the chairman and six directors. The chairman and the directors are independent of management, and appointed by Governor in Council (one position is currently vacant). The board held five board meetings and one strategic planning retreat during the year.

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

The board's expenses in YE 05, including travel expenses, conferences and seminars, liability insurance and annual retainers and per diems, totalled $346,000, a decrease of $26,000 from YE 04, due mainly to a vacancy of one director position and insurance savings.

Results of Operations

In millions of dollars	**YE 05**	Budget	YE 04
Property sales	**$ 59.3**	$ 54.8	$ 51.5
Attractions, food and beverage and other CN Tower revenues	**51.3**	49.8	5.0
Gross revenues	**132.3**	127.5	82.7
General and administrative expenses*	**19.5**	18.6	13.4
Income before taxes	**17.6**	9.8	12.4
Cash flow before dividends and note repayments	**45.2**	(32.8)	1.6

* Reflects reclassification of the CN Tower budgeted expenses.

For the year ended March 31, 2005 (YE 05), CLC earned revenues of $132.3 million and income of $17.6 million before tax and generated cash of $45.2 million before distributions (repayment of notes payable and dividends) to the government. The CN Tower operations generated income before taxes of $11.1 million and real estate operations generated income before taxes of $6.5 million.

Total revenues were $4.8 million higher than budget, which primarily resulted from increased property sales of $4.5 million, increased attractions, food and beverage revenues and other revenues from the CN Tower of $1.5 million. This was partially offset by lower rental income. When compared to the prior year ended March 31, 2004 (YE 04), total revenue of $132.3 million was $49.6 million higher. This was primarily due to the difference between a full year of operations at the CN Tower compared to three months in the previous fiscal year ($46.3 million) and increased property sales of $7.8 million reduced by lower rental income.

Property sales for the prior year YE 04 were the lowest level since the reactivation of CLCL. Although levels increased in the past year, they are forecasted to decline again to $50.5 million next year.

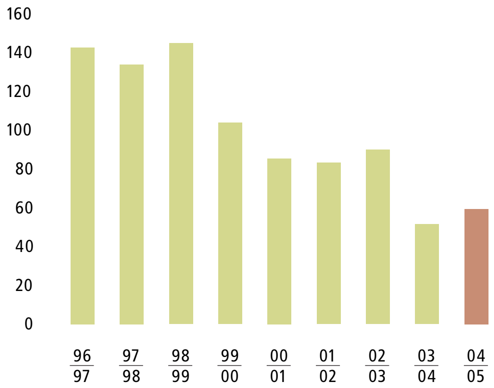
Included in expenses for YE 05 was a provision for environmental remediation of $5.8 million. CLC made a commitment under the sale of the City Place lands in 1998 to fund a portion of the environmental clean up costs. In prior years, CLC recorded $14.0 million as its best estimate of its share of the anticipated clean up cost. CLC and Concord Adex reached an agreement regarding the repayment of the long-term receivable and the settlement of the environmental costs. CLC has fully discharged its liabilities under the commitment.

General and administrative expenses increased by $6.1 million over the prior year. This was due mainly to the additional costs related to a full year's operations at the CN Tower versus three months last year. General and administrative expenses attributed to real estate operations increased by only 1% over last year. The expenses were $2.4 million lower than budget reflecting the continued goal to enhance both operational effectiveness and cost efficiencies.

CLCL is subject to federal and certain provincial taxes at corporate rates. Income taxes of $4.3 million for YE 05 represent an effective rate of 25% of income before tax, due to the tax treatment of capital gains and the fact that CLCL's income is not subject to provincial income taxes in Ontario and Alberta. The income tax for YE 04 reflected a significant reduction of the provision for additional taxes regarding CLC's change in status from tax-exempt to being subjected to taxes for federal income

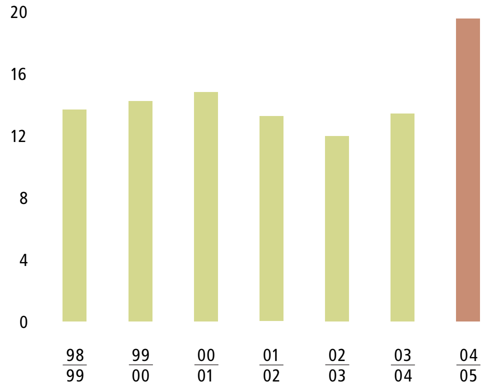
SALES BY YEAR

(in millions of dollars)



GENERAL AND ADMINISTRATIVE EXPENSES

(in millions of dollars)



and capital gains. This provision was substantially reduced as Canada Revenue Agency completed an audit for the 1999 to 2002 taxation years with a focus on the valuation of CLC's properties at the time of change in status, and no adjustments were proposed.

Real Estate Operations

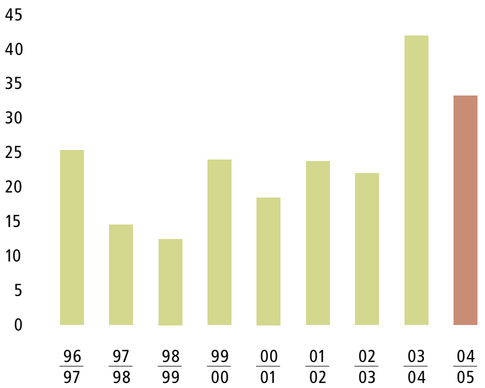
In millions of dollars except where noted	**YE 05**	Budget	YE 04
Property sales	**$ 59.3**	$ 54.8	$ 51.5
Net profit on property sales	**19.7**	13.5	21.6
Gross margin on property sales (as a percentage)	**33.2%**	24.6%	41.9%
Expenditures on properties	**35.8**	77.9	40.6

