Canada Lands Company Limited
Société immobilière du Canada Limitée

2003–2004 ANNUAL REPORT

Property. Values.

Canada

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Canada Lands Company

Corporate Profile

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

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

- Canada Lands, the core real estate business, active in 25 municipalities across Canada;
- Parc Downsview Park Inc. (PDP), responsible for developing and managing Downsview Park in Toronto, and as of September 3, 2003 reporting to Parliament as if it were a parent Crown corporation; and
- Old Port of Montréal Corporation Inc., responsible for redeveloping and managing the Old Port of Montréal, and reporting to Parliament as if it were a parent Crown corporation.

Letter to the Minister

June 30, 2004

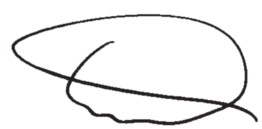
The Honourable Andy Scott
Minister of State (Infrastructure)
Ottawa, Ontario

It gives me great pleasure to enclose the annual report of Canada Lands Company Limited for the year ended March 31, 2004.

This document focuses on our performance over the past year in relation to the strategic directions of the corporation, working closely with our Government of Canada partners and customers to add value to the strategic surplus real property assets transferred to us across the country, while keeping in mind the objectives of our shareholder, the Government of Canada.

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

Yours truly,



Marc Rochon
Chairman
Canada Lands Company Limited

c. The Honourable David Anderson
Minister of the Environment

Realizing a Vision: A Message from the Board of Directors

We are proud to report on the progress of Canada Lands Company Limited (CLCL) as we conclude an extraordinary year.

We are very pleased with the steps CLCL has taken in the past fiscal year to enhance its operations, in addition to being extremely proud of its position as a real estate industry leader with respect to many of its core competencies. The company's balanced scorecard showcases the company's performance over the past year with respect to the benefits it creates for Canadians in the communities where it operates.

The board extends its appreciation to departing board member Robert Metcalfe for his valuable contribution over the past six years. The board would also like to acknowledge the passing of board member Charles Connaghan. Chuck made a tremendous contribution to Canada through his numerous endeavours and was taken from us far too early in life. He will be sorely missed.

On September 3, 2003, approval was given by the Governor in Council to make CLCL's wholly-owned subsidiary, Parc Downsview Park Inc. (PDP), an agent Crown corporation, and also to have it report to Parliament as a deemed parent. As a result, it was also necessary to change CLCL's status from non-agent to agent, as it will continue to hold the shares of PDP in trust for the Crown. This approval resolves a long-standing concern of the board of directors of CLCL regarding the accountability of PDP to CLCL.

LOOKING FORWARD

The year ahead will see many new challenges for CLCL. The company will continue to work with its partners, customers and other stakeholders to meet and exceed the financial and community objectives set annually through its balanced scorecard.

In addition to paying fair market value for the surplus properties it acquires from the Government of Canada, additional financial benefits for its shareholder include relief of ongoing and often significant operational and maintenance costs, and avoidance of the erosion of asset value that can result from inadequate funding.

Over the next fiscal year, the company will continue to demonstrate excellence in corporate governance, with associated bottom line results. The company will continue to monitor and enhance its governance practices through its established governance action agenda, which is updated on a regular basis.

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

1) John McManus, CA[(1,2)*‡] is Senior Vice President of Borealis Infrastructure Management Inc. – a leading Canadian investment and asset management company. He is currently on the board of Bruce Power, chair of its pension committee and member of its audit committee.

2) Marco Veilleux[(1,2)*†‡] is a senior partner with the law firm Cain Lamarre Casgrain Wells, Montréal, Québec. A past Canadian Olympian, Mr. Veilleux is active with the Fédération Internationale de Natation Amateur (FINA), the Amateur Swimming Union of America (ASUA), the Canadian Olympic Committee (COC) and is the past president of the Aquatic Federation of Canada.

3) Philip Star, Q.C.[(1,2)†‡] is a partner in the law firm of Pink Star Murphy Barro in Yarmouth, Nova Scotia. Mr. Star is involved in many community initiatives, including his role as President and Board Member of Big Brothers / Big Sisters of Yarmouth. He is also the Second Vice President of the Nova Scotia Barristers Society and is an active member of the Nova Scotia Criminal Lawyers Association.

4) Stephanie Felesky[(1,2)*†‡] is a board member of Calgary Inc., the Calgary Homeless Foundation, the Calgary Herald Advisory Board and the Board of Governors of the University of Calgary. She is past member of the Board of Star Choice Communications and past Chair of the Board of Directors for the United Way of Calgary.

