ANNUAL REPORT 2007-2008

Operational Review

How do you create financial and community value?

CANADA LANDS COMPANY LIMITED
SOCIÉTÉ IMMOBILIÈRE DU CANADA LIMITÉE

Through research, consultation, action and a commitment to quality.

Canada Lands Company

Corporate Profile

Who We Are

Canada Lands Company Limited (CLCL) is an arm's length, self-financing federal Crown corporation, which reports to the Parliament of Canada through the Minister of Transport, Infrastructure and Communities. It is a *Canada Business Corporations Act* corporation listed in Schedule III, Part 1 of the *Financial Administration Act* and is an agent of Her Majesty. The company has one wholly-owned active subsidiary:

- Canada Lands Company CLC Limited (CLC), a non-agent Crown corporation, which carries out the core real estate business, owns and manages Canada's National Tower (the CN Tower), and is active in 20 municipalities across Canada.

CLCL also holds shares in trust for Her Majesty, in right of Canada, of two other Crown corporations:

- Old Port of Montréal Corporation Inc. (OPMC), an agent Crown corporation, which is responsible for redeveloping the Old Port of Montréal, and which reports to Parliament as if it were a 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 Toronto lands as Downsview Park, and which reports to Parliament as a deemed parent Crown corporation.

What We Do

CLCL optimizes the financial and community value from strategic properties no longer required for program purposes by the Government of Canada. It works through its CLC subsidiary to purchase properties at fair market value, then holds and manages or improves and sells them, in order to produce the best possible benefit for both local communities and the company's sole shareholder, the Government of Canada.

Why We Do It

The company's activities ensure that government properties are redeveloped or managed in accordance with their highest and best use, and that they are harmoniously reintegrated into local communities to meet the needs of Canadians.

Analyze

CLC is notified when a government department, agency or Crown corporation identifies a strategic property that is surplus to its needs. The company analyzes market conditions, location and a variety of other factors to determine how a property can best generate financial and community value. It then prepares a business case for internal purposes.

Acquire

CLC works with the relevant government department to determine a fair market price for the property and then purchases it. When the government's real property disposal process is complete, CLC receives title to it.

Consult

CLC project managers meet with municipal officials and the public to introduce the company and discuss how consultations will take place. Depending on the situation, CLC may meet with community organizations, hold open houses and establish local advisory committees to gain public input on potential best uses and public amenities for the property.

Visualize

After completing the consultation process, CLC then creates a master development plan for the property to incorporate sustainable growth and meet the needs of the local community. This plan is then formally submitted to the local city or town council for consideration and approval. CLC subjects itself to all relevant municipal and provincial approvals processes for its developments.

Prepare

Following receipt of the appropriate approvals, CLC typically carries out site servicing. These pre-development activities may involve the removal of debris and contaminated soil, as well as the renovation or demolition of unsafe structures and the installation of roads and other municipal services to ensure the site is ready for development.

Develop/Sell/Retain

Even though CLC does construct some buildings itself, it more typically markets and sells the property in phases to builders. The builders carry out construction in a manner consistent with CLC's overall vision. In certain cases, the company retains and manages properties to optimize the financial and community value obtained from them.

CLC follows these procedures to take surplus strategic government property and create strong and vibrant developments that add lasting value to communities in which it operates.

Letter to the Minister

The Honourable Lawrence Cannon, Minister of Transport, Infrastructure and Communities, Ottawa, Ontario, Canada

Minister:

With great pleasure, I enclose the annual report of Canada Lands Company Limited (CLCL) for the fiscal year ended March 31, 2008. This document highlights many of the company's accomplishments over the past year in optimizing the financial and community value of surplus strategic properties that are no longer required by the Government of Canada.

During 2007–2008, CLCL continued to make progress on a number of existing projects, while also acquiring new properties for redevelopment from custodian departments, agencies and Crown corporations. In April 2007, the company was pleased to be selected by the government to act as master developer for Montréal's New Harbourfront, a project that will play a major role in the continuing effort to revitalize that city's harbour area for the benefit of local residents and visitors from across Canada and around the world. We are aware that this decision is a reflection of the confidence that you have in this company, and we know that it is indicative of the Government of Canada's commitment to improve the quality of life of all Canadians.

During the next fiscal year, CLCL through its CLC subsidiary will continue to work with the Government of Canada and other stakeholders to develop innovative solutions to a variety of challenges in the real estate and hospitality industry. The company will continue to build on its success in areas such as legacy creation, environmental remediation and the creation of sustainable communities.

I trust that you will find the enclosed performance results and project highlights informative.

Sincerely,

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

A Message from the Board of Directors

Experience and Dedication

Since its reactivation in 1995, Canada Lands Company Limited (CLCL) has recognized that an effective and sound regime of corporate governance and a commitment to transparency are vital to its long-term success. Accordingly, CLCL has emphasized corporate governance and committed itself to monitoring its practices and making changes as necessary. This is achieved through regularly scheduled meetings of the governance committee which, due to its important role, was reduced from a committee of the entire board to a committee of not less than three directors, and takes all of its recommendations to the full board of directors for approval.

In 2007–2008, the corporation reviewed and restructured the composition of all committees to ensure that directors were matched to committees that focus on their specific areas of expertize and skill. This strategy supports the overall effort of enabling proper stewardship, oversight and strategic direction of the corporation. In addition, the board considered the merits of a board charter and has agreed to the creation of such a charter in 2008.

The board and company have been fortunate to have had Marc Rochon reappointed as Chairman for a third term, which will run until December 2009. His experience, wisdom and guidance will continue to benefit the company in the years ahead.

In 2007–2008, the board welcomed Mark Laroche as the new President and CEO of CLCL and CLC. His successful background in municipal affairs, coupled with the fresh perspective he brings to the board's deliberations, have made his presence a valuable addition. As well, the board welcomed the appointment of a new member, Wayne MacIntosh of Nova Scotia, and extended its thanks to Philip J. Star for his service during his tenure.

We invite potential Government of Canada clients and the general public to learn more about CLC's activities and the value it creates for the communities in which it operates. The company has enjoyed national and international recognition for its work in redeveloping properties and creating communities that will leave lasting positive legacies for future generations. Thanks to the professionalism and experience of CLC's staff across the country, we are confident the company will continue to meet this important goal.

From left to right, standing: Alana McPhee, Lloyd Fogler, Mark Laroche, Marc Rochon

Seated: Ernest Yee, Michael Evans, Wayne MacIntosh, Louise Pelletier

Board of Directors

Biographies

Marc Rochon is Chairman of the Board. He 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, giving him a wide range of experience in such areas as corporate governance and social policy issues.

Mark B. Laroche, P.Eng., MBA, is President and CEO. Mr. Laroche holds a master's degree in business administration from Concordia University and a civil engineering bachelor's degree from the Royal Military College of Canada. He was previously Chief Administrative Officer of the City of Gatineau, Québec, and has held senior positions within other Canadian municipalities.

W. Michael Evans, MBA, is President of Atlas Development Corporation, a private commercial real estate development company active throughout Western Canada. Mr. Evans is also a Director of Huntingdon Real Estate Investment Trust. He has a degree in engineering from McGill University and an MBA from the Ivey Business School at the University of Western Ontario.

Lloyd S.D. Fogler, QC, LLB, BCom, is a senior partner at Fogler, Rubinoff LLP in Toronto. He is a director of Brampton Brick Limited, as well as past chair and current director and honorary officer of both Mount Sinai Hospital and Mount Sinai Hospital Foundation. He is also a past trustee, and now an honorary trustee, of the board of trustees of the Royal Ontario Museum.

Wayne MacIntosh, CA, is currently Director of the Financial Management Program at the Cape Breton YMCA. He was previously partner for over 20 years at Grant Thornton LLP where he provided financial management and counseling services across eastern Nova Scotia to a wide range of businesses and government clients.

Alana McPhee, BComm, LLB, has over five years' experience with a niche investment bank specializing in structured finance. Ms. McPhee holds a bachelor of laws degree from Dalhousie Law School and a bachelor of commerce degree in finance and marketing from St. Mary's University. She has also served as a member of the board of trustees of the Toronto International Dance Festival and as a director and treasurer of the Women in Capital Markets Association.

Louise N. Pelletier, BA, LLB, LLM, is currently Director, Legal Affairs for SITQ Inc., an affiliate of the Caisse de Dépôt et de Placement du Québec with real estate assets in Canada, the US and Europe. She is a member of the Québec Bar and of the Law Society of New Brunswick. Ms. Pelletier has spoken at a number of real estate conferences and is also involved in community service.

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

President's Message

Strengthening Canada's Communities

Canada Lands Company CLC Limited (CLC) enjoyed another excellent year during 2007–2008, posting strong financial results, winning numerous awards for its projects and continuing to fulfill its mandate in the face of challenging circumstances.

During the fiscal year, CLC saw significant progress with its existing projects. Important municipal approvals were received for properties in Ottawa, Calgary and Edmonton. These approvals will allow work to continue on these projects and provide further benefits to the respective communities.

A number of new properties were added to the company's portfolio, including the Sir John Thompson building in Halifax, Nova Scotia, Senneville Lodge in Montréal, Québec and the former Prison for Women in Kingston, Ontario.

On April 20, 2007, the minister responsible for CLC, the Honourable Lawrence Cannon along with the Honourable Michael Fortier, announced that the company would be responsible for the redevelopment of nearly five million square feet (approximately 465,000 square metres) of property along Montréal's waterfront. This project, which has been christened "Montréal's New Harbourfront" will see the redevelopment of former industrial properties into vibrant spaces in which Montrealers and visitors will live, work and play. CLC is proud that the Government of Canada has placed its confidence in the company to undertake this significant endeavour.

From a financial perspective, CLC posted strong returns in 2007–2008, thanks to certain strategic disposals, the excellent performance of several key assets and the hard work and dedication of all employees across the country.

Despite a continued downturn in Canada's performance as an international tourist destination, the CN Tower posted solid financial results during the fiscal year.

As we enter the new fiscal year, CLC will strive to meet its objectives despite ongoing challenges associated with the transfer of strategic properties from government departments. The company is actively working with the Government of Canada to seek ways to speed up the transfer process, as well as to seek new opportunities for CLC to utilize its areas of expertize.

On a personal note, since my appointment as President and CEO in July 2007, I have traveled across Canada to view the projects that we are presently undertaking. I was, and still remain, highly impressed with the excellent calibre of work in the redevelopment of properties that provide significant, long-term benefits for the communities where they are located. This is directly due to the experience and professionalism of our staff in all areas of the country, including the corporate staff in our Toronto head office. On behalf of myself and the board of directors, I would like to extend to them my thanks for a job well done and best wishes for continued success.

Finally, I am grateful for the advice and support that I have received from our Board of Directors. Under the very capable leadership of our Chairman, Marc Rochon, the company has undertaken several new initiatives that bode well for the future.

Mark Laroche
President and CEO,
Canada Lands Company Limited
Canada Lands Company CLC Limited

Corporate Governance

A Commitment to Accountability

Board Committees and their Roles

GOVERNANCE

The governance committee's responsibilities include reviewing company policies, making recommendations on Governor in Council appointments, recommending terms of reference and composition of board committees, scheduling board meetings, training and orienting new board members. The company has a clear and concise board of directors profile to assist with the selection of board members, and all directors are subject to the *Conflict of Interest Act*. There is also an established process for reviewing the board's performance. All of the corporation's committees are composed of not less than three directors, all of whom are neither officers nor employees of the corporation or any of its affiliates (except for the President and CEO where applicable).

HUMAN RESOURCES

The human resources committee oversees corporate policies relating to human resources and it has all-encompassing oversight over human resources development. It is responsible for reviewing and approving the annual goals of the President and CEO and monitoring performance in order to make recommendations related to programs and succession planning.

AUDIT

The audit committee advises the board on the soundness of the financial management of the company, and assists the board in overseeing internal control systems, financial reporting, risk management and the audit process. It has the authority to investigate any activity of the company, and all employees are obliged to cooperate.

INVESTMENT

The investment committee provides advice and guidance to management on major projects identified by the board from time to time.