The net profit on property sales was $1.9 million lower than last year. Although property sales were $7.8 million higher than last year, sales are still significantly less than the five-year average of $73.9 million. The gross margin on property sales decreased from 41.9% to 33.2%; last year's gross margin was the highest since inception of the company and included an adjustment for CFB Calgary prior year's cost of sales. Excluding CFB Calgary, last year's gross margin was 34.2%. The increase in gross profit over the five-year average of 24.4% reflected the value creation of developing the sites. Previously CLC did not go as far in the redevelopment process before putting sites up for sale. This resulted in properties being held for a shorter time period but sold at a lower gross margin. CLC now services the sites, including an investment of additional capital, which results in longer timeframes to bring properties to market, at higher prices and larger gross margins.

Property sales exceeded budget by $4.5 million, and profit exceeded budget by $6.2 million. The increased sales and gross margin on property sales were due primarily to the sale of an office building at 685 Cathcart (Montréal) and a site at George Derby (Burnaby). The majority of sales (76%) took place in Western Canada compared to 49% last year. Until further transfers are achieved for Eastern Canada, this trend will continue, as most of the developments are located in the West.

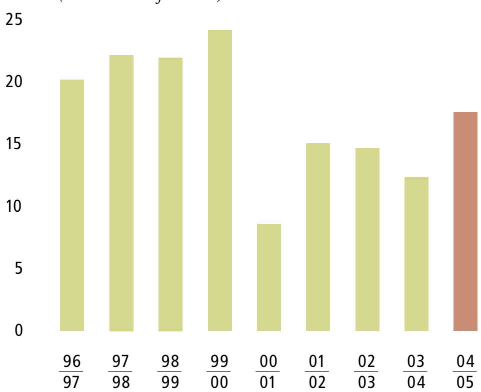
GROSS MARGIN ON PROPERTY SALES

(percentage)



INCOME BEFORE TAX

(in millions of dollars)



Property sales for YE 05 totalled $59.3 million, compared with average property sales per year of $82.8 million over the five-year period from 1999 to 2004. The decrease in sales reflected the delay in transfers and the effect of the time required to service and sell the properties recently transferred from the government to replace the original property inventory CLC has sold.

An objective of the company for YE 05 was to gain approval for five property transfers from Treasury Board and to receive title transfer for eight properties. The property inventory decreased from last year as no new properties were transferred excluding some Seaway properties, which were part of a larger portfolio approved in 2002.

Capital expenditures excluding the CN Tower were $42.1 million lower than budget, of which $23.0 million related to CFB Griesbach (the budget assumed the construction of a commercial centre which has been delayed until an anchor tenant is signed). The delay in transferring properties resulted in a reduction of $13.3 million in expenditures, and the delay in the construction of a building in Glenlyon Business Park resulted in a reduction of $4.1 million.

CN Tower Operations

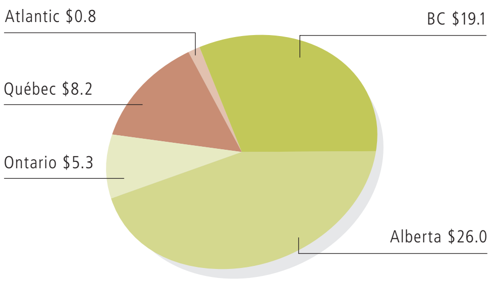
In millions of dollars except where noted	**YE 05**	Budget	YE 04*
Revenues	**$ 51.3**	$ 49.8	$ 37.5
Earnings before interest, tax, depreciation and amortization	**17.0**	15.1	9.9
Income before taxes	**11.0**	8.2	6.2
Attendance	**1.5**	1.4	1.2
Average spending per visitor (in dollars)	**32.07**	32.71	29.76

* Full year's results including period operated by TrizecHahn.

This was a recovery year at the CN Tower, with attendance, revenues and income before taxes outperforming both budget and prior year. Total attendance is now at 85% of pre-9/11 and SARS levels. European and Asian visitors have returned to their previous levels but US visitors have not. Attendance at the CN Tower is directly related to the number of tourists visiting Toronto.

PROPERTY SALES BY REGION

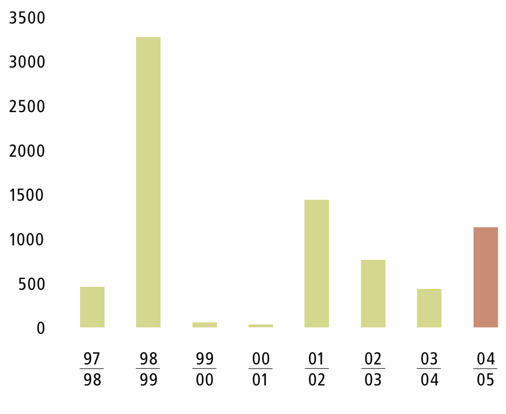
(in millions of dollars)



Total sales: $59.3 million

TRANSFERS OF PROPERTY BY YEAR

(in acres)



Up-selling at the CN Tower has resulted in an improved bottom line with average spending per visitor increasing $2.31 or 8%. A goal at the CN Tower operations is to increase attendance in Season B from November to April. During Season A from May to October, the CN Tower is operating at close to maximum capacity. Season B visitors tend to live locally as opposed to Season A which is mainly comprised of tourists. The CN Tower reached its goal for YE 05 of attaining Season B attendance of 390,000. This represented a 9% increase over the prior year.