5) Marc Rochon[(1,2)‡] is Chairman of Canada Lands Company Limited and Canada Lands Company CLC Limited. 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, including Senior Councillor at the Privy Council Office, Deputy Minister at the Department of Canadian Heritage, as well as the Department of Communications, giving him a wide range of experience in such areas as corporate governance and social policy issues.

6) Kathy Milsom[(2)†‡] is President and CEO of Canada Lands Company Limited and Canada Lands Company CLC Limited.

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

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

The Properties of Success

Over the past year, we have continued to build on our many successes and we concluded some major undertakings, the most notable of which was reassuming the day-to-day operational responsibility for Canada's National Tower (the Tower). This reacquisition presents the company with a tremendous opportunity with respect to both working with an extraordinary team at the Tower to enhance the performance of a successful enterprise, and contributing a meaningful voice to the tourism industry in helping to re-establish Toronto and Canada as destinations of choice.

A Message from the President and CEO

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

Our focus on governance and management excellence has delivered demonstrable results. The company achieved its "turnaround" year in fiscal year 2003–2004. After years of experiencing a declining asset base and correlated financial performance, our efforts over the past years to reverse this trend are demonstrating significant success.

Annual pre-tax value creation has increased to an average of $31.9 million for the past two fiscal years, or $342,000 of value created per annum on average by each employee (excluding the Tower, as we only recently reacquired operational interest). Our highest annual net income level historically was $24.1 million, with over $40.0 million projected during the upcoming five-year plan period.

Our overheads have been reduced dramatically in a positive, sustainable manner with accumulated savings in excess of $4.0 million over the last two years, equating to a 33% reduction from the benchmark. Finally, our property asset base by year two of our upcoming plan period is conservatively projected to be nearly $465 million compared to the highest historical level of $337 million at the company's reactivation in 1995. With respect to the Tower, within our initial months of operations, the Tower team has performed extremely well, with financial results exceeding an aggressive plan.

This annual report provides some highlights of our major achievements – both financial and non-financial – over the past fiscal year. By further refining our balanced scorecard method of setting objectives, monitoring and managing performance, and reporting outcomes, we are able to fairly and appropriately reflect both our accomplishments and, in some cases, our disappointments. This objective and balanced approach to performance management and reporting enables us to learn from both our successes and our shortfalls, and enhance our performance either way. I am particularly proud of our team this year in view of what we have achieved, with respect to both our core real estate business and our Tower operations.

I extend my appreciation and congratulations to everyone involved!

Corporate Governance

Disclosure Statement

The board of directors of CLCL is responsible for managing the affairs of the corporation and the conduct of its business. As steward of the corporation, the board oversees the strategic direction, ensures the integrity of its corporate and financial systems, deals with risk management issues, and guides the management of the corporation. The board has a non-executive chairman and consists of seven directors: the chairman of the board and six outside members appointed by Governor in Council (one position currently vacant). The members possess the necessary diversity in skill and capabilities required for optimal governance.

In 2002, the board of directors launched a review of corporate governance at CLCL to ensure that its governance practices were sound. The review, carried out by an outside consultant, confirmed this fact. This statement is one outcome of that review exercise. The board and management at CLCL, a self-financing Crown corporation, subscribe to the view that there are basic requirements and values that will always underpin good corporate governance in a Crown corporation: integrity, transparency, sound planning, effective and efficient management structure, and a deep respect for the country's democratic institutions. In addition, they subscribe strongly to the view that a strong working relationship and a climate of confidence between the board and senior management are key to promoting a strong corporate culture. There are clear, delineated delegations of authority to management from the board of CLCL.

Corporate Governance

The board decided to act as its own corporate governance committee in part because it is a relatively small board, but also because it attaches a great deal of importance to governance issues. Accordingly, it concluded that all board members should take an active interest in governance issues. The committee continues to review the company's governance practices in the spirit of continuous improvement. The company has a clear and concise board of director profile to assist with the selection of board members, and all directors are subject to a conflict of interest policy. There is also an established process for reviewing the board's performance.

Human Resources

The human resources committee oversees corporate policies relating to human resources and its oversight is all encompassing in human resources development. It is responsible for putting in place human resources policies, recommending compensation levels for the President and CEO, and directing management with respect to programs and succession planning. The human resources committee is composed of three members.