BOARDS/COMMITTEES COMPOSITION

	Canada Lands Company Limited				Canada Lands Company CLC Limited				
DIRECTORS	Board	Human Resources	Audit	Governance	Board	Human Resources	Audit	Governance	Investment
Rochon, Marc*	C				C				
Laroche, Mark	A	A	A	A	X	X	A	X	X
Evans, Michael	X	C	X		X	C	X		X
Fogler, Lloyd	X		X		X		X		X
MacIntosh, Wayne	X		C	X	X		C	X	
McPhee, Alana	X	X		C	X	X		C	X
Pelletier, Louise	X	X		X	X	X		X	C
Yee, Ernest	X	X	X	X	X	X	X	X	

* Chairman is ex-officio member of all committees. As per section 5.01 of the By-Laws, the Chairman of the corporation shall be invited to and can attend all meetings of all committees of the board and be heard at such meetings, but will not vote or be included for determination of a quorum.

A) Attends each meeting.

C) Committee chair.

Board Member Orientation and Continuing Education

Board meetings are held in various cities across Canada to allow board members to see projects first-hand via property tours and meet local stakeholders. The company's senior management team also regularly briefs the board and its committees on operational issues and provides reports and analysis for discussion.

Board members are encouraged to attend training events and education sessions that will enhance their skills, performance and contributions to the board. During 2007–2008, two newly appointed board members attended a two-day education session in Ottawa entitled **Corporate Governance for Federal Crown Corporations** — a governance course specifically tailored to Crown corporation issues and situations. One director also attended two new courses entitled **Understanding the Government Environment and its Impact on Crown Corporations** and **Financial Literacy in a Government Environment**.

Corporate Governance: Year in Review

CLCL's commitment to improving its governance practices and the transparency of its operations has been instrumental in its success. The company proactively improves 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.

- Mr. Wayne B. MacIntosh was appointed to the Board of Directors on August 1, 2007, and received orientation sessions; he is Chair of the Audit Committee, bringing his expertize as a CA.
- Mr. Marc Rochon was reappointed as Chairman of the Board on December 15, 2007, it being his third term, and continues to provide strong leadership to the company.
- With the appointment of five new members to the board and the appointment of a new President and CEO during 2007–2008, a review and restructuring of committee composition was undertaken. The governance committee was reduced from a committee of the whole board to a committee of not less than three directors in order to allow more focused discussions and deliberations prior to making recommendations to the board. The investment committee was formed to provide guidance and advice to management on major projects. Committee terms of reference were reviewed to ensure relevancy and good governance practices.
- The board explored the merits of the development and adoption of a board charter, a formal mechanism for defining authorities, roles and responsibilities. These are becoming the norm amongst federal Crown corporations and this development reflects, to a considerable extent, recommendations made by the federal government. The board charter is to be developed in 2008–2009.
- In the spirit of the *Official Languages Act*, directors are now receiving their agenda material in both official languages.
- In order to engage key stakeholders, partners and opinion leaders in an open dialogue about issues and opportunities of mutual interest, the board hosted its second annual Stakeholder Outreach Luncheon in September 2007. This event was well-attended, and both the directors and their guests felt the discussions were positive and offered some excellent ideas for further consideration.
- CLCL's subsidiary, CLC, became subject to the *Access to Information Act* and the corporation processes requests in the spirit of the Act in the same manner as it has been doing so with CLCL.
- The senior management team succession plan was reviewed and updated. As well, a comprehensive succession plan was finalized to develop and prepare mid-level employees for future roles.
- Management conducted a review of its Business Travel Policy, specifically as it related to travel and hospitality, and compared it to other major commercial Crown corporations and the Treasury Board Secretariat (TBS) Directive. CLC's policy still follows good governance practices and is in line with what other commercial Crown corporations are doing.




OUR STRENGTHS

Leader in innovative redevelopment planning and community consultation

Excellent track record in environmental remediation

Tourism and hospitality leadership in the management of the CN Tower

OUR STRATEGIC PRIORITIES

Pursue opportunities to improve the speed of property transfers to CLC

Management's review of major Crown corporations confirmed that, although not obligated, Crown corporations do post travel/hospitality expenses of the CEO/Vice Presidents and in some cases the board/Chairman to varying degrees of detail. Proactive disclosure of travel and hospitality expenses of its senior management team and board members based on guidelines that meet the spirit of the TBS Directive will begin in 2008.

Director Attendance and Compensation

There were six CLCL board meetings during the fiscal year. Attendance at board meetings was 99%. There were four meetings each of the human resources, audit and governance committees. Attendance at committee meetings was 100%.

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

Policies

The company regularly reviews its suite of policies to ensure they are relevant and reflect best governance practices.

Pay Policy

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

Based on yearly market data collected by independent consultants creating a blend from the public and private sectors, where applicable and available, Canada Lands' pay policy provides base compensation at the median of market comparators primarily on a national basis. Annual salary reviews are conducted and, at the discretion of the company and within the overall budget approved by the human resources committee, increases are administered based on internal equity, external competitiveness (market data) and individual performance.

Salary ranges and incentive pay opportunities for all CLC positions are established through the Hay Job Evaluation System. Reinforcing a performance culture and providing variable compensation that is competitive and appropriate for the company, CLC is recognizing both corporate and individual performance in its incentive award calculations.

Enterprise Risk Management

CLC continues to place emphasis on its enterprise risk management objectives and internal controls environment. The company's Director of Risk Management and Internal Controls works with his colleagues to ensure that risks are identified, assessed, mitigated, managed, monitored, and, when appropriate, insured. The benefits of an enterprise risk management framework for CLC are more apparent to the company's operational management and staff, and the risk awareness process is becoming more embedded each year. The corporate risk register and resulting action plans, which are updated periodically for the board, have brought greater visibility to a disciplined risk management approach as well as the interrelated nature




OUR NEXT STEPS

Seek new avenues for CLC to develop sustainable communities

Build on existing success in bringing more visitors to the CN Tower

Seek new partnerships for CLC with federal departments, agencies and Crown corporations

Implement broader international branding and marketing program for the CN Tower

of many important risks to the company. This function also facilitates the identification and escalation of significant risks for resolution at the senior management team level.

Enterprise risk management encompasses two functions at CLC. The internal audit function reports to both senior management and the board's audit committee that appropriate risk management policies, guidelines and internal controls are in place and are being followed. It also conducts risk-based internal audits based on performed risk assessments as well as other senior management and board concerns or issues. The risk management function addresses the following three broad types of enterprise risk for the company:

- business/strategic risks (changes in legislation, regulations, compliance issues, organizational structure and business processes);
- operational risks (business continuity, people risks, insurance, project management, documentation and records, security and IT); and
- financial risks (financial targets, budgets, financial monitoring and controls).

In the past year, several risk management and internal control initiatives and enhancements were undertaken including:

- a business continuity plan test, known as a tabletop exercise, for the company's head office at One University Avenue in Toronto, which resulted in an overall positive test evaluation by independent expert consultants;
- completion of all time-critical draft business resumption plans for the regional real estate offices across the country and the CN Tower's core departments;
- two risk-control engineering surveys at the CN Tower and the Metro Toronto Convention Centre Complex to evaluate hazards and risk controls in these major facilities, with the evaluations being very positive and only very minor recommendations tabled to minimize loss;
- conducting an annual risk evaluation of CLC's property assets and vacant land for the company's insurance program (covering hazard and operational risks) to ensure it continues to meet corporate needs and safeguards important assets; and
- reducing the total cost of operational and hazard risk by improving loss prevention programs, transferring risk where feasible through contracts and leases, improving insurance protection and considerably reducing corporate insurance premiums.

A contracting management internal audit was completed for CLC's real estate operating divisions and IT department to ensure consistency and efficiency of practices as well as compliance with contracting policies/guidelines and delegations of authority levels. Several of the recommendations for improvements in the contracting process have been implemented.

Balanced Scorecard

Keeping our Promises to Canadians

Most companies, Crown corporations included, are faced with seemingly competitive financial and non-financial interests. In order to build innovative, win-win situations, CLC has adopted a balanced scorecard approach to doing business.

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

By further refining its balanced scorecard method of setting objectives, monitoring performance and reporting outcomes, CLC is able to fairly and appropriately report both its accomplishments and, in some cases, its assessment that improvements are necessary. This objective and balanced approach to performance management and reporting enables CLC to learn from its successes and shortfalls and enhance its performance.

Corporate social responsibility (CSR) is very important at CLC and is a core value of the company. With each new project undertaken, an assessment is made of environmental, social and economic opportunities. Plans are formulated to enable value creation, while improving the quality of life in local communities. One of the positive aspects of CSR as it relates to the development process (municipal/provincial) is that, in most cases, it can solidify the financial success of redevelopment projects undertaken by the company, helping to ensure a solid legacy.

Shareholder and Board of Directors

CLC strives to meet the priorities of its board of directors and its sole shareholder, the Government of Canada. These efforts reflect a commitment to strong corporate governance practices, effective communications, high performance standards and corporate social responsibility.

Business and Financial Outcomes

CLC strives to post strong financial results and to excel in its business strategies. The company continually seeks to improve its financial performance, increase the number of properties transferred and enhance its relationships with clients and stakeholders.

Community and Legacy Initiatives

CLC strives to create legacies and provide lasting value in communities in which it operates. Wherever possible, it partners with local organizations to seek input from and engage the community, while evaluating opportunities to create legacies and assessing strategic donations related to major projects.

Human Resources

CLC strives to create an environment that promotes productivity and high morale. The company believes that employee communication and consultation are essential to lasting success.

Municipal and Provincial Interests

CLC strives to create effective partnerships with municipalities and provincial governments in areas where it operates. The company provides economic stimulation in communities where it conducts business and at the same time promotes sustainable development.

Performance Highlights

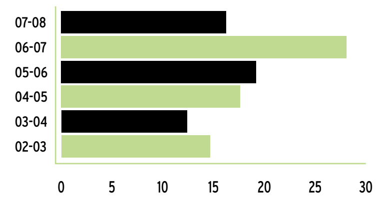
Net income before tax of

$15.9 million

Revenues of

$145.9 million

Net income before taxes
(in millions of dollars)



Shareholder/Board of Directors

Operations

2007-2008 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Provide financial benefits to the Government of Canada	Pay dividends to the government of $92.0 million for 2007–2008 to 2011–2012	Paid $7.5 million in dividends to the government in 2007–2008
	Make up-front payments and note repayments for properties to the government and Crown corporations of $11.9 million for 2007–2008 and $43.6 million for 2007–2008 to 2011–2012	$35.8 million in distributions ($18.1 million in acquisitions and $17.7 million in note repayments) were paid to the government
	Pay income taxes to the government of $4.8 million for 2007–2008 and $61.5 million for 2007–2008 to 2011–2012	Paid $6.8 million in total federal income taxes in 2007–2008, plus $0.3 million to the provinces

Business/Financial

Financial Performance

2007–2008 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Optimize financial value and returns	Achieve net income before tax of $15.9 million for 2007–2008 and $204.6 million for 2007–2008 to 2011–2012	Net income before tax of $15.9 million achieved
	Achieve revenues of $135.6 million for 2007–2008 and $1.3 billion for 2007–2008 to 2011–2012	Revenues of $145.9 million achieved
	Projected CLC capital expenditures, including investments in environmental remediation of $86.5 million for 2007–2008 and $404.5 million for 2007–2008 to 2011–2012	Incurred $55.7 in capital expenditures; target not met due to certain delays

Business Development

2007–2008 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Achieve as many of the identified 2006–2007 federal and municipal project milestones as possible (property transfer approvals, title acquisitions, development permits, engineering drawing approvals, re-zoning approvals, plan approvals, environmental approvals and development agreements)	Achieve at least 70% of the identified 2007–2008 federal and municipal project milestones	CLC met its target by achieving 78.5% of the identified 2007–2008 federal and municipal milestones

Customer Relations

2007–2008 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Continue to improve customer satisfaction for tenants and CN Tower visitors	Minimum overall customer satisfaction score of 75% for operating divisions	The CN Tower met its 75% target for 2007–2008 and also exceeded industry averages