Properties

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

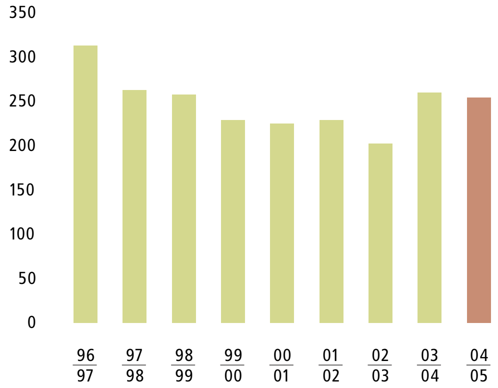
In millions of dollars	**March 2005**	March 2004
Revenue producing properties	**$ 122.4**	$ 129.5
Properties under development	**100.2**	94.2
Land held for development or sale	**32.2**	34.1

At March 31, 2005, CLC owned five revenue producing properties with a book value of $122.4 million, compared to six properties with a book value of $129.5 million at March 31, 2004. CLC's principal property asset is the CN Tower in Toronto, which will be retained by CLC and was leased to a third party until January 28, 2004. CLC's revenue producing properties also include a retail shopping centre in Edmonton, office/research facilities in Burnaby, and parking facilities in Toronto.

During the year, 685 Cathcart, an office building in Montréal, was sold. CLC manages two other revenue producing properties: an office and hotel complex in Toronto for a pension fund and a residential complex in Montréal in connection with Canada Mortgage and Housing Corporation (CMHC).

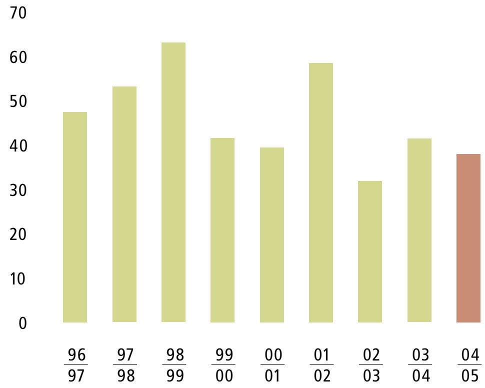
PROPERTY INVENTORY

(in millions of dollars)



CAPITAL EXPENDITURES

(in millions of dollars)



Properties under development consist of six property holdings totalling approximately 1,124 acres (454.9 hectares), with a carrying value of $100.2 million, an increase of $6.2 million from March 31, 2004. The sites under active development include Glenlyon Business Park in Burnaby, the former military bases in Chilliwack, Calgary and Edmonton and a residential project in Ottawa. To mitigate risks and exposures, CLC pre-leases or pre-sells buildings prior to the commencement of construction.

Land held for development or sale consists of approximately 25 property holdings located across Canada totalling 2,409 acres (974.9 hectares). At March 31, 2005, the carrying value of lands in this category was $32.2 million, a $1.9 million decrease from March 31, 2004.

During YE 05, CLC spent $38 million on construction, site servicing, environmental remediation and other investments at its various property holdings including the CN Tower.

Cash Flow

Cash provided by operating activities during YE 05 totalled $45.3 million, an increase of $36.1 million from the $9.2 million generated in YE 04. The increase was due primarily to the settlement of the Concord Adex City Place agreement resulting in Concord Adex prepaying its mortgage of $34.2 million less a $12.8 million payment by CLC for its environmental liability.

Cash used in financing activities for YE 05 amounted to $14.3 million, representing note repayments to the government of $5.6 million, a dividend payment to the government of $5.0 million and mortgage bond repayments of $3.7 million. Note repayments and dividend to the government in YE 04 totalled $19.7 million.

Cash provided by investing activities for YE 05 was $3.5 million, $41.4 million more than YE 04. The difference was due mainly to the acquisition of the CN Tower leasehold interests of $35.6 million in YE 04.

Financial Condition and Liquidity

On January 27, 2004, CLC issued a $47.0 million, ten-year fully amortized, first mortgage bond at 5.37%, secured by the CN Tower asset and guaranteed by CLC. The mortgage bond had a balance of $43.3 million at March 31, 2005. The CN Tower received a rating of “A” with a stable trend from Dominion Bond Rating Service Limited in connection with the mortgage bond on March 8, 2005.

At March 31, 2005, CLC had cash and short-term investments totalling $57.7 million. In addition, CLC has a line of credit of $50.0 million with a Canadian chartered bank, which is presently being used for letters of credit issued in the amount of $16.6 million.

As at March 31, 2005, CLC had $29.2 million in notes payable to the government. These notes are unsecured obligations and are repayable on the earlier of their maturity dates or the dates on which net proceeds become available from the sale of the properties in respect of which the notes were issued. CLC expects that proceeds from these sales will enable the notes to be paid prior to their maturity dates. CLC estimates repayment of notes payable of $0.3 million during the year ending March 31, 2006. CLC expects to repay $8.7 million of these notes during the next five years.

In the coming year, CLC anticipates investing approximately $57.8 million on its existing and new properties for construction, site servicing, environmental remediation and generally preparing the land inventory for sale. Substantial expenditures are expected to be incurred on the former military bases in Calgary, Chilliwack and Edmonton.