Audit

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

Corporate Governance (continued)

2003–2004 HIGHLIGHTS

In 2002, CLCL assessed its governance practices against best practices recommended by three authorities: Treasury Board, the Joint Committee on Corporate Governance and the Auditor General of Canada. The company met or exceeded 97 of the 98 listed best practice initiatives. The one initiative that remains to be addressed is formal audit committee member training. CLCL is exploring appropriate training modules at present and expects to have this underway during 2004.

Management continued to regularly review and update its succession plans, with the President and CEO reporting twice over the course of the year to the human resources committee.

The company held director orientation sessions for its three new directors, as well as providing them with updated directors' manuals.

The company updated a policy on internal disclosure of information concerning wrongdoing in the workplace to increase the transparency and accountability of its operations. This policy allows employees to bring forward information concerning any wrongdoing and ensures that they are treated fairly and are protected from reprisal when doing so in good faith.

The company also assisted PDP in becoming an agent Crown corporation and fully disengaging with respect to service delivery, and completed the smooth transition of Tower operations to Canada Lands.

BOARD ASSESSMENTS

The company has introduced an assessment process in a phased manner, which commenced in 2001, to evaluate the effectiveness of the board's/committees' performance. The board decided to have less formal board assessments annually and a full assessment, involving an outside consultant, every three years. The audit committee decided to have annual assessments, while other committees will also be on the three-year cycle. Assessment of individual directors will not be formally undertaken, but all directors are encouraged to assess their performance and capabilities against the director profile, and training is encouraged.

DIRECTOR ATTENDANCE AND COMPENSATION

There were six CLCL board meetings during the fiscal year. The meetings were fully attended, with the exception of one meeting at which three directors were absent. The compensation for the chairman and directors is set by Governor in Council and consists of annual retainers of $9,400 for the chairman and $4,500 for directors, respectively, as well as a per diem rate of $375 for both the chairman and directors, and $250 for teleconference meetings.

CODE OF CONDUCT AND ETHICS

The board members and employees of CLCL and its subsidiary, Canada Lands, are responsible for carrying out the mandate of the company with openness, transparency, ethics and integrity.

In fulfilling their responsibilities, all board members and employees must observe the following guiding principles associated with openness, transparency, ethics and integrity:

- ensuring open, transparent, ethical and equitable business dealings that reflect integrity, fairness, courtesy, and respect for all stakeholders;
- fulfilling of responsibilities in an impartial and objective manner with no allowance for preferential treatment;
- ensuring continuous improvement and regular benchmarking of best business conduct practices;
- fulfilling of responsibilities to meet or exceed the spirit of applicable laws, policies and procedures;
- avoidance and prevention of any real or perceived conflicts of interest at a personal level, as well as that of any family member, friend or business associate;
- avoidance and prevention of any real, deemed or perceived personal gain or benefit, either direct or indirect, to any employee or immediate family members;
- ensuring that employees who have access to and are entrusted with confidential information relating to the business of CLCL and its affiliates and subsidiaries will not, during their employment or thereafter, use any information in a manner that is inconsistent with the best interests of CLCL and the proper fulfillment of their employment responsibilities; and
- ensuring a work ethic that respects these guiding principles, espouses the highest ethical standards and can withstand the closest possible scrutiny.

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, Canada Lands' pay policy provides base compensation at the median of market comparators primarily on a national basis, while earned incentive compensation generally does not exceed the 70th percentile. Annual salary reviews are conducted and, 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.

Reinforcing a performance culture and providing compensation that is competitive and appropriate for the company, eligible employees must meet above-average performance criteria in order to be eligible for incentive pay. The incentive, ranging from 4% to 35% of salary for eligible employees, is based on exceeding key performance objectives.

The position of President and CEO of CLCL is appointed by Governor in Council. The current President and CEO was appointed after a national, open search. The Government of Canada sets the rate of remuneration of this position as required under the *Financial Administration Act*. CLCL, as a Group 5 Crown corporation, offers incentive pay to the President and CEO to a maximum of 10% of salary.

The President and CEO receives the same benefits package as the other senior members of the organization, including health and dental benefits.

Clarity

Balanced Scorecard

Through a commitment to the principle of corporate social responsibility that is integrated into Canada Lands' daily business and publication of the company's performance results, the company makes its motives for business decisions clear to all stakeholders. This ensures that business decisions are made in a manner that is consistent with business objectives.

At Canada Lands, our balanced scorecard enables us to identify goals, manage and measure performance, and report on achievements with respect to the priorities of each key stakeholder group. The company implements quantitative measures wherever feasible, but tracks both qualitative and quantitative indicators of performance in terms of both financial and non-financial outcomes.