Community/Legacy

Legacy Creation		
2007-2008 OBJECTIVES	**PERFORMANCE TARGETS**	**PERFORMANCE ASSESSMENT**
Implement legacy initiatives	Commemorate the heritage of company projects	Assisted Canadian Association of Veterans in United Nations Peacekeeping (CAVUNP) in hosting Peacekeepers' Day event in Calgary; assisted in hosting of Passchendaele commemoration event with Loyal Edmonton Regiment at Griesbach property in Edmonton
Corporate Philanthropy		
Evaluate and act upon potential areas of donations and sponsorships	Contribute up to 1% of net income before taxes (which equates to $281,000) towards corporate philanthropy (donations and sponsorships) in line with the company's corporate philanthropy policy	As of March 2008, contributed $270,700 to corporate philanthropy initiatives, including $49,200 to match employee contributions to the United Way

Assisted in hosting Peacekeepers' Day event in Calgary and Passchendaele commemoration event in Edmonton

Human Resources

Work Environment

2007–2008 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Maintain positive and safe work environment and recognize and reward employees appropriately	Maintain voluntary employee turnover at below 5% for real estate divisions	Voluntary employee turnover rate for real estate operating divisions was 8.5% due in part to retirements
	Maintain voluntary employee turnover at below 15% for CN Tower employees	Voluntary employee turnover rate for CN Tower operating division was 26.5%
	Expand health and safety program by evaluating compliance with provincial regulations across the country and addressing any deficiencies	Health and safety programs have been revitalized to ensure concurrency with business continuity planning processes
Continued focus on integration of programs of the CN Tower	Maintain the succession plan for real estate divisions and create one for the CN Tower with increased focus on development opportunities	The succession planning process is underway for all divisions; a leadership training program is being introduced in addition to other development programs
	Increase communication and employee input at the CN Tower through introduction of HR Round Table and employee survey	HR Round Table meetings were held in 2007–2008 to provide a vehicle for enhanced employee communication

During 2007–2008, HR Round Table meetings were held to provide a vehicle for enhanced employee communication

Municipal/Provincial

Economic Stimulation

2007–2008 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
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 $84 million for 2007–2008 and $1.05 billion for 2007–2008 to 2010–2011	$600 million through the construction of residential units and industrial and commercial facilities (large positive variance from target of 4.4 billion to 5 billion due primarily to upward revision of estimates for CLC's Calgary project)
	Increase cumulative person-years of direct construction employment stimulated by CLC and its project associates by 700 for 2007–2008 and 8,750 for 2007–2008 to 2011–2012	Increased by 4,900 person-years for 2007–2008 (large positive variance from target 35,000 to 40,000 due primarily to upward revision of estimates for CLC's Calgary project)

Social Policy Objectives

Contribute to affordable housing and other social policy objectives where feasible, with each major project	Increase subsidized residential units stimulated by CLC and its project associates by 10 for 2007–2008 and 125 for 2007–2008 to 2011–2012	The number of subsidized housing units stimulated by CLC and its project associates is not anticipated to increase from the 512 cumulative total for 2007–2008

Sustainable Development

Incorporate sound principles of sustainable development for each development initiative	Demonstrate sustainable development approaches for company projects	CLC's Village at Griesbach in Edmonton, Currie Barracks in Calgary and Garrison Crossing in Chilliwack are all participating in a pilot project to expand the well-known Leadership in Energy and Environmental Design certification program to include neighbourhoods rather than just individual buildings
Recycling and/or reusing demolition or construction wastes	Divert minimum of 75% of demolished materials (by weight) from landfills for company projects	Demolition of 64 buildings at Garrison Crossing in Chilliwack achieved 95% diversion; demolition of two buildings in Calgary's Currie Barracks project achieved 84% diversion; demolition of two buildings, several roads and related infrastructure at the Village at Griesbach in Edmonton achieved over 75% diversion

NOUVEAU HAVRE DE MONTRÉAL
MONTRÉAL'S NEW HARBOURFRONT
Canada

Analyze

Montréal's New Harbourfront

A thorough analysis of market conditions, combined with a commitment to consultation, are crucial elements to the success of all of CLC's projects. One of the best examples of this strategy can be found in one the company's newest projects – Montréal's New Harbourfront.

On April 20, 2007, the Government of Canada announced that Canada Lands Company had been selected as master developer for six separate properties that will make up Montréal's New Harbourfront. Covering almost five million ft^2 (465,000 m^2), these properties provide a glimpse into the city's history as one of Canada's great ports and a gateway to North America. The six properties are:

- 1500 Ottawa Street – a former postal distribution centre located on the historic Lachine Canal;
- Cité du Havre – two parcels of land located in Montréal's harbour, adjacent to Habitat 67, with spectacular views of Old Montréal and the St. Lawrence River;
- Pointe-du-Moulin – this industrial site includes Silo #5, a former grain elevator that has been recognized for its historical and architectural value;
- Rue des Irlandais – located between the Bonaventure Expressway and Bridge Street, the property takes its name from Irish workers who lived in the area in the 1800s; and
- Lachine Canal Sector – located at the entrance to the canal, the site offers excellent views of downtown Montréal and includes the Wellington and Tate Basins.

Taking all of these diverse properties and creating an integrated development plan that combines residential, business and retail, and public space is a challenge that CLC is more than prepared to undertake. During the 2007–2008 fiscal year, the company acquired title to the 1500 Ottawa Street property and has begun discussions with stakeholders and municipal officials on potential uses for the site. At the same time, the company is in discussion with the government departments and agencies that own the remaining five properties to expedite the acquisition and redevelopment process. CLC is committed to working with its government partners and those potentially affected by its acquisition of the property to develop equitable solutions, a process that will be phased over several years.

CLC is pleased that its sole shareholder, the Government of Canada, has recognized the company's expertize in redeveloping former strategic surplus properties into vibrant, sustainable communities. The company's goal with Montréal's New Harbourfront is to create an outstanding mix of residential, business, retail and public space that will help showcase one of the world's great cities.

Action Plan: conduct further analysis, continue public consultations, develop urban planning strategies

ANALYZE
ACQUIRE
CONSULT
VISUALIZE
PREPARE
DEVELOP/SELL/RETAIN

Montréal's New Harbourfront, Montréal, Québec

Located in the heart of one of the world's great cities, CLC has been given the mandate of redeveloping and revitalizing six former federally-owned Harbourfront properties. CLC's goal is to create a vision for these properties that will meet the needs of present and future generations and provide a quality urban environment for Montrealers to work, live and play.

From left to right: 1,500 Ottawa Street → Waterfront area → Silo #5 Pointe-du-Moulin

Acquire

Pleasantville

CLC's hard work and dedication to create outstanding communities begins in earnest when the company takes possession of strategic surplus government properties. However, this process doesn't occur overnight. In fact, the Government of Canada has mandated a strict set of protocols that must be followed to ensure that all relevant considerations are taken into account before the company can finalize the purchase of a property.

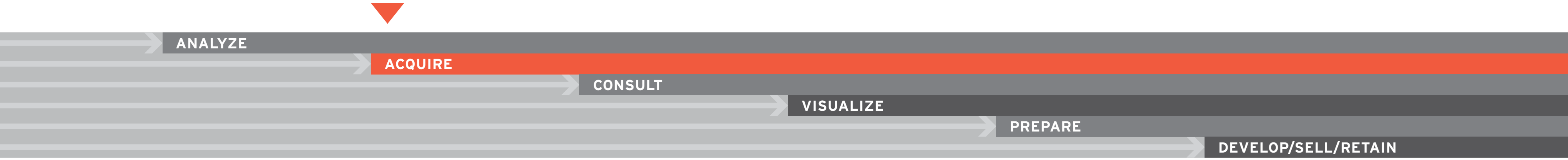
Such was the case with CLC's work on the Pleasantville project, which is located a short distance from downtown St. John's, Newfoundland and Labrador and overlooks historic Quidi Vidi Lake. The 80-acre (32-hectare) site served as a military base from the 1940s, when it was first constructed by the United States Army and served as a major staging base in efforts to defend the North Atlantic region during World War II. After being turned over to the governments of Canada and Newfoundland in the 1960s, the base became Canadian Forces Station St. John's and has housed several military units and support agencies since that time. In 2003, Public Works and Government Services Canada (PWGSC) began the strategic disposal of the property. After more than three years of review, discussions and negotiations, CLC was finally able to purchase the property from PWGSC in 2006 to begin the development process.

From the beginning, CLC recognized that Pleasantville has a special place in the hearts of the people of Newfoundland and Labrador, and that the site's military heritage should be acknowledged. As well, the remaining military units on the site will continue to have a presence, as they will be relocated to a new multi-purpose facility to be constructed by the Department of National Defence. In addition to conducting a full review of the city's current housing market, CLC project managers also carefully studied the rapidly expanding economy of St. John's, which has enjoyed strong growth thanks to the province's oil and gas industry.

Taking all of these factors into consideration, CLC began creating its master development plan for the Pleasantville site in March 2007 and held public meetings to introduce the company and its work to the community during the summer of that year. The company's preliminary plan calls for the demolition of many of the site's existing buildings and the creation of a new community with as many as 750 homes to be constructed by private developers.

CLC is certain that its redevelopment of Pleasantville will pay dividends for CLC and the City of St. John's. The experience that has been obtained through the redevelopment of other similar bases elsewhere in Canada, coupled with the input that has been received through discussions with local stakeholders, will ensure the creation of a sustainable and successful community.

Action Plan: continue consultations, create master development plan and submit to municipal authorities for approval



Pleasantville, St. John's, Newfoundland and Labrador

This former US and Canadian military base has been a part of St. John's history for more than five decades. CLC is seeking to create a new residential community that will recognize the site's historic past, while providing homes and services for a new generation of local residents who are enjoying the province's strong economic growth and prosperity.

From left to right: St. John's, Newfoundland and Labrador → Aerial of the site → St. John's waterfront

Consult

Dominion Building

Located in the heart of downtown Charlottetown PEI, the Dominion Building has served as a local landmark and the most visible sign of the federal government's presence in the city known as the "birthplace of Confederation." Constructed in 1955, the six-storey building is strategically located in downtown Charlottetown and has accommodated a number of federal government departments and agencies throughout its history.

However, by the late 1990s, it was clear that the building was no longer able to meet the needs of its tenants and plans were drawn up to gradually shift government departments and agencies to a new building, which was completed in 2007. CLC formally acquired the Dominion Building in March 2007 from Public Works and Government Services Canada.

From the outset, CLC joined forces with the Dominion Building Task Force of the Greater Charlottetown Area Chamber of Commerce to determine the best potential uses for the building, given the needs of the local community. As a starting point, the Task Force commissioned an independent study on future uses of the building in 2006. Based on input from local businesses, stakeholder organizations and the general public, the study suggested a wide range of potential uses, including office space, hotel suites, residential units, classrooms for a local college, and cultural/community facilities.

In 2007-2008, CLC followed up on the previous work of the Task Force and developed a vision for the Dominion Building property that calls for the redevelopment of the building as a mixed-use property. The redevelopment vision would utilize the building's existing structure and house a variety of public facilities, such as a museum, archives and library, with space reserved on the upper floors for residential or office uses. In addition, plans have also been constructed for townhouse units to be developed on a portion of the site to provide for an improved streetscape. These plans were presented to local residents at a series of open houses hosted by the Task Force and CLC in Charlottetown in January 2008.

CLC believes strongly that obtaining stakeholder input and community involvement are key elements to the success of its redevelopment projects across the country. The consultations that are continuing to take place regarding the future of the Dominion Building will ensure that this property will continue to serve the citizens of Charlottetown for many years to come.

Action Plan: continue consultations with local stakeholders and refine the development vision for the property

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Dominion Building, Charlottetown, PEI

A downtown Charlottetown landmark, the Dominion Building served as the headquarters for a number of federal government agencies and departments in Prince Edward Island until 2007. CLC has spent the past year working with local stakeholders and interested parties to develop a vision for the building's future use. This vision includes space for cultural services, office space, residential units and retail outlets and classrooms for post-secondary education.

From left to right: A potential view of the future → The site at present

Visualize

Currie Barracks

The story of Currie Barracks is the story of a city's proud connection to Canada's military and how the combined efforts of CLC and other stakeholders have helped to preserve this legacy for future generations, while also creating an urban, pedestrian-friendly, mixed-use residential community.