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

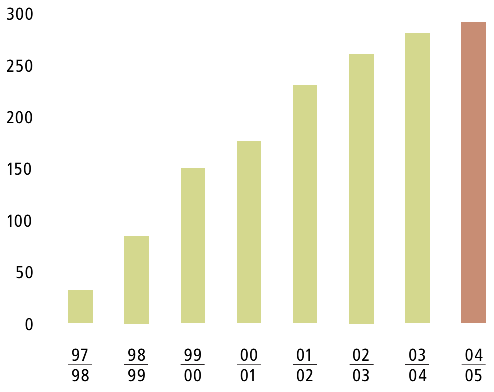
Based on the current level of cash and short-term investments and the existing line of credit, CLC expects to be able to fund all operating cash requirements and anticipated expenditures on properties for the coming year. In addition, currently contracted sales and future sales anticipated through the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

Risks and Uncertainties

CLCL, through CLC, manages and disposes of strategic surplus properties on behalf of the government to ensure that optimal value is realized from these assets. Optimal value recognizes financial value, economic stimulation and contributions to the quality of life in local communities where CLC conducts its business. CLC acted in a manner consistent with this mandate in YE 05.

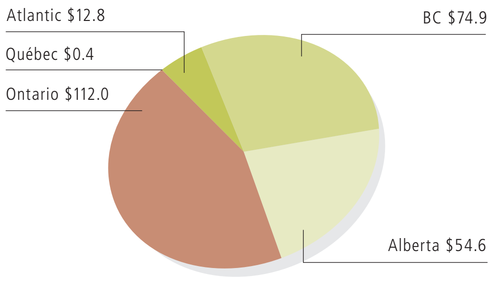
CUMULATIVE DISTRIBUTION TO SHAREHOLDER

(in millions of dollars)



PROPERTY DISTRIBUTION BY REGION BY BOOK VALUE

(in millions of dollars)



Total book value: $254.7 million

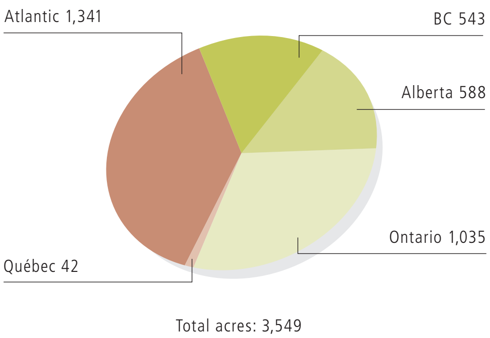
CLC has adopted a proactive approach of identifying, eliminating or managing its business and operational risks. The mandate of CLC's risk management committee is to identify and assess the key risks facing the company, and then act to eliminate risks where possible, or mitigate, manage and insure where elimination is not possible. In 2004, a Director of Internal Controls position was brought in-house to create and sustain internal expertise in support of business unit risk management. The director responsible for this area manages internal audit and risk management functions, as well as the corporate insurance portfolio. A high-level risk assessment process has been initiated and considers business/strategic, financial, operational and reputation risks, as well as those processes that support the creation of financial information used by management. A corporate risk register is being developed to properly evaluate and monitor the company's principal risks.

As a result of a recent comprehensive review and assessment of the overall CLC corporate insurance portfolio, which evaluated the extent of the company's property and third party liability risks, a revised insurance program was implemented to consolidate potentially duplicate programs for the company's various real estate holdings, including the Metro Toronto Convention Complex and the CN Tower. This resulted in an annual saving of just under $1 million, as well as generally broader insurance protection relevant to CLC's particular business needs and real estate assets.

In terms of risk management architecture, the internal controls department has developed a charter that officially establishes the internal controls and auditing function within CLC and authorizes its access to records, files, personnel and physical properties relevant to the performance of audits. In addition, a risk management policy was drafted that sets the framework for the development of the risk management strategy at CLC. The risk management policy outlines the scope and processes of this development, and clarifies risk management roles and responsibilities at CLC.

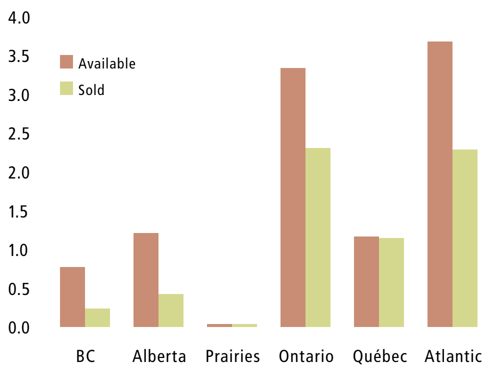
PROPERTY DISTRIBUTION BY REGION

(in acres)



SUMMARY OF PROPERTY SINCE INCEPTION BY REGION

(acreage in thousands)



During the year, a total of 1,126 acres (455.7 hectares) of the Seaway portfolio was transferred to CLC. As at March 31, 2005, CLC had a land bank of approximately 3,550 acres (1,436.6 hectares). Treasury Board previously approved additional transfers of a further 1,274 acres (515.6 hectares), of which the 33 properties of the Seaway portfolio still to be transferred total 686 acres (277.6 hectares). CLC is currently in negotiations with government departments and agencies regarding a further 919 acres (371.9 hectares). Of the properties approved and under negotiations, 64% are located in Eastern Canada, where there is presently a shortage of inventory. As many of the individual properties potentially available for transfer are substantial in size, ranging from 200 to 1,200 acres (81 to 485 hectares), their planning, development and reintegration into local communities will take place over a number of years. Although this makes CLC vulnerable to adverse changes in local real estate market conditions and can affect demand, it also allows CLC to wait for an improvement in local real estate markets as it has with other properties for sale across Canada.