The balanced scorecard provides the company with an excellent method for reporting to the Government of Canada and other interested parties on corporate goals and achievements. It also assists internal self-assessment, and makes it easier for the company to manage and measure operations.

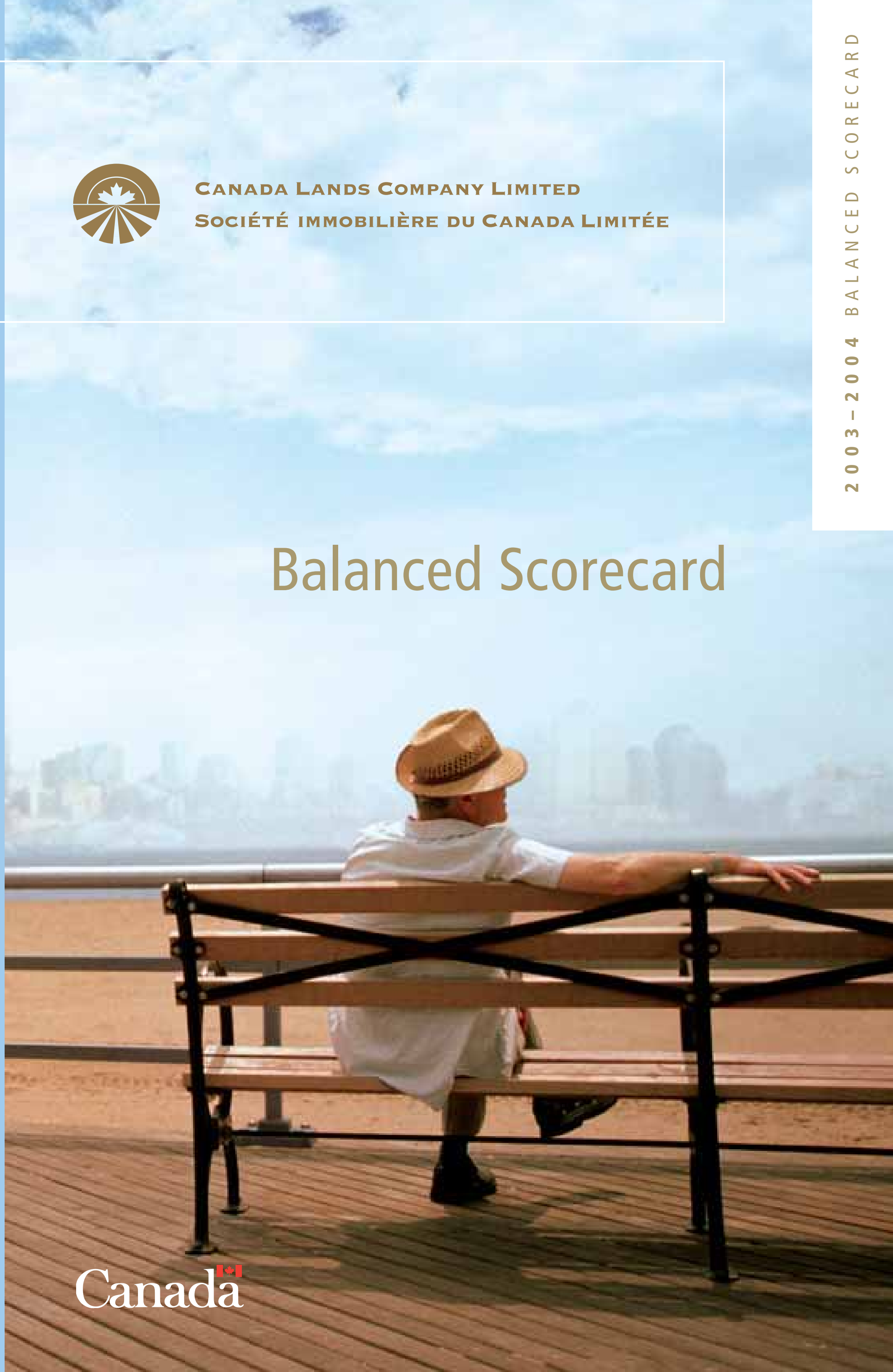
Canada Lands has identified five key result areas that represent the corporation's primary stakeholder groups. These areas are: shareholder and board of directors, business and financial outcomes, community and legacy initiatives, employees and the work environment, and municipal and provincial interests.