Currie Barracks is located on the site of the former Canadian Forces Base Calgary, a property that was acquired by CLC in 1998 from the Department of National Defence. Over the past decade, CLC has created two award-winning communities on two of the three sites which comprise the CFB Calgary property. Garrison Woods and Garrison Green offer a wide range of residential housing, as well as retail space, seniors housing and community and recreational facilities such as schools, a museum, parks and open space. With these projects finished or nearing completion, the company turned its attention in 2005 to the last and largest of the three sites – the 200-acre (81-hectare) Currie Barracks.

From the beginning, CLC's vision for Currie Barracks called for a walkable community consisting of a mix of residential, retail and office space, coupled with parks and outdoor recreation areas. The goal is to create a "complete" community based on principles of smart growth and sustainable community design. Currie Barracks will provide virtually everything residents need on a daily basis, while also ensuring they are never more than a short walk from parks, public transit, amenities, recreational facilities and open space.

By mixing land uses, Currie Barracks will increase both the residential population and the number of jobs available in proximity to these residents and to public transit.

As with the Garrison Woods and Garrison Green properties, CLC will also pay tribute to the property's former use as a military base. Street names and public parks will reflect important events in Canada's military history, and public spaces will feature commemoratives and interpretative displays related to World War II and the history of the base. As well, 12 buildings and landscapes were designated by the Province of Alberta in 1999 as heritage sites. This represents the largest heritage designation in an urban area in Alberta. These heritage elements will be preserved, rehabilitated and reintegrated into the new community.

In March 2007, CLC received land use approval from the City of Calgary for the Currie Barracks site. The company expects to begin servicing the property in 2008, with the entire project completed within 10+ years. At that time, Currie Barracks will be home to more than 3,000 housing units, 200,000 ft^2 (18,580 m^2) of retail and 300,000 ft^2 (27,870 m^2) of office space.

CLC strives to create unique, pedestrian-friendly, mixed-use communities across Canada that offer outstanding value for potential homeowners and leave a lasting legacy for future generations. The vision of Currie Barracks fulfills this mandate and builds on the award-winning work that CLC has already accomplished on the former CFB Calgary site.

Action Plan: begin servicing the property and continue to seek ways to integrate with surrounding residential neighbourhoods

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Currie Barracks, Calgary, Alberta

In one of the biggest projects it has ever undertaken, CLC will oversee the development of the largest portion of the former CFB Calgary to create a landmark residential community in the city. With a wide range of homes, retail and business outlets, the Currie Barracks property will also offer parks, green space and other amenities to make it one of Calgary's most desirable residential areas.

From left to right: Currie Barracks as it is presently → A potential view of the future

Prepare

Village at Griesbach

Long before the first structure is built on any of its properties, CLC launches an aggressive program of site preparation and, where necessary, environmental remediation to both clean up potential contamination and to seek ways to reuse and recycle existing materials.

CLC has been one of the most successful pioneers in Canada in taking on potentially contaminated properties and creating safe, sustainable communities. In January 2003, the company received title to the former Griesbach Barracks in Edmonton, which had been declared surplus by the Department of National Defence in the late 1990s. Located in the north part of Edmonton and bounded by four major roadways, the 620-acre (251-hectare) site housed more than 50 derelict asbestos-containing industrial buildings and 750 Permanent Married Quarters (PMQ) housing units. As well, soil samples indicated the presence of chemicals such as heavy metals, PCBs and hydrocarbons.

The company tackled the environmental issues by demolishing those buildings which could not be rehabilitated and refurbishing those that could be salvaged. At the cost of more than $1 million, hazardous materials were removed from the soil and disposed of in an environmentally sensitive fashion. The road structure that was present on the former military base was removed and tonnes of asphalt, gravel and concrete were recycled and reused in the construction of new roadbeds. CLC also oversaw the retention and relocation of many of the mature trees on the site, and the construction of the first of four stormwater management lakes, which will improve water quality and make the site even more attractive to potential homebuyers.

As with all of its former military properties, CLC has paid tribute to the units that were formerly stationed in Edmonton, as well as various local military heroes. Streets and parks have been named after battle honours and individuals who served in the Canadian military. Statues have been erected to commemorate the base's namesake, Major-General William Griesbach and his wife, Janet.

Since launching its work on the Griesbach site in 2003, CLC has developed the property in phases as it sells each serviced portion to private sector home builders. In the 2007–2008 fiscal year, construction was completed on the seventh phase of the project. When the entire project is completed, as many as 13,000 people will be working and living at the Village at Griesbach – another testament to CLC's outstanding track record in supporting sustainable development.

Action Plan: continue to expand the Village to its next phase, constructing additional parks, green space and other amenities to meet the community's needs

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Village at Griesbach, Edmonton, Alberta

An outstanding example of New Urbanism, the Village at Griesbach features homes available in a variety of styles and price ranges, along with amenities such as parks, schools and retail services. The site's former use as a Canadian Forces Base is commemorated through street names, interpretive displays and statues of local military heroes.

From left to right: A nice spot to sit and enjoy → A feeling of belonging is evident at Griesbach → Park-like features can be found throughout the community

Develop|Sell|Retain

CN Tower

When servicing and site preparation work have been completed on a CLC property, the company has two options. Most often, the site is sold to private sector developers, who construct homes and other structures in accordance with CLC's and the community's vision for the property. In certain cases, however, CLC has the option to retain the property and manage it to ensure that its development is handled in the long-term interests of both the community and the company itself. An important example of this strategy involves a structure that CLC did not construct, but which is now one of the world's most recognized landmarks and is the best-known property in the company's portfolio.

Canada's National Tower (the CN Tower) is a Toronto landmark and national icon that held the title of the world's tallest building for more than three decades. In 2004, CLC reacquired the property's lease from a third party and resumed day-to-day operations at the CN Tower, a process that has provided benefits for CLC while allowing it to undertake initiatives to help cement the CN Tower's status as a communications hub and a world-class tourism facility.

Despite challenges occurring within the tourism sector, the CN Tower posted another year of growth in 2007–2008. Overall revenues were $58.0 million, with the Attractions and Food and Beverage segments posting their highest revenues ever. Net income for the fiscal year was $10.5 million, an outstanding performance in what is generally viewed as a soft tourism market. The number of visitors to the CN Tower increased to almost 1.6 million people during this same period.

Among the highlights of the past year at the CN Tower was the launch of its new exterior lighting system, which utilizes thousands of LED lights to dramatically increase the Tower's profile on Toronto's night time skyline, but also reduces energy consumption.

During 2007–2008, the CN Tower expanded its promotional efforts and offered new pricing options to attract more local domestic visitors. As well, enhancements to restaurant facilities, and providing a new perspective on the view through the addition of glass floor panels on one of the Tower's elevators, have helped to enhance the experience for visitors and encourage repeat visits.

Another key strategic objective for the CN Tower is to expand its role in areas that promote the long-term sustainability of Toronto's tourism industry. To help meet this objective, the CN Tower created two "Height of Excellence" awards with George Brown College in Toronto for 2007, presented to deserving students who are entering the second year of their program in either culinary arts or tourism and leisure management.

The CN Tower is regularly honoured with a variety of industry awards, and 2007–2008 was no exception. The Tourism Industry Association of Canada awarded the CN Tower with its prestigious Business of the Year Award for a single-unit business. This award recognizes excellence, outstanding contribution and accomplishments in the Canadian tourism industry.

The CN Tower remains an integral division of CLC and the company is committed to ensuring that it remains a symbol of Canadian pride and a landmark in one of the world's great cities.

Action Plan: build on existing strengths to attract more domestic visitors, and extend marketing to encourage visitors from outside North America

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CN Tower, Toronto, Ontario

As the dominant feature of the Toronto skyline for more than three decades, the CN Tower serves as symbol of Canadian pride and achievement around the world. In addition to serving as a vital communications hub, the CN Tower is a world-class tourist facility that includes breathtaking views from its three observation decks, a renowned restaurant and attractions designed to delight both young and old.

From left to right: A new experience on one of the Tower's elevators → Defining Toronto's skyline → The perfect view

Year in Review

During the 2007-2008 fiscal, CLC achieved the following results:

Financial Results

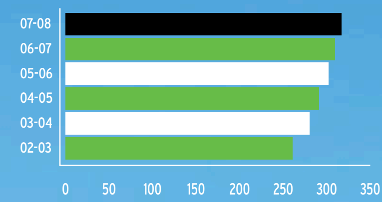
- Net income before tax of $15.9 million, which was same as budget.
- Gross profit on real estate sales of $26.2 million, which was 65.4% above budget.

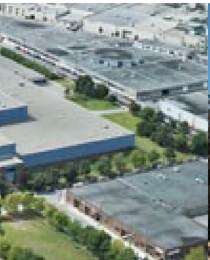
Awards

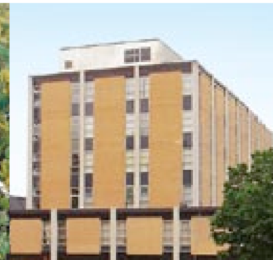
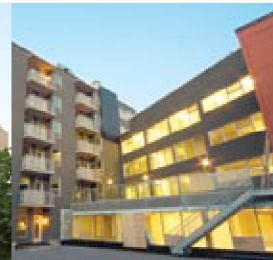
CLC projects won the following awards during the past fiscal year:

- The Village at Griesbach project was honoured by winning two regional SAM awards from the Edmonton chapter of the Canadian Home Builders' Association.
- Garrison Crossing was awarded the "Best Master Planned Development" prize by the Urban Development Institute – Pacific Region.
- The CN Tower received the Air Canada "Business of the Year" award recognizing excellence, outstanding contribution and accomplishments in the Canadian tourism industry from the Tourism Industry Association of Canada.

Cumulative Distributions to Shareholder (dividends)
(in millions of dollars)






Operations Highlights

- Named as master developer for Montréal's New Harbourfront, a project that will see approximately 5 million ft^2 (almost 470,000 m^2) of land on six separate properties remediated and redeveloped as residential housing and retail space, along with parks and green space.
- Acquired 1500 Ottawa Street in Montréal from Canada Post Corporation. The 24-acre (9.7-hectare) site near the Lachine Canal will serve as the focus of the harbourfront project.
- Acquired the former Prison for Women in Kingston, Ontario from Correctional Service Canada. This 8.1-acre (3.3-hectare) property was subsequently sold to Queen's University.
- Acquired former Senneville Lodge property near Montréal from Veterans Affairs Canada.
- Acquired the Sir John Thompson Building in Halifax from Public Works and Government Services Canada (PWGSC).
- Sold veterans buildings on the Benny Farm property in Montréal to the Office municipal d'habitation de Montréal (OMHM).
- Completed the construction and sale of a 43,000 ft^2 (4,000 m^2) office building at Glenlyon Business Park in Burnaby, B.C. to the Certified General Accountants of Canada Association.
- Hosted ceremonies to introduce the new lighting system for the CN Tower, which features thousands of digitally controlled LED lights that dramatically enhance the CN Tower's profile on the Toronto night sky.
- Received re-zoning approval from the City of Edmonton to construct a new park as part of Phase 8 development at the Village at Griesbach project.

Senior Management Team

Mark B. Laroche is President and CEO of the company. Prior to his current role, Mr. Laroche served for six years as the first Chief Administrative Officer of the newly amalgamated City of Gatineau, Québec. He has held several positions for the municipalities of Aylmer, Québec, and Brossard, Québec, in the Public Works and Engineering departments. While in Brossard, he was promoted to Chief Administrative Officer — a position he held for five years.

Robert A. Howald is Vice President, Real Estate, Eastern Region. Prior to his present appointment, he served as Acting President and CEO of the company and its parent. Prior to joining CLC in 1999, he was Executive Vice President with TEDCO, the City of Toronto Economic Development Corporation.

Doug Kester is Vice President, Real Estate, Western Region, a position he has held since 2000. Mr. Kester has over 30 years of experience in the real estate development business. He has been with the company since 1995, and prior to that with CN Real Estate.