Across Canada, but particularly in British Columbia, CLC's holdings and potential transfers of properties from the government are impacted by aboriginal land claims. CLC has guidelines and procedures in place for advancing commercial transactions on its lands that are subject to comprehensive aboriginal land claims. CLC continues to work with various government agencies and organizations to assist in establishing a process whereby such surplus lands could be transferred to CLC. In March 2005, CLC signed a Memorandum of Understanding (MOU) with the Musqueam Band and the City of Richmond regarding the development of the Richmond lands. Previously the federal court had rendered a decision to grant an interlocutory injunction to the Musqueam Band, regarding the transfer of the Richmond lands to CLC. Custodians had placed a hold on any transfers of land with aboriginal implications until this matter was settled. With the signed MOU for Richmond, it is hoped that the custodians will remove the hold they placed on the transfer of lands with aboriginal implications.

Historically, the CN Tower's operations have been directly linked to the tourism sector in Toronto, as demonstrated dramatically by the impact of SARS in 2003. The number of visitors to the CN Tower has also been related to both the seasons and daily weather conditions. Recognizing and acting upon the potential of both attracting a higher percentage of Toronto's tourists and focusing on less seasonal corporate business will further enhance the performance of the CN Tower business development initiatives. Since reacquisition, this focus has already resulted in attendance nearing pre-SARS levels and record income before taxes for the year ended March 2005.

Future Prospects

Last year, the rate of growth of Canadian GDP increased to 2.8% from 1.7% in 2003. The increase was due to energy projects and strong consumer spending brought about by low borrowing costs. Canadian interest rates remain low and are not expected to increase until later this year. The low interest rates are expected to continue to drive the domestic economy this year. The Canadian household debt level is at an all-time high, which could dampen the economy if interest rates increase dramatically.

The growth rate of the Canadian economy is expected to remain at 2.8% in 2005. Real estate markets are generally strong across Canada. The housing market is expected to remain strong, supported by low interest rates. Residential rental, resale and new housing markets are expected to remain strong in Alberta and British Columbia, where CLC's redevelopments of the former CFB Calgary, CFB Griesbach and CFB Chilliwack continue to receive a very positive response from local home buyers. Space at the former military bases attracts moderate but steady demand across Canada. CLC's recent sales activities demonstrate that there is ongoing demand for its land holdings, and it can continue to create significant benefits and/or value from its property portfolio, which is diverse in location, value, size and current or potential uses.

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

Looking forward, CLC anticipates another profitable year of operation. The additional transfer of properties from the government will result in increased revenue over the next two to three years. CLC's highest level of income before taxes historically was $24.1 million. Income before taxes is expected to increase from $12.7 million next year to $44.8 million in year five, averaging $29.7 million per year. Property sales of $50.5 million are anticipated next year, increasing to $168.4 million in year five. The low sales expected next year reflect the delay in receiving municipal approval at CFB Calgary and the lack of new product due to the slowness of transfers over the past three years.

Attendance at the CN Tower is expected to increase by 21% over the five-year plan period, resulting in a proportional increase in revenues. Finally, the property asset base by year two of the upcoming plan period is conservatively projected to be more than $352 million, compared to the highest historical level of $337 million at the company's reactivation in 1995.

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

we have reviewed the financial statements of Canada Lands Company Limited for the fiscal year ending March 31, 2005;

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

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

May 13, 2005

Jim Lynes
Acting President and CEO

B Evans

Brian Evans
Vice President, Finance
Chief Financial Officer

Management's Responsibility for Financial Reporting

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

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

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

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

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

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

Jim Lynes
Acting President and CEO

B Evans

Brian Evans
Vice President, Finance
and Chief Financial Officer

May 13, 2005

Auditors’ Report

To the Minister of State (Infrastructure and Communities)

We have audited the consolidated balance sheet of Canada Lands Company Limited as at March 31, 2005 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 March 31, 2005 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Shahid Minto

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

Ottawa, Canada
May 13, 2005

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
May 13, 2005

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED MARCH 31

In thousands	Note	2005	2004
REVENUES			
Real estate sales		**$ 59,325**	$ 51,524
Rental		**16,752**	20,729
Interest and other	12	**4,944**	5,500
Attractions, food and beverage and other CN Tower revenues		**51,318**	4,966
		132,339	82,719
EXPENSES			
Real estate cost of sales		**39,586**	29,944
Rental operating costs		**14,738**	15,942
General and administrative		**19,508**	13,397
Attractions, food and beverage and other CN Tower expenses		**27,634**	3,810
Other expenses		**4,582**	3,424
Provision for environmental remediation	17	**5,778**	3,000
Interest and other financing costs		**2,429**	752
Provision for decrease in property values		**481**	60
		114,736	70,329
INCOME BEFORE TAXES		**17,603**	12,390
Future income tax recovery	10	**(489)**	(453)
Current income tax expense (recovery)	10	**4,823**	(4,330)
		4,334	(4,783)
NET INCOME BEFORE RESULTS FROM PARC DOWNSVIEW PARK INC.		**13,269**	17,173
Net income of Parc Downsview Park Inc., net of tax	9	**–**	143
NET INCOME		**13,269**	17,316
Retained earnings, beginning of year		**87,253**	76,199
Dividend		**(5,000)**	(5,000)
Deconsolidation of the assets and liabilities of Parc Downsview Park Inc. as of September 2003		**–**	(1,262)
RETAINED EARNINGS, END OF YEAR		**$ 95,522**	$ 87,253