Corporate social responsibility is a very important consideration at Canada Lands and has become a core value for the company. With each new project undertaken by the company, an assessment is made and active budgeting occurs to allow for environmental, social and economic opportunities. Plans are formulated to enable value creation, while improving the quality of life in local communities.

Canada Lands Company Limited
Société immobilière du Canada Limitée

2003–2004 BALANCED SCORECARD

Balanced Scorecard



Shareholder and Board of Directors

Business and Financial Outcomes

Community Legacy and Initiatives

Employees and the Work Environment

Municipal and Provincial Interests

Canada

Shareholder / Board of Directors

	2003–2004 Objectives	Performance Targets	Performance Assessment
OPERATIONS	**Provide financial benefits to the Government of Canada**	Total cumulative distributions to the Government of Canada in the form of dividends, note repayments and cash acquisitions, since Canada Lands' inception Cumulative annual operating expenses relieved from Government of Canada departments, agencies and Crown corporations at point of purchase by Canada Lands, since Canada Lands' inception	$286 million in distributions to the Government of Canada $1.5 million in annual operating expenses relieved $16.5 million in annual tax burden relieved
	Review known risks to the company and mitigate exposure	Company risk exposure identified and managed	Continuation of risk management committee aided by an outside advisor Information services data recovery plan and business resumption planning initiated Records management program commenced Occupational health and safety policy created, and associated procedures manual developed
COMMUNICATIONS	**Enhance profile of Canada Lands**	Positive media coverage	Positive media coverage was obtained in a number of periodicals, including Maclean's magazine, Building magazine, The Globe and Mail, and Edmonton Journal Higher profile achieved in Ottawa, benefiting property transfers
	Establish relationships with city councils in communities where Canada Lands conducts its business	Establishment of relationships where appropriate	A number of relationships were solidified in cities across the country, including Burnaby, Edmonton and Ottawa
BILINGUALISM	**Ensure compliance with Government in Canada official languages action plan**	Assess employee capabilities and develop appropriate training plans to meet minimum requirements established in the previous year 100% of management team to meet minimum requirements or be registered in language classes	Completed, and minimum requirements met 100% of management meet minimum requirements or are registered in classes All deficiencies in bilingual services addressed or being addressed

Business / Financial

	2003–2004 Objectives	Performance Targets	Performance Assessment
FINANCIAL PERFORMANCE	**Enhance financial value and returns**	Achieve full year impact of cost efficiencies in general and administrative expenses to deliver $1.8 million in savings over 2001–2002 actuals	General and administrative expenses $2.4 million less than 2001–2002 actuals Overheads reduced in a positive, sustainable manner by nearly $4 million per year, equating to a 33% reduction from the benchmark
	Improve efficiencies in financial information system	Implement new operating practices, evaluate use of JD Edwards as an automation tool and implement solution as necessary	Users' needs session and training session conducted Begun first stage of implementing new operating practices
	Ensure that market value indicator appropriately measures the financial success of the company	Assess appropriateness of market value indicator	Measures are appropriate as tested internally, and as commented upon by external auditors
BUSINESS DEVELOPMENT	**Increase property transfers**	Gain approvals for eight property transfers	Approvals obtained for three properties: DFO West Vancouver Labs, CFB Chilliwack and Kingston Women's Prison Three transfers not achieved due to the determination that the purchase of Crown corporation properties is outside present mandate Six transfers delayed due to legal and disposal process issues
		Receive title transfer for six properties plus an additional 50 Seaway properties	Obtained title for CFB Chilliwack plus 54 Seaway properties
	Mandate clarification	Ensure business alignment to mandate clarification	Based on preliminary consultations with Ottawa, this objective was reassessed over the course of the year and not pursued further
CUSTOMER RELATIONS	**Continue to improve customer satisfaction**	Minimum overall customer satisfaction score of 75% for new target groups or increase in satisfaction score for repeat surveys within regional divisions	277 Front Street achieved a satisfaction score of 90% for building maintenance