Brian Evans, is Chief Financial Officer and the Vice President of Finance, a position he has held since 2000. In 1991, he joined CN Real Estate as corporate controller, a position he occupied with CLC. Prior to this, Mr. Evans held the same role with Brookfield Properties.

Gordon McIvor is Vice President, Strategic Acquisitions, Public and Government Affairs. He began his career with the company in 1988, working for its predecessor, CN Real Estate. He is the primary spokesperson and contact for the company for the numerous stakeholder groups that CLC works with across the country.

Jack Robinson is Chief Operating Officer, CN Tower. Mr. Robinson has been with the CN Tower for 15 years, and served as Director of Sales. Over the course of his career, he has held senior management positions with various multinational companies including Pepsi-Cola Canada, Famous Players Theatres and Lantic Sugar.

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

Members of CLC's senior management team are pictured in the lobby of the InterContinental Hotel in downtown Toronto. The company assumed ownership of the hotel and the office tower at 277 Front Street West in April 2008 as part of its transaction involving the Metro Toronto Convention Centre complex.

From left to right: Robert Howald, Gordon McIvor, Jack Robinson, Brian Evans, Fiorina Guido, Mark Laroche, Doug Kester

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Canada Lands Company Limited
Société Immobilière du Canada limitée

Canada

ANNUAL REPORT

Financial Review

For the year ended March 31, 2008

Getting the job done.

Canada Lands Company Limited

Société Immobilière du Canada Limitée

Canada

Management's Discussion and Analysis

May 9, 2008

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 2007–2008 fiscal year.

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

Balanced Scorecard

CLCL continues using a balanced scorecard method of setting objectives, monitoring and managing performance and reporting outcomes in five key result areas: community/legacy, business/financial, human resources, municipal/provincial and shareholder/board of directors' interests. Each key result area reflects the interests of one of CLCL's five major stakeholder groups. Both financial and non-financial interests are covered by the key result areas, which create a balance of all interests important to CLCL and its stakeholders. The results of the balanced scorecard are summarized on pages 11 to 15 of the Operational Review.

Governance

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

CLCL's board of directors is composed of the chairman and six directors. The chairman and the directors are independent of management and are appointed by the Governor in Council. The following appointment was made to the board of directors this past year: Wayne MacIntosh (Aug 07). The board held five board meetings and one strategic planning retreat during the year.

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

The board's expenses for the year ended March 31, 2008 (YE08), including travel expenses, conferences and seminars, liability insurance and annual retainers and per diems totaled $348,000, a decrease of $11,000 from 2006–2007.

Results of Operations

(in millions of dollars)	**YE08**	Budget	YE07
Property sales	**$ 64.6**	$ 61.4	$ 72.5
Attractions, food and beverages, rental and other CN Tower revenues	**58.0**	55.7	56.3
Gross revenues	**145.9**	135.6	149.3
General and administrative expenses	**22.5**	20.7	22.5
Income before taxes	**15.9**	15.9	28.1
Cash flows before dividends and note repayments	**(13.9)**	(211.1)	35.9

In YE08, CLC earned revenues of $145.9 million and income of $15.9 million before taxes and generated cash of $(13.9) million before distributions (repayment of notes payable and dividends) to the government. The CN Tower operations generated income before taxes of $10.5 million and real estate operations generated income before taxes of $5.4 million.

Total revenues were $10.3 million higher than budget, which resulted mainly from increased property sales of $3.2 million and higher interest and other income of $5.3 million. Property sales have decreased from last year reflecting the reduction of sales at CFB Calgary as the Garrison Green phase is sold out and the Currie Barracks phase is just starting development. With no sales expected for two years at Currie Barracks, there will be a reduction in CLC's sales next year which should then increase over the following four years.

Included in expenses this year was a write-off of $14.7 million of costs related to all the costs capitalized to properties that CLC does not have title to and the development costs relating to the CN Tower base development project and the Upton Farm (Charlottetown). The majority of the write-off relates to CFB Rockcliffe, CN Tower base development, Upton Farms and CFB Kapyong. CFB Rockcliffe and CFB Kapyong have both received Treasury Board approval for transfer, but the transfers are presently delayed. CLC has written off the expenditures relating to properties it does not have title to due to the uncertainty of getting the properties transferred.

General and administrative expenses remained the same from prior year. Excluding the incentive portion and the cost to close down the Rockcliffe office, real estate operations had a decrease from last year of $0.6 million while the Tower operations increased by $0.2 million. The incentive portion of general and administrative expenses decreased by $0.3 million from last year.

CLCL is subject to federal and certain provincial taxes at corporate rates. Income taxes of $2.6 million for YE08 represent an effective rate of 16% of income before tax, due to the fact that CLCL's income is not subject to provincial income taxes in Ontario and Alberta. This may change next year due the harmonization of Ontario Corporate Tax with Federal Tax.

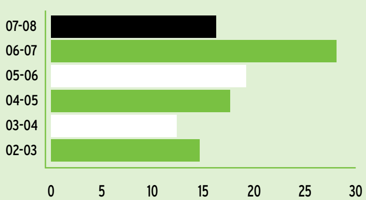
Real Estate Operations

(in millions of dollars except where noted)	**YE08**	Budget	YE07
Property sales	**$ 64.6**	$ 61.4	$ 72.5
Net profit on property sales	**26.2**	15.8	28.6
Gross margin on property sales	**40.6%**	25.7%	39.5%
Expenditures on properties	**48.4**	76.6	34.1

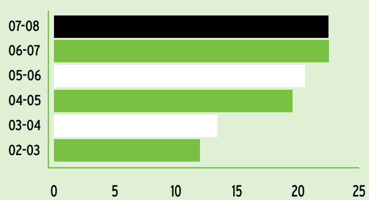
The net profit on property sales was $2.4 million less than last year. Property sales were $7.9 million less than last year. Even with reduced sales this year, total sales are greater than the rolling five-year average of $62.0 million. This reflects a positive sales growth as previous transfers are serviced, marketed and sold.

The gross margin on property sales increased from 39.5% to 40.6%. This reflects the cost of sales prospective adjustment for Garrison Green (Calgary) and the sale of the 4200 North Fraser Way building in Glenlyon Business Park (Burnaby), both having gross margins in excess of 40%. The actual gross margin is 14.9% above the YE08 budget due to the above mentioned sales. Next year's budget anticipates a gross margin of 30.6%.

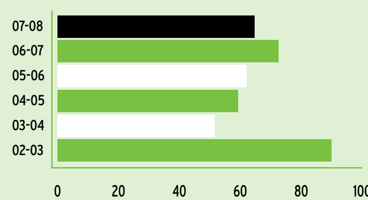
Net income before taxes
(in millions of dollars)



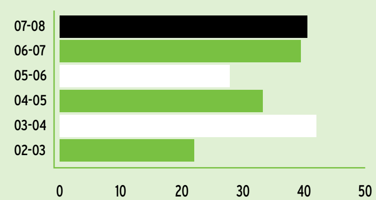
General and Administrative Expenses
(in millions of dollars)



Real Estate Sales by Year
(in millions of dollars)



Gross Margin on Property Sales
(percentage)



Property sales exceeded budget by $3.2 million and profit exceeded budget by $10.4 million. The increased sales were due primarily to 4200 North Fraser Way and Wood Lake Estates (Kelowna), offset by a delay in closing regarding Garden City (Richmond), still in the agricultural reserve, and CFB Griesbach. The profits relate to 4200 North Fraser Way, Wood Lake Estates and Garrison Green. The majority of sales (69%) took place in Western Canada compared to 87% last year. Until further transfers are achieved for Eastern Canada, this trend will continue as most of the active developments are located in the West.

One of the company's objectives for YE08 was to gain approval for six property transfers from Treasury Board and to receive title transfer for eight properties totaling $35.3 million. The company received approval for one property and received title for four properties totaling $18.1 million.

The company continued with tracking its milestones this year consisting of federal, municipal and corporate achievements. The federal milestones consisted of projects receiving Assistant Deputy Minister Committee on Real Property Disposals approval, Treasury Board approval and the transfers of title. The total objective was 20, of which six were achieved. All six occurred in the Eastern region. Municipal milestones consist of obtaining development permits, engineering drawings, site registration, site zoning, plan approval, development agreements and environmental approvals. The milestone was set at 95, of which 83 were received. The majority (51) of these relate to the Western region where much of the development is presently taking place. The corporate milestones this past year were comprised of IT implementation, outreach events and rolling out new policies to employees. There were six corporate milestones, all of which were achieved.

Capital expenditures excluding the CN Tower were $28.2 million less than budget. The major reason for the reduced capital expenditures were the delay in commencing servicing at CFB Calgary ($17.6 million) and the delay in commencing the retail component at CFB Chilliwack ($13.8 million). Lower capital expenditures due to the delay in transfers resulted in a reduction of $4.2 million.

CN Tower Operations

(in millions of dollars except where noted)	**YE08**	Budget	YE07
Revenues	**$ 58.0**	$ 55.7	$ 56.3
Earnings before interest, tax, depreciation and amortization	**17.4**	16.7	17.9
Income before taxes	**10.5**	10.0	11.2
Attendance (in millions of people)	**1.6**	1.5	1.6
Average spending per visitor (in dollars)	**$ 35.15**	$ 34.55	$ 34.61

Combined group and retail attendance has increased by 3,000 visitors over last year to 1,558,480. Attendance is at approximately 85% of the pre-9/11 and SARS level. This is the seventh consecutive year of U.S. visitor decline to Ontario. While European and Asian visitors have increased but not as much as we had anticipated the majority of these are group tours that purchased discounted tickets. The average spending per visitor increased by $0.54 over last year and is $0.60 greater than budget. The actual attractions group attendance is below budget by 3,900 visitors and 29,000 visitors or 7.6% below last year. The budget also assumed a greater increase in Asian and European visitors. This was not realized due to Canada not yet receiving Approved Destination Status from mainland China. Weather conditions are another factor affecting attendance. In YE08, there were only 160 clear days compared to 174 clear days in YE07.

CN Tower attendance decreased in Season B from November to April, decreasing by 3.5% or 15,000 over last year. During Season A, the CN Tower is operating close to maximum capacity. The total Season B attendance represents 27.2% of the annual attendance, similar to last year.

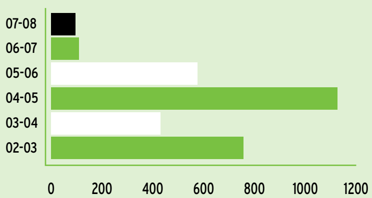
Attractions generated an all-time high gross revenues of $27.2 million, $0.5 million more than budget and $0.7 million more than last year. The attractions portfolio managed to provide a healthy 90.0% operating margin down slightly from last year's 90.5%.

Food and beverage (F&B) revenues are also at an all-time high at $21.1 million, which is $1.8 million or 9.1% more than budget and $1.0 million or 5% more than last year. The dinner restaurant sittings at the CN Tower were almost at capacity during Season A from May to October. The F&B operations provided an encouraging 27.2% operating margin, which was 0.4% better than budget and a 0.2% decrease from last year.

Retail store operations generated $5.3 million of revenues with an operating margin of $1.9 million or 35.1% versus budgeted 35.3% and last year's 38.2%.

Focus for growth in YE09 will be on increased attendance from the domestic/local market, with a focus on new products such as glass floor-paneled elevators as incentives to visit/re-visit. While international markets will show moderate promise, the U.S. market will continue to decline by approximately 1.9%. Another objective for YE09 is to maintain momentum in the Food & Beverage sector by increasing average spending with new offerings such as high-end tea/coffee program and high-end side order options.

Transfer of Property by Year
(in acres)



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 2008**	March 2007
Revenue producing properties	**$ 113.4**	$ 111.4
Properties under development for sale	**112.4**	100.6
Land held for development or sale	**63.9**	46.7

At March 31, 2008, CLC owned four revenue producing properties with a book value of $113.4 million. CLC's principal property asset is the CN Tower in Toronto. CLC's revenue producing properties also include an office/research facility in Burnaby and a parking facility in Toronto located next to the Rogers Centre. CLC is also entitled to a portion of the revenue generated from the parking facility at the Metro Toronto Convention Centre.