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

AS AT MARCH 31

In thousands	Note	2005	2004
ASSETS			
Properties			
Revenue producing properties	3	**$ 122,419**	$ 129,480
Properties under development		**100,150**	94,187
Land held for development or sale		**32,161**	34,115
		254,730	257,782
Other Assets			
Cash and cash equivalents	4	**57,712**	23,114
Amounts receivable and other assets	5	**31,293**	69,231
		89,005	92,345
		$ 343,735	$ 350,127
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Mortgage bond payable	6	**$ 43,340**	$ 47,000
Notes payable	7	**29,176**	32,036
Accounts payable and accrued liabilities	11	**25,076**	33,711
Income tax payable		**1,897**	1,424
Future income tax liabilities	10	**1,863**	2,348
Prepaid rents and deposits		**1,780**	1,274
		103,132	117,793
Shareholder's Equity			
Capital stock	8	**–**	–
Contributed surplus		**145,081**	145,081
Retained earnings		**95,522**	87,253
		240,603	232,334
		$ 343,735	$ 350,127
Commitments	11		

See accompanying notes to consolidated financial statements

On behalf of the Board,

Marc Rochon

John McManus

Consolidated Statement of Cash Flow

FOR THE YEAR ENDED MARCH 31

In thousands	Note	2005	2004
OPERATING ACTIVITIES			
Net income before results from Parc Downsview Park Inc.		**$ 13,269**	$ 17,173
Recovery of costs on sale of properties held for development or sale		**31,153**	18,117
Expenditures on properties held for development or sale		**(34,687)**	(33,431)
Provision for decrease in property values		**481**	60
Depreciation		**4,512**	2,906
		14,728	4,825
Net change in non-cash operating assets and liabilities		**30,601**	4,349
CASH PROVIDED BY OPERATING ACTIVITIES		**45,329**	9,174
FINANCING ACTIVITIES			
Return of CN Tower prepaid rent		**–**	(16,708)
Repayment of notes payable		**(5,617)**	(14,684)
Dividend paid		**(5,000)**	(5,000)
(Repayment) issuance of mortgage bond		**(3,660)**	47,000
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		**(14,277)**	10,608
INVESTING ACTIVITIES			
Acquisition of the CN Tower leasehold interest		**–**	(35,627)
Recovery of costs on sale of revenue producing properties		**6,630**	5,228
Expenditures on revenue producing properties		**(3,290)**	(7,936)
Decrease in restricted cash		**206**	501
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		**3,546**	(37,834)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE CASH FLOW FROM PARC DOWNSVIEW PARK INC.		**34,598**	(18,052)
Increase in cash flow from Parc Downsview Park Inc.	9	**–**	693
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**34,598**	(17,359)
Deconsolidation of Parc Downsview Park Inc. as of September 2003	9	**–**	(17,484)
Cash and cash equivalents, beginning of year		**23,114**	57,957
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 57,712**	$ 23,114
Supplemental cash flow information	12		

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Authority and Activities of CLCL

Canada Lands Company Limited (CLCL) became an agent Crown corporation pursuant to Governor in Council approval (order in council number P.C. 2003-1306). It was originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. It is listed as a parent Crown corporation in Part 1 of Schedule III to the *Financial Administration Act*.

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

On September 3, 2003, approval was given by the Governor in Council (order in council number P.C. 2003-1306) to make CLCL's wholly-owned subsidiary Parc Downsview Park Inc. (PDP) an agent Crown corporation, and also to have it report to Parliament as a deemed parent Crown corporation. This same approval changed CLCL from a non-agent Crown corporation to an agent Crown corporation. While CLCL continues to own the shares of PDP, the results of PDP have been excluded from the consolidation because CLCL was deemed a parent Crown corporation by the government. As a result, CLCL has no recorded investment in PDP after September 3, 2003.

2. Summary of Significant Accounting Policies

a) General

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

b) Consolidation

CLCL has one wholly-owned subsidiary, CLC, the accounts of which are consolidated with CLCL's accounts.

CLCL owns shares of Old Port of Montréal Corporation Inc. (OPMC) and PDP. OPMC and PDP are excluded from consolidation because CLCL does not have continuing power to determine their strategic operating, investing and financing policies and because OPMC and PDP have been directed by the government to report as parent Crown corporations. CLCL has no recorded investment in OPMC and PDP. As at March 31, 2004, the latest date for which audited financial statements are available, OPMC had assets of $20.7 million, liabilities of $19.6 million and equity of $1.1 million, with revenue of $13.9 million and an excess of operating expenditures over revenue of $14.8 million for the year then ended. PDP had assets of $25.5 million, liabilities of $7.1 million and equity of $18.4 million, with revenue of $6.6 million and an excess of operating expenditures over revenue of $1.7 million for the year then ended.

c) Revenue Recognition

CLCL recognizes revenue as follows:

i) Sales

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

ii) Rental

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

iii) Attractions, food and beverage

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

d) Properties

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

ii) CLCL capitalizes direct construction and development costs, including financing costs and directly attributable overhead costs, to the properties under development net of any revenues generated during development until the property is substantially ready for commercial use.

iii) Depreciation on revenue producing properties is calculated on the straight-line method using rates based on the estimated remaining useful lives of the assets, which range from 5 to 40 years. Depreciation is recorded in other expenses.

e) Use of Estimates

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

In determining estimates of net realizable values for its properties, CLCL relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Due to the assumptions made in arriving at estimates of net realizable value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

CLCL's properties are subject to various government laws and regulations relating to the protection of the environment. CLCL has made, and expects to make in the future, expenditures to comply with such laws and regulations. Where estimated costs are reasonably determinable, CLCL 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 are expected to be in effect when the differences are expected to reverse.

g) Other Capital Assets

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

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

3. Revenue Producing Properties

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

In thousands	**2005**	2004
Land	**$ 11,367**	$ 12,198
Buildings	**137,010**	139,578
	148,377	151,776
Accumulated depreciation	**25,958**	22,296
	$ 122,419	$ 129,480

Depreciation expense of $3.7 million (2004 – $2.6 million) was charged to other expenses.