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

Properties under development for sale consist of six property holdings totaling approximately 820 acres (331.8 hectares), with a carrying value of $112.4 million, which represents an increase of $11.8 million from March 31, 2007. The sites under active development include Glenlyon Business Park in Burnaby; the former military bases in Chilliwack, Calgary and Edmonton; and a residential project in Ottawa.

Land held for development or sale consists of approximately 23 property holdings located across Canada totaling 1,383 acres (559.7 hectares). At March 31, 2008, the carrying value of lands in this category was

$63.9 million, a $17.2 million increase from March 31, 2007. The major new acquisitions are 1500 Ottawa Street (Montréal), Senneville Lodge (Montréal) and the Sir John Thompson Building (Halifax).

During YE08, CLC spent $54.7 million on construction, site servicing, environmental remediation and other investments at its various property holdings including the CN Tower.

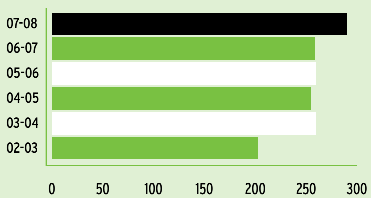
Cash Flows

Cash used in operating activities during YE08 totaled $(2.1) million, a decrease of $46.1 million from the $44.0 million generated in YE07. This was due mainly to capital expenditures and acquisitions on properties held for sale which increased $32.1 million over last year. Cash used for financing activities for YE08 amounted to $29.5 million, representing note repayments to the government of $17.7 million, a dividend payment to the government of $7.5 million and mortgage bond repayments of $4.3 million.

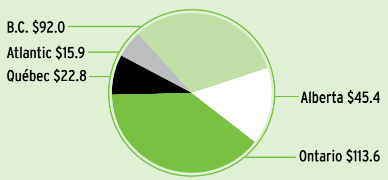
Cash used in financing activities for YE07 was $11.8 million.

Cash used in investing activities for YE08 was $7.6 million, $3.5 million more than YE07.

Property Inventory
(in millions of dollars)



Property distribution by region by book value
(in millions of dollars)



Total book value: $289.7 million

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 $30.6 million at March 31, 2008. The bond for the CN Tower received a rating of "A" with a stable trend from Dominion Bond Rating Service Limited on January 29, 2008, in connection with the mortgage bond.

At March 31, 2008, CLC had cash and short-term investments totaling $47.8 million. In addition, CLC has a line of credit of $85.0 million with a Canadian chartered bank presently being used for letters of credit issued in the amount of $23.6 million.

As at March 31, 2008, CLC had $35.8 million in discounted 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, 2009. CLC expects to repay $34.2 million of these notes during the next five years.

In the coming year, CLC anticipates capital expenditures of approximately $106.8 million on its existing and new properties for construction, site servicing, environmental remediation and general preparations for its land inventory for sale. Substantial expenditures are expected to be incurred on the former military bases in Calgary, Chilliwack and Edmonton in addition to Glenlyon Business Park and the CN Tower. CLC also anticipates property transfers from government departments and Crown corporations of $39.7 million, of which $23.0 million will be cash payments.

In YE08 CLC had budgeted the acquisition of a pension fund's long term leasehold interest in an office and hotel complex in Toronto. The closing occurred on April 14, 2008. To finance the acquisition, CLC arranged a loan for $105 million with a Canadian chartered bank, the remainder being financed with cash on hand. CLC previously managed this property.

Under CLC's dividend policy, the dividend payment is the lower of cash balance at the end of the year less the working capital requirement for the subsequent three years or the return on equity. The return on equity is the lower of the 5 year Canada Bond rate at March 31 or 3% on the shareholder's equity at March 31.

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

In 2006, it came to the corporation's attention that the text in subsection 3 (1.1) of the *Federal Real Property Regulations* (FRPR), which was supposed to mirror the articles of CLCL, was missing a few words. The effect of this omission is that certain transfers of properties since 2000 required Order-in-Council (OIC) approval. In February 2007, the wording was amended and approved and all government departments are now able to accept promissory notes from CLC in lieu of cash at the time of closing without having to obtain Order-in-Council approval. The Treasury Board Secretariat is working with the federal Department of Justice to determine how best to fix past transfers.

CLCL, through CLC, manages and disposes of strategic surplus properties on behalf of the government to ensure that optimal value is realized from these assets. Optimal value recognizes financial value, economic stimulation and contribution to the quality of life in local communities where CLC conducts its business. CLC acted in a manner consistent with this mandate in YE08.

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

In keeping with its comprehensive insurance program to safeguard its assets and targeting its most important operational and hazard risks, the company improved its overall insurance protection this year and lowered its deductibles while at the same time negotiating significant reductions in premiums. This year's insurance renewal exercise saw significant improvements to the coverage, notably:

- For the CN Tower, the property damage deductible was reduced from $100,000 to $50,000;
- The Directors & Officers Liability & Employment Practices Liability Insurance deductible was reduced from $100,000 to $50,000, and the Fiduciary Liability (Pension Plans) deductible reduced from $50,000 to $25,000;
- The Commercial General Liability Insurance deductible was reduced from $50,000 to $25,000; and
- The environmental Mould/Fungi Exclusion in the property policy has been removed, meaning that CLC is covered for direct loss or damage due to mould, other fungi or bacteria that are resultant damages covered by the policy (the pre-existing condition is not covered).

In the past year, several risk management and internal control initiatives and enhancements were undertaken including:

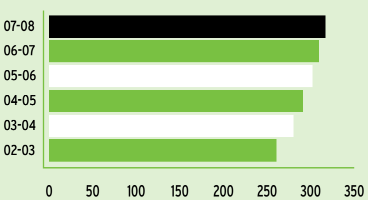
- a business continuity plan test, known as a table top exercise, for the company's head office in Toronto, which resulted in an overall positive test evaluation by independent expert consultants;
- completion of all time-critical draft business resumption plans for the regional real estate offices across the country and the CN Tower's core departments;
- two risk-control engineering surveys at the CN Tower and the Metro Toronto Convention Centre Complex to evaluate hazards and risk controls in these major facilities, with the evaluations being very positive and only very minor recommendations tabled to minimize loss, which have since been corrected;
- an annual risk evaluation of CLC's property assets and vacant land for the company's insurance program (covering hazard and operational risks) to ensure it continues to meet corporate needs and safeguards important assets; and
- the total cost of operational and hazard risk was reduced by improving communication on loss prevention programs, transferring risk where feasible through contracts and leases, improving insurance protection and considerably reducing corporate insurance premiums.

A contracting management internal audit review was completed for CLC's real estate divisions and the company headquarters Information Technology department to ensure consistency and efficiency of practices as well as compliance with contracting policies/guidelines and delegations of authority levels. Most of the recommendations for improvements in the contracting process have been implemented.

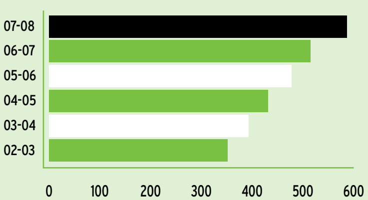
A contracting and purchasing management internal audit is underway for the CN Tower operating division to ensure consistency and efficiency of practices as well as compliance with contracting policies/guidelines and delegations of authority levels.

During the year, CLC had an external quality assessment conducted of the internal audit function by external auditors. In order to be able to carry out more internal audits for the company than in the past, it was decided that CLC will be using external resources to carry out the internal audit function commencing April 2008.

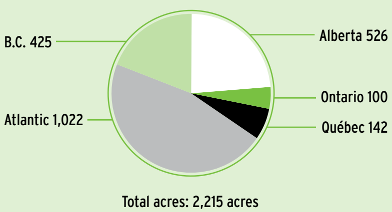
Cumulative Distributions to Shareholder (dividends)
(in millions of dollars)



Cumulative Expenditures on Properties
(in millions of dollars)



Property Distribution by Region
(in acres)



During the year, a total of 95.1 acres (38.5 hectares) were transferred to CLC. This consisted of 1500 Ottawa Street (Montréal), Senneville Lodge (Montréal), Sir John Thompson Building (Halifax) and Mandeville (Burnaby). On March 31, 2008, CLC had a land bank of approximately 2,216 acres (896.8 hectares). The government approved transfers of a further 687 acres (278.3 hectares), relating to CFB Rockcliffe (Ottawa) in April 2005, Kapyong Barracks (Winnipeg) in November 2007, La Prairie (Québec) in April 2001 and the Montréal Harbourfront. Delays in title transfer were experienced due to various reasons unrelated to CLC.

CLC is currently in negotiations with government departments and agencies regarding a further 2,103 acres (850.9 hectares). As many of the individual properties potentially available for transfer are substantial in size, ranging from 50 to 1,600 acres (20 to 647.5 hectares), planning, development and reintegration of these properties into local communities will take place over a number of years. Although CLC is vulnerable to adverse changes in local real estate market conditions and this can affect demand, it also allows CLC to wait for improvement in local real estate markets as it has other properties for sale across Canada. CLC's holdings and potential transfers of properties from the government are impacted by 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.

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 is also 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's business development initiatives. Since reacquisition, this focus has already resulted in attendance reaching 85% of the pre-SARS levels and record income before taxes for the year ended March 2008. Attendance at the CN Tower will be affected by the introduction of the new U.S. passport requirement in 2008 and the increasing value of the Canadian dollar. These factors are expected to reduce the number of American tourists visiting the CN Tower.

Future Prospects

Last year, the rate of growth of Canadian GDP was 2.7%, which was the same as the prior year. Although there was continued development of energy projects and strong consumer spending, export-oriented manufacturing was in decline. The decrease in export manufacturing is due to a slowdown in the U.S. economy and the rise in the Canadian dollar in the past couple of years.

The growth rate of the Canadian economy is expected to decrease to 1.1% in 2008, with continued strong growth in the resource sector (Western Canada and Newfoundland and Labrador) and low growth in the manufacturing sector (Central Canada) The six-year housing boom has come to an end, but unlike the U.S. housing market, average home prices are still expected to post moderate gains this year. Although the hot housing market has cooled, residential rental, resale and new housing markets are expected to get back to a normal level in Alberta and British Columbia where CLC is redeveloping the former CFB Calgary, CFB Griesbach and CFB Chilliwack. The market is strong in St. John's where CLC is in the midst of development of the former CFB Pleasantville. New housing space at the former military bases, though down from the hot market of the last few years, still attracts moderate but steady demand across Canada. CLC's recent sales activities demonstrate that there is ongoing demand for its land holdings and it can continue to create significant benefits and/or value from its property portfolio, which is diverse as to location, value, size and current or potential uses.

There remains a very large inventory of surplus properties within the government's real estate portfolio. Transferring more of these properties to CLC will enable the company to further enhance the value it creates for the Government of Canada and to continue to fulfill its mandate of creating optimal value for the government while reintegrating properties into communities in a financially prudent and socially responsible manner. Decommissioned military bases transferred from the Department of National Defence require major investment 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.

YE07 was CLC's highest level of income before taxes at $28.1 million. Income before taxes is expected to increase from $17.5 million in 2008–2009 to $69.4 million in year five of the upcoming plan period, excluding the sale of the hotel and office in the Metro Toronto Convention Centre Complex, averaging $51.8 million per year. Property sales of $51.0 million are anticipated in 2008–2009, increasing to $194.8 million in year five.

Attendance at the CN Tower is expected to increase by 4.1% over the five-year plan period, which is 87% of its top attendance year, resulting in a proportional increase in revenues. Finally, the property asset base by year three of the upcoming plan period is projected to be more than $411 million, compared to the highest level of $337 million at the company's reactivation in 1995.

Declaration

We, Mark Laroche, President and CEO, and Brian Evans, Vice President, Finance and Chief Financial Officer, certify that:

We have reviewed the consolidated financial statements of Canada Lands Company Limited for the fiscal year ended March 31, 2008;

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

Mark Laroche
President and CEO

Brian Evans
Vice President, Finance
Chief Financial Officer

May 9, 2008

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.