4. Cash and Cash Equivalents

In thousands	**2005**	2004
Cash	**$ 612**	$ 714
Cash equivalents	**57,100**	22,400
	$ 57,712	$ 23,114

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

5. Amounts Receivable and Other Assets

Amounts receivable and other assets are comprised as follows:

In thousands	2005	2004
Mortgages and secured notes	**$ 10,316**	$ 50,909
Assignment of rents	**5,455**	5,756
Rents and prepaids	**12,891**	10,283
Other capital assets	**2,587**	2,033
Restricted cash	**44**	250
	$ 31,293	$ 69,231

a) Mortgages and secured notes receivable bear interest at a weighted average rate of 4.74% (2004 – 5.84%), and are receivable as follows:

In thousands		
Years ending March 31	2006	$ 7,284
	2007	2,142
	2008	890
		$ 10,316

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

c) Restricted cash represents holdback money owing for the Glenlyon Phase II and CFB Chilliwack North Side projects.

d) Other capital assets are comprised of the following:

		2005			2004	
In thousands	**Cost**	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Office equipment and computer software and hardware	**$ 2,739**	**$ 1,410**	**$ 1,329**	$ 2,043	$ 1,007	$ 1,036
Catering and entertainment equipment	**1,601**	**401**	**1,200**	952	58	894
Leasehold improvements	**230**	**172**	**58**	229	126	103
Total	**$ 4,570**	**$ 1,983**	**$ 2,587**	$ 3,224	$ 1,191	$ 2,033

Depreciation expense of $0.8 million (2004 – $0.3 million) was charged to other expenses.

6. Mortgage Bond Payable

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

Certain of CLCL's properties have been pledged as collateral. The carrying value of the pledged properties as of March 31, 2005 was $93.1 million (2004 – $93.7 million). The mortgage bond payable has a maturity schedule as follows:

In thousands

Years ending March 31	2006	$ 3,859
	2007	4,070
	2008	4,291
	2009	4,525
	2010	4,771
Subsequent years		21,824
		$ 43,340

Interest is payable at an annual rate of 5.37%. Interest incurred on the mortgage bond payable amounted to $2.4 million for the period (2004 – $0.4 million).

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

7. Notes Payable

The notes payable were issued in consideration of the acquisition of real estate properties (note 13), and are due to the government. The notes are repayable on the earlier of their due dates (2008 to 2018) or the dates on which net proceeds become available from the sale by CLCL of the properties in respect of which the notes were issued. All notes are non-interest bearing. For these interest-free notes where the project has a life greater than five years, the notes are discounted using an imputed interest rate. The imputed interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average rate of 8.5% (2004 – 7.3%).

During the year ended March 31, 2005, interest capitalized was $2.3 million (2004 – $4.9 million).

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

In thousands

Years ending March 31	2006	$ 300
	2007	599
	2008	2,027
	2009	1,521
	2010	4,215
Subsequent years		38,655
		47,317
Less amounts representing imputed interest		18,141
		$ 29,176

8. Capital Stock

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

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

9. Modification to the Legal Framework of PDP

On September 3, 2003, the government directed PDP to report as if it were a parent Crown corporation. While CLCL still owns the shares of PDP, it does not have continuing power to determine PDP's strategies and policies. Accordingly, the results of PDP are no longer included in the consolidated results of CLCL from September 3, 2003. As the new status of PDP was mandated by the shareholder of CLCL, there was an adjustment to the retained earnings of $1.3 million to reflect the deconsolidation of the assets and liabilities of PDP at September 3, 2003. The summarized income statement and cash flow disclosures of PDP for the period ending September 3, 2003 are as follows:

Income Statement Disclosure

In thousands	2004
Revenues	$ 3,877
Expenses	3,776
	101
Government funding	63
Income before income taxes	164
Income taxes	21
Net income	$ 143

Cash Flow Disclosure

In thousands	2004
Cash provided by operating activities	$ 980
Cash used in investment activities	(287)
Increase in cash	693
Cash and cash equivalents, beginning of period	16,791
Cash and cash equivalents, end of period	$ 17,484

10. Income Taxes

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

In thousands	2005	2004
Expected statutory rate of tax	**36%**	36%
Expected income tax expense	**$ 6,337**	$ 4,460
Increase (decrease) in tax expense resulting from:		
Non-taxable portion of capital gains	**(79)**	(553)
Income not taxable in certain provinces	**(2,050)**	(1,148)
Large corporations tax	**303**	400
Other	**(177)**	(7,942)
Actual income tax expense (recovery)	**$ 4,334**	$ (4,783)

Prior year other includes the reversal of $7.2 million of tax reserves. These tax reserves were established in the event taxation authorities were successful in challenging certain tax filing positions made by CLCL. In 2004, after the completion of tax audits on certain tax filings made by CLCL involving previous years, CLCL determined that these tax reserves could be reduced.

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

In thousands	2005	2004
Future tax liabilities		
Income producing properties	**$ (2,664)**	$ (2,860)
Notes payable	**(4,515)**	(5,361)
	(7,179)	(8,221)
Future tax assets		
Property under development	**4,515**	5,361
Reserves	**640**	276
Financing costs	**161**	236
	5,316	5,873
Net future income tax liabilities	**$ (1,863)**	$ (2,348)

11. Other Liabilities and Commitments

a) In 1995, CLCL acquired a portfolio of real estate properties from Canadian National Railway Company (CN). As part of this transaction, CLCL assumed an obligation for a property previously sold by CN to a third party. CLCL is required to repurchase this property in 2083. However, there is an early termination clause in this agreement which CLCL may trigger in 2009. The repurchase and termination prices are based on a predetermined formula.

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

CLCL's estimated obligation in respect of these commitments, assuming the early termination clause is exercised, is $3.9 million (2004 – $4.3 million) and is included in accounts payable and accrued liabilities. This estimate is based on assumptions regarding future events and economic conditions and the actual obligation may be materially different from this estimate.

b) Capital commitments for servicing requirements and other development costs at March 31, 2005 total $28.7 million (2004 – $19.4 million).

c) CLC has a $50 million line of credit with Bank of Montreal. This line is presently used for letters of credit issued for the fulfillment of certain obligations totalling $16.6 million at March 31, 2005 (2004 – $12.3 million).

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

12. Consolidated Statement of Cash Flow – Supplementary Information

Property acquisitions and additions which were satisfied by the issuance of notes payable in the amount of $0.5 million (2004 – $8.2 million) have been excluded from financing and investing activities in the consolidated statement of cash flow.

Non-cash increase in properties and notes payable of $2.3 million (2004 – $4.9 million) for capitalization of interest 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 CLCL or the assumption of debt by the purchasers in the amount of $1.8 million (2004 – $6.6 million) have been excluded from financing, investing and operating activities in the consolidated statement of cash flow.

During the year ended March 31, 2005, interest received totalled $3.5 million (2004 – $1.6 million), interest paid amounted to $2.3 million (2004 – $0.3 million) and income taxes paid totalled $5.1 million (2004 – $3.6 million).

13. Related Party Transactions

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

In addition to transactions previously disclosed, during the year ended March 31, 2005:

a) CLCL acquired an interest in real estate properties from government departments for an aggregate purchase price of $0.5 million (2004 – $8.2 million). Consideration for these assets was cash payment or the issuance of notes payable (note 7).

b) CLC received management fees of nil from a Crown corporation (2004 – $0.1 million).

c) CLCL has a net receivable of $0.6 million from federal agencies and departments for reimbursement of costs (2004 – $0.1 million).

14. Financial Instruments

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

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

15. Benny Farm Property

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

16. Segmented Information

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

Additional information on these activities is as follows:

In thousands	Real Estate Activities	Entertainment and Hospitality	**Total 2005**	Total 2004
Revenues	$ 81,021	$ 51,318	**$ 132,339**	$ 82,719
Depreciation	936	3,576	**4,512**	2,906
Net income before tax	6,536	11,067	**17,603**	12,390
Acquisitions and expenditures on properties	35,523	2,454	**37,977**	41,367
Identifiable assets	235,663	108,072	**343,735**	350,127
Identifiable mortgage bond and notes payable	29,176	43,340	**72,516**	79,036

17. Provision for Environmental Remediation

In 1998, CLCL sold certain properties. CLCL had a commitment under the related sale agreement to fund a portion of the environmental clean-up costs for those properties. In prior years, CLCL recorded $14.0 million as its best estimate of its share of the anticipated clean-up costs. In 2005, CLCL fully discharged its liabilities under this commitment and an additional amount of $5.8 million was charged to environmental remediation expense.

18. Pension Plan

CLCL has a defined contribution pension plan covering all of its full-time employees and certain part-time employees in accordance with the plan. Employees are eligible to join either at the date of employment or after a year of employment. The amount charged to expense for this plan was $0.8 million for the year ended March 31, 2005 (2004 – $0.5 million).

19. Comparative Amounts

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

Senior Management Team

Jim Lynes is Acting President and CEO and has over 31 years of property and financial management experience. The former CEO of Canada Ports Corporation, a Crown corporation responsible for 13 of the largest commercial ports in Canada, he has also held numerous senior positions within the federal government. He joined CLC in 2000.

Brenda Buchanan is the Vice President, Administration. She has over seven years of management experience in the field of real estate and engineering. She joined CLC in 2003. Prior to this Ms Buchanan was with Vestar Limited.

Brian Evans, CA is the Vice President, Finance and Chief Financial Officer. Mr. Evans has over 23 years of experience in the field of real estate financial management. He has been with CLC since its creation in 1995 and began with CN Real Estate in 1991.

Robert Howald is the Acting Vice President, Real Estate, Eastern Region. Mr. Howald has 24 years of real estate management experience. Prior to joining CLC in 1999, he was Executive Vice President with the City of Toronto Economic Development Corporation, and responsible for over 400 acres in the Toronto Portlands.

Doug Kester is the Vice President, Real Estate, Western Region. Mr. Kester has over 34 years of experience in the real estate business. He received his MBA from York University. He has been with CLC since its creation in 1995 and prior to that with CN Real Estate for five years.

Gordon McIvor is the Vice President, Public and Government Affairs. He has over 24 years of experience in the field of public and government affairs and he has a leadership position in several volunteer organizations. Mr. McIvor has been with CLC since its creation in 1995 and with CN Real Estate beginning in 1988.

Jack Robinson is the General Manager, CN Tower and Vice President. Mr. Robinson has 28 years of attractions and consumer management experience and has been at the CN Tower for 13 years, most recently as Director of Sales. He joined CLC's senior management team in 2004.

Brian Way is Corporate Secretary. He has spent his entire 41-year career working at CN Real Estate and CLC in varying capacities; he has spent the last nine years as the company's Corporate Secretary.

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