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

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

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

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

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

Mark Laroche
President and CEO

Brian Evans
Vice President, Finance
and Chief Financial Officer

May 9, 2008

Auditors' Report

To the Minister of Transport, Infrastructure and Communities

We have audited the consolidated balance sheet of Canada Lands Company Limited (the "corporation") as at March 31, 2008 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, except for the change required by Canadian generally accepted accounting principles in accounting policies for financial instruments as explained in note 2(i) to the consolidated financial statements, 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.

Sylvain Ricard

Sylvain Ricard, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 9, 2008

KPMG LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
May 9, 2008

Consolidated Statement of Income, Comprehensive Income and Retained Earnings

For the year ended March 31

In thousands	Note	2008	2007
REVENUES			
Real estate sales		**$ 64,596**	$ 72,496
Attractions, food and beverage and other CN Tower revenues		**56,807**	54,811
Rental		**16,612**	17,140
Interest and other		**7,859**	4,822
		145,874	149,269
EXPENSES			
Real estate cost of sales		**38,394**	43,899
Attractions, food and beverage and other CN Tower expenses		**31,834**	29,965
General and administrative		**22,473**	22,531
Write-off of capitalized costs		**14,659**	1,792
Rental operating costs		**14,622**	14,622
Depreciation and other expenses		**6,027**	6,359
Interest and other financing costs		**1,927**	2,016
		129,936	121,184
INCOME BEFORE INCOME TAXES		**15,938**	28,085
Future income tax expense (recovery)	9	**652**	(418)
Current income tax expense	9	**1,928**	7,393
		2,580	6,975
NET INCOME AND COMPREHENSIVE INCOME		**13,358**	21,110
Retained earnings, beginning of year		**111,858**	97,998
Adjustment to retained earnings to comply with new accounting standards (note 2(i))		**(161)**	–
Retained earnings, beginning of year restated		**111,697**	119,108
Dividend declared and paid		**(7,500)**	(7,250)
RETAINED EARNINGS, END OF YEAR		**$ 117,555**	$ 111,858

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

As at March 31

In thousands	Note	**2008**	2007
ASSETS			
Properties			
Revenue producing properties	3	**$ 113,442**	$ 111,380
Properties under development for sale		**112,359**	100,598
Land held for development or sale		**63,922**	46,655
		289,723	258,633
Other Assets			
Cash and cash equivalents	4	**47,841**	87,015
Amounts receivable and other assets	5	**23,591**	31,297
Income tax recoverable		**1,572**	–
		73,004	118,312
		$ 362,727	$ 376,945
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Mortgage bond payable	6	**$ 30,641**	$ 35,411
Notes payable	7	**35,758**	46,915
Accounts payable and accrued liabilities	10	**30,505**	28,146
Income taxes payable		**–**	3,388
Future tax liabilities	9	**2,285**	1,633
Prepaid rent and deposits		**902**	4,513
		100,091	120,006
Shareholder's Equity			
Capital stock	8	**–**	–
Contributed surplus	8	**145,081**	145,081
Retained earnings		**117,555**	111,858
		262,636	256,939
		$ 362,727	$ 376,945
Commitments and contingencies	10		
Subsequent event	17		

See accompanying notes to consolidated financial statements

On behalf of the board, Marc Rochon Wayne MacIntosh

Consolidated Statement of Cash Flows

For the year ended March 31

In thousands	Note	**2008**	2007
OPERATING ACTIVITIES			
Net income and comprehensive income		**$ 13,358**	$ 21,110
Recovery of costs on sale of properties held for development or sale		**34,258**	42,456
Expenditures on properties held for development or sale		**(65,848)**	(33,737)
Write-off of capitalized costs		**14,659**	1,792
Future taxes		**652**	(418)
Depreciation		**5,967**	5,891
		3,046	37,094
Net change in non-cash working capital		**(5,140)**	6,923
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		**(2,094)**	44,017
FINANCING ACTIVITIES			
Repayment of notes payable		**(17,728)**	(498)
Dividend paid		**(7,500)**	(7,250)
Repayment of mortgage bond		**(4,291)**	(4,069)
CASH USED IN FINANCING ACTIVITIES		**(29,519)**	(11,817)
INVESTING ACTIVITIES			
Increase in restricted cash		**(819)**	(605)
Expenditures on revenue producing properties		**(6,742)**	(3,414)
CASH USED IN INVESTING ACTIVITIES		**(7,561)**	(4,019)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(39,174)**	28,181
Cash and cash equivalents, beginning of year		**87,015**	58,834
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 47,841**	$ 87,015
Supplemental cash flows information	11		

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Authority and Activities of CLCL

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

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

2. Summary of Significant Accounting Policies

a) General

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

b) Consolidation

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

CLCL holds the shares of Old Port of Montréal Corporation Inc. (OPMC) and Parc Downsview Park (PDP) in trust for Her Majesty in right of Canada. OPMC and PDP are excluded from consolidation because CLCL does not have continuing power to determine their strategic operating, investing and financing policies and because OPMC and PDP have been directed by the government to report as parent Crown corporations. CLCL has no recorded investment in OPMC and PDP. As at March 31, 2007, the latest date for which audited financial statements are available, OPMC had assets of $23.2 million, liabilities of $22.8 million and equity of $0.4 million, with revenues of $14.0 million and an excess of operating expenditures over revenues of $16.1 million for the year then ended. As at March 31, 2007, PDP had assets of $20.7 million, liabilities of $8.4 million and equity of $12.3 million, with revenues of $5.2 million and an excess of operating expenditures over revenues of $5.0 million for the year then ended.

c) Revenue Recognition

CLCL recognizes revenue as follows:

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

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

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

d) Capitalization of Pre-acquisition Costs

Costs incurred prior to but in relation with probable future acquisitions of properties are capitalized. These costs are reviewed annually and written off when management considers that they no longer embody any future benefits to CLC.

During the year, management revised its accounting estimates for carrying costs of probable future acquisitions due to delays in property transfers. The costs that were written off this fiscal year total $11.2 million.

e) Properties

i) Revenue producing properties are reviewed for impairment whenever events or changes to circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the estimated undiscounted future cash flows from operations and expected residual value is less than the carrying value of a particular asset, an impairment would be recognized, whereby the asset would be written down to fair value.

ii) Properties under development for sale 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 "impairment loss" line in the consolidated statement of income. During the year, the corporation wrote off $3.5 million of costs that were deemed to have no future benefits relating to two projects.

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

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

f) 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 significantly from those estimates.

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

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

g) Income Taxes

The corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

h) 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 8 years

i) Adoption of New Financial Instruments Standards

Commencing April 1, 2007, the corporation adopted four new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"): Section 3855, Financial Instruments – Recognition and Measurement, Section 1530, Comprehensive Income, Section 3251, Equity and Section 3861, Financial Instruments – Disclosure and Presentation. These standards were adopted retrospectively without restatement and accordingly, comparative amounts for prior periods have not been restated.

The April 1, 2007 transitional adjustments attributable to the adoption of these new accounting standards included (i) the reclassification of $0.8 million of unamortized debt financing costs from properties to mortgage bond payable, (ii) the revaluation of mortgage bond payable which led to a $0.2 million reduction in carrying value with an offsetting adjustment to opening retained earnings.

Financial Instruments – Recognition and Measurement

Section 3855 requires that all financial assets and financial liabilities be measured at fair value on initial recognition except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial asset or liability has been classified as held-for-trading, available-for-sale, held to maturity, loans and receivables or other liabilities.

Financial instruments classified as held-for-trading are measured at fair value taking into consideration the timing and risk of individual projects and unrealized gains and losses are included in net income in the period in which they arise. The corporation's financial instruments classified as held-for-trading include cash and cash equivalents and restricted cash.

Financial instruments classified as held-to-maturity, loans and receivables and other financial liabilities are required to be measured at amortized cost using the effective interest method. The principal categories of the corporation's financial assets and liabilities measured at amortized cost using the effective interest method include: (i) amounts receivable and payable; (ii) mortgages and secured notes receivable; (iii) mortgage bond payable; and (iv) notes payable.

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as held-for-trading, held to maturity, or loans and receivables. Available-for-sale assets are measured at fair value with unrealized gains and losses recorded in other comprehensive income until realized, at which time they will be recognized in income. The corporation had no financial instruments classified as available-for-sale.

Derivative financial instruments that are not designated as effective hedging instruments must also be classified as held-for-trading and measured accordingly. The corporation enters into multi-interval swap contracts in order to manage market risk on fluctuating electricity prices and these contracts are not designated as hedging instruments. Historically, the swap contracts have been recorded at their estimated fair market value with realized and unrealized gains and losses recorded in net income during the year. The corporation's accounting treatment of these swap contracts remains unchanged as a result of implementing these new accounting standards and the amounts are not significant.

As required by Section 3855, the corporation conducted a search for embedded derivatives in its contractual arrangements dated or modified subsequent to April 1, 2003. When certain conditions are met, an embedded derivative is separated from the host contract and accounted for separately as a derivative on the balance sheet at fair value. The corporation did not identify any embedded derivatives that were required to be accounted for separately.

Comprehensive Income

Section 1530 introduces Other Comprehensive Income ("OCI"). OCI represents changes in shareholders' equity arising from unrealized gains and losses on financial assets classified as available-for-sale, net unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The corporation had no other comprehensive income or loss transactions for the year ended March 31, 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

Future Changes in Accounting Policies

CICA has issued five new accounting standards that are effective for the March 31, 2009 year end including, Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments — Disclosures and Handbook Section 3863, Financial Instruments — Presentation.

Section 1535 includes required disclosure about an entity's objectives, policies and processes for managing capital.

Sections 3862 and 3863 replace the current Handbook Section 3861, Financial Instruments — Disclosure and Presentation. The new sections revise and enhance the current disclosure requirements and require disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA issued Section 3031, Inventories, which has replaced existing Section 3030 with the same title. The new Section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. This standard is effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and is applicable for the corporation's year ending March 31, 2009. The corporation is currently evaluating the impact of this new standard.

Section 3064, Goodwill and Intangible Assets, will replace Section 3062, Goodwill and Other Intangible Assets, and results in withdrawal of Section 3450, Research and Development Costs, and amendments to Accounting Guideline (AcG) 11, Enterprises in the Development Stage and Section 1000, Financial Statement Concepts. The objectives of the Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing as assets, items that do not meet the definition and recognition criteria is eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. These changes are effective for fiscal years beginning on or after October 1, 2008, with early adoption encouraged. The corporation is evaluating the effects of adopting this standard.

3. Revenue Producing Properties

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

In thousands	2008	2007
Land	**$ 11,176**	$ 11,176
Buildings	**138,455**	132,818
	149,631	143,994
Accumulated depreciation	**36,189**	32,614
	$113,442	$111,380

Depreciation expense of approximately $3.9 million (2007 – $3.9 million) was charged to depreciation and other expenses.

4. Cash and Cash Equivalents

In thousands	2008	2007
Cash(overdraft)	**$ (2,159)**	$ 730
Cash equivalents	**50,000**	86,285
	$ 47,841	$ 87,015

Cash equivalents are comprised of only highly liquid investments, such as money market funds and term deposits, with original maturities at the date of purchase of three months or less.

5. Amounts Receivable and Other Assets

Amounts receivable and other assets are comprised of the following:

In thousands	2008	2007
Mortgages and secured notes (a)	**$ 4,314**	$ 2,848
Assignment of rents (b)	**4,207**	4,686
Prepaids	**2,479**	12,771
Rents and other receivables	**6,402**	5,391
Restricted cash (c)	**1,851**	1,032
Other capital assets (d)	**4,338**	4,569
	$ 23,591	$ 31,297

a) Mortgages and secured notes receivable bear interest at a fixed rate at closing, yielding a weighted average rate of 6.78% (2007 – 7.77%) and are all receivable within two years.

b) CLCL has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income until 2013. The future stream of cash flows is originally discounted at a fixed interest rate of 11.38%. The receipts are estimated to be as follows:

In thousands		
Years ending March 31	2009	$ 559
	2010	664
	2011	769
	2012	879
	2013	1,336
		$ 4,207

Based on current rates, the net present values of future stream of cash flows are $5.2 million (2007 – $5.9 million).

c) Restricted cash represents holdback money owing for the CFB Chilliwack North Side and 4300 North Fraser Way projects. This also includes a cash deposit for $1.2 million made for letters of credit secured.

d) Other capital assets are comprised of the following:

In thousands	**2008**			2007		
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Office equipment and computer software and hardware	**$ 6,794**	**$ 4,113**	**$ 2,681**	$ 5,780	$ 3,035	$ 2,745
Catering and entertainment equipment	**4,249**	**2,755**	**1,494**	3,527	1,862	1,665
Leasehold improvements	**416**	**253**	**163**	389	230	159
Total	**$ 11,459**	**$ 7,121**	**$ 4,338**	$ 9,696	$ 5,127	$ 4,569

Depreciation expense of approximately $2.0 million (2007 – $2.0 million) was charged to depreciation and 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 at a fixed rate of 5.37%.

Certain of CLCL's properties have been pledged as collateral. The carrying value of the pledged properties as of March 31, 2008 was $94.3 million (2007 – $92.2 million). The mortgage bond payable has a maturity schedule as follows:

In thousands		
Years ending March 31	2009	$ 4,525
	2010	4,771
	2011	5,030
	2012	5,304
	2013	5,593
	2014	5,897
		$ 31,120
Less: Net unamortized deferred financing		479
		$ 30,641

Interest is payable at an annual effective rate of 5.89%. Interest incurred on mortgage bond payable amounted to $2.1 million for the year (2007 – $2.0 million).

CLC has the right to redeem the Series A Bond at any time upon payment of a specified redemption price equal to the greater of the Canada Yield Price and par, together, in each case, with accrued and unpaid interest up to but excluding the date fixed for redemption.

7. Notes Payable

The notes payable were issued in consideration of the acquisition of real estate properties (note 12), and are due to the government of Canada. These notes are repayable on the earlier of their due dates (2008 to 2018) or the dates on which net proceeds become available from the sale by CLCL of the properties in respect of which the notes were issued. All notes are non-interest bearing. The notes are discounted using an imputed fixed interest rate. The imputed interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average rate of 8.8% (2007 – 7.1%).

During the year ended March 31, 2008, interest capitalized was $5.6 million (2007 – $3.1 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	2009	$	250
	2011		9,400
	2012		14,300
	2013		10,286
Subsequent years			12,590
Subtotal			46,826
Less amounts representing imputed interest			11,068
		$	35,758

8. Capital Stock

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

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

9. Income Taxes

CLCL is a prescribed federal Crown corporation that is subject to tax federally and under most provincial jurisdictions, with the exception of Ontario and Alberta. As a result of the new *Ontario Taxation Act* ("Ontario Act") replacing the old *Corporations Tax Act*, CLCL will no longer be exempt from Ontario income and capital tax starting with its fiscal year ending March 31, 2009. This change has been reflected as an increase to the corporation's provision for future income taxes.

CLCL's actual income tax expense under Canadian generally accepted accounting principles differs from the expected income tax expense using the combined provincial and statutory rate as follows:

In thousands	**2008**	2007
Expected statutory rate of tax	**35%**	36%
Expected income tax expense	**$ 5,690**	$ 10,111
Increase (decrease) in tax expense resulting from:		
Income not taxable in certain provinces	**(1,813)**	(3,331)
Ontario Act	**860**	–
Adjustment to future tax assets and liabilities for enacted changes in tax rates	**(707)**	–
Other	**(1,450)**	195
Actual income tax expense	**$ 2,580**	$ 6,975

Other includes the reversal of $1.5 million of tax reserves in the current year that were previously included in accounts payable and accrued liabilities. These tax reserves were established in the event taxation authorities were successful in challenging certain tax filing positions made by the corporation. In 2008, the corporation determined that these tax reserves could be reduced.

The components of the future tax liabilities are as follows:

In thousands	2008	2007
Future tax liabilities		
Income producing properties	**$ (2,777)**	$ (2,489)
Notes payable	**(3,370)**	(4,124)
	(6,147)	(6,613)
Future tax assets		
Properties under development for sale	**2,192**	3,215
Land held for development	**1,178**	909
Reserves	**492**	802
Financing costs	**–**	54
	3,862	4,980
Net future tax liabilities	**$ (2,285)**	$ (1,633)

10. Other Liabilities, Commitments and Contingencies

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

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

CLCL's estimated obligation in respect of these commitments, assuming the early termination clause is exercised, is $1.2 million (2007 – $3.0 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.

On April 14, 2008, CLCL acquired the properties referred to above. See note 17 for details.

b) Capital commitments for servicing requirements and other development costs at March 31, 2008 total $16.7 million (2007 – $20.4 million).

c) CLC has an $85 million line of credit with a Canadian chartered bank. This line of credit is presently used for letters of credit issued for the fulfillment of certain obligations totaling $23.6 million at March 31, 2008 (2007 – $23.1 million).

d) At March 31, 2008, the corporation was involved in litigation and claims that arise from time to time in the normal course of business. In the opinion of the corporation, any liability that may arise from such contingencies would not have a significant adverse effect on these consolidated financial statements.

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

In thousands		
Years ending March 31	2009	$ 1,218
	2010	1,099
	2011	1,083
	2012	1,087
	2013	1,131
Subsequent years		3,657
		$ 9,275

11. Consolidated Statement of Cash Flows — Supplemental Information

Property acquisitions and additions which were satisfied by the issuance of notes payable in the amount of $1.0 million (2007 – $8.5 million) have been excluded from the financing and investing activities in the consolidated statement of cash flows.

Non-cash increase in properties and notes payable of $5.6 million (2007 – $3.1 million) for capitalization of interest have been excluded from the financing and investing activities in the consolidated statement of cash flows.

Property disposals satisfied by the issuance of mortgages and secured notes by CLCL or the assumption of debt by the purchasers in the amount of $4.1 million (2007 – $1.4 million) have been excluded from the operating, financing and investing activities in the consolidated statement of cash flows.

During the year ended March 31, 2008, interest received totaled $2.9 million (2007 – $2.9 million), interest paid amounted to $1.8 million (2007 – $1.5 million) and income taxes paid totaled $7.1 million (2007 – $6.8 million).

12. Related Party Transactions and Balances

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

During the year ended March 31, 2008:

a) CLCL acquired an interest in real estate properties from Federal government departments and Crown corporations for an aggregate purchase price of $18.1 million (2007 – $8.5 million). Consideration for these assets was cash payment of $17.1 million and the issuance of notes payable of $1.0 million (note 7).

b) CLC received management fees of $0.1 million from a Crown corporation (2007 – $0.1 million). CLC also received various rental revenues from Federal agencies and departments of $3.4 million (2007 – $3.2 million).

c) CLCL has a payable to Federal agencies and departments of $0.6 million for profit participation on sold properties amounting to $0.5 million and other overhead costs of $0.1 million (2007 – $1.4 million for profit participation of $0.6 million and $0.8 million of overhead costs). During the year, the corporation has incurred costs of $0.1 million.

13. Financial Instruments

a) The carrying values of CLCL's amounts receivable and other assets, and income tax recoverable approximate their fair values based on estimated future cash flows discounted at market rates available to CLCL for financial instruments with similar risk, terms and maturities.

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

The fair value of mortgage and notes payable is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

	2008		2007	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Mortgage Bond	**$ 30,641**	**$ 33,026**	$ 35,411	$ 36,735
Notes Payable	**$ 35,758**	**$ 31,304**	$ 46,915	$ 41,372

b) Credit risks arise from the possibility that tenants may experience financial difficulty and be unable to fulfill their commitments. The corporation seeks to mitigate this risk by conducting credit assessments on all new leasing.

c) The corporation is exposed to interest rate risk on its borrowings. The corporation seeks to reduce its interest rate risk by matching revenue streams to cash flows.

14. Benny Farm Property

CLC is developing/disposing the Benny Farm property under an agreement with Canada Mortgage and Housing Corporation (CMHC). This agreement provides a mechanism to share future profits with CMHC, should positive cash flows be generated in excess of the existing non-recourse liabilities of the property. CLCL does not expect future positive cash flows to exceed the property liabilities. Conversely, CLC is under no obligation to transfer or use its own assets in settling liabilities of this property. CLCL is not considered the primary beneficiary as defined in the AcG-15, Consolidation of Variable Interest Entities. Accordingly, CLCL has not recorded any activity in its accounts except for certain expenses.

15. Segmented Information

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

Additional information on these activities is as follows:

In thousands	Real estate activities	Entertainment and hospitality	**Total 2008**	Total 2007
Revenues	$ 87,904	$ 57,970	**$145,874**	$149,269
Depreciation	981	4,986	**5,967**	5,891
Income before income taxes	5,404	10,534	**15,938**	28,085
Acquisitions and expenditures on properties	66,324	6,266	**72,590**	37,151
Identifiable assets	260,924	101,803	**362,727**	376,945
Identifiable mortgage bond payable and notes payable	35,758	30,641	**66,399**	82,326

16. Pension Plan

CLCL has a defined contribution pension plan covering all of its full-time employees and certain part-time employees in accordance with the plan. Employees are eligible to join either at the date of employment or after a year of employment. The amount of the current service cost for the year charged to expense for this plan was $0.9 million for the year ended March 31, 2008 (2007 — $0.9 million).

17. Subsequent Event

On April 14, 2008, CLC acquired the office tower at 277 Front Street West and the hotel facility at 225 Front Street West from Pension Fund Realty Limited for cash consideration of $154 million.

In order to acquire these properties, CLC entered into a line of credit facility in the amount up to $105 million with the Royal Bank of Canada at Bankers' Acceptance rate plus 0.5%.

18. Comparative Amounts

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

Corporate Directory

HEAD OFFICE
Toronto
1 University Avenue
Suite 1200
Toronto, Ontario
M5J 2P1
Tel: 416 952 6100
Fax: 416 952 6200
Internet: www.clc.ca
E-mail: clc@clc.ca

OFFICES
Vancouver
666 Burrard Street
Suite 1850 – Park Place
Vancouver, British Columbia
V6C 2X8
Tel: 604 775 7177
Fax: 604 775 7018

Chilliwack
No. 24, Normandy Drive
Chilliwack, British Columbia
V2R 5X3
Tel: 604 824 5062
Fax: 604 824 5067

Calgary
Building K4
3951 Trasimene Crescent S.W.
Calgary, Alberta
T3E 7J6
Tel: 403 292 6222
Fax: 403 292 6246

Edmonton
13710 – 104th Street
Edmonton, Alberta
T5E 6L6
Tel: 780 495 7120
Fax: 780 495 7140

Winnipeg
Number Five
5 Donald Street – Suite 200
Winnipeg, Manitoba
R3L 2T4
Tel: 204 453 4148
Fax: 204 453 4159

Canada's National Tower
301 Front Street W.
Toronto, Ontario
M5V 2T6
Tel: 416 868 6937
Fax: 416 601 4722

National Capital Office
350 Sparks Street
Suite 900
Ottawa, Ontario
K1R 7S8
Tel: 613 946 7558
Fax: 613 946 7779

Ottawa (Rockcliffe)
Building 164
West Wing
Ottawa, Ontario
K1A 0K4
Tel: 613 998 7777
Fax: 613 998 8932

Montréal
800 René-Lévesque Blvd W.
Suite 1100
Montréal, Québec
H3B 1X9
Tel: 514 283 5555
Fax: 514 283 0162

Moncton
Box 6011
770 Main Street, 16th Floor
Moncton, New Brunswick
E1C 1E7
Tel: 506 854 5263
Fax: 506 862 2455

Charlottetown
119 Kent Street
Suite 440
Charlottetown, PEI
C1A 1N3
Tel: 902 368 2210
Fax: 902 368 0222

Halifax
1505 Barrington Street
Suite 1205
Halifax, Nova Scotia
B3J 3K5
Tel: 902 426 5057
Fax: 902 426 5217

Design: www.haughtonbrazeau.com

CANADA LANDS COMPANY LTD.
Head Office, Toronto
1 University Avenue
Suite 1200
Toronto, Ontario
M5J 2P1
Tel: 416 952 6100
Fax: 416 952 6200
Internet: www.clc.ca

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