Community / Legacy

	2003–2004 Objectives	Performance Targets	Performance Assessment
LEGACY CREATION	**Implement legacy initiatives**	Commemoration of former uses with legacy initiatives for major projects	Canadian Peacekeepers' commemoration at Garrison Woods, Calgary, Alberta – August 9 Rideau Veterans' Home Memorial Park, Ottawa, Ontario – September 15
PARTNERSHIPS	**Partner with local organizations / service providers in innovative ways**	New partnerships forged over the course of the fiscal year in support of development plans	Partnership forged with the City of Burnaby for a lookout area at Glenlyon Business Park
CORPORATE PHILANTHROPY AND IN-KIND SUPPORT	**Evaluate and act upon potential areas of donations and sponsorships**	Contribution of up to 1% of net income before taxes toward corporate philanthropy (donations and sponsorships) in line with the company's corporate philanthropy policy	Contributed $145,500 toward corporate philanthropy or 0.99% of net income before taxes
	Evaluate and act upon in-kind sponsorship opportunities	Value of in-kind support	It was determined that in-kind support would no longer be measured because no clear objective means of quantification exists
COMMUNITY CONSULTATION	**Undertake broad-based consultation for each major project as part of planning approval process**	Community acceptance and support of proposed development plan	Community consultations took place at Benny Farm, Lester Road, Albion Road, Franklin Yard, CFB Chilliwack, CFB Calgary, CFB Griesbach and Upton Farm
	Web site projects	Produce project Web sites as appropriate	Four Web sites were created: uptonfarmlands.ca; clccalgary.ca; garrisoncrossing.ca; and villageatgriesbach.ca

Human Resources

	2003–2004 Objectives	Performance Targets	Performance Assessment
WORK ENVIRONMENT	**Employer of choice status**	Refinement of human resources programs	Healthcare spending account and pension plan brought in line with industry standards Service recognition plan further developed
	Create and maintain positive and safe work environment, and recognize and reward employees appropriately	Maintenance of voluntary employee turnover rate at below 5%	Voluntary employee turnover rate of 3%
		Achieve a score above the baseline in annual employee survey	65% of employees agreed that they have a satisfactory work environment Developed a new Web-based survey to provide more meaningful results, including the electronic tabulation of responses
		Engagement of employees through regular communications and opportunities for participation	Introduction of human resources round table with representatives from each functional / operational area, to meet approximately three times during fiscal year Regular staff meetings detailing changes from human resources perspective Company newsletter issued quarterly

Municipal / Provincial

	2003–2004 Objectives	Performance Targets	Performance Assessment
ECONOMIC STIMULATION	**Promote timely and appropriate development and construction of sites, and track activity in line with the company's guidelines on tracking benefits beyond dividends**	Cumulative development expenditures stimulated by Canada Lands and its project associates, since Canada Lands' inception	$3.7 billion
		Cumulative person years of direct construction employment stimulated by Canada Lands and its project associates, since Canada Lands' inception	29,600 person-years
		Cumulative annual taxes to municipalities at point of sale by Canada Lands to third parties, since Canada Lands' inception	It was determined that this target was extremely difficult to measure in a substantive way so tracking was discontinued
		Cumulative total area of non-residential construction stimulated by Canada Lands and its project associates, since Canada Lands' inception	11.7 million ft^2 (1.1 million m^2)
SOCIAL POLICY OBJECTIVES	**Contribute to affordable housing and other social policy objectives where feasible, with each major project**	New or refurbished residential units stimulated by Canada Lands and its project associates, since Canada Lands' inception, at a variety of affordability levels	19,200 units
	Utilize environmentally and fiscally responsible means of remediating contaminated sites	Environmental remediation investment in projects by Canada Lands and its project associates, since Canada Lands' inception	$36.6 million
SUSTAINABLE DEVELOPMENT	**Incorporate sound principles of sustainable development for each development initiative**	Creation of strong sense of community, belonging or neighbourliness for projects	Continuation of Calgary base development, and moving houses at CFB Griesbach and Garrison Crossing
		Public areas that encourage walking and socializing	Rideau Veterans' Memorial Park and the Glenlyon lookout
		Links to public transit	CFB Calgary and CFB Griesbach
	Recycling and/or reusing demolition or construction waste	Quantities of recycled or reused materials from demolition or construction	Recycled 29,000 tonnes of asphalt / concrete and 8,800 tonnes of gravel in addition to relocating mature trees at CFB Griesbach

Albion Road

"It was a pleasure working with Canada Lands on this project. Their approach to public consultation is refreshing. They included us in the planning stages and gave us the opportunity to have our say. I would welcome the occasion of working with them again."

June Patenaude-Ménard
President
Condominium Association CCC164

When Canada Lands acquired the former National Research Council site on Albion Road in Ottawa, it was surrounded by a ten foot fence with contamination warning signs. Canada Lands quickly realized that the fence represented not only a physical barrier, but a psychological one as well.

Perception is Everything

ALBION ROAD – At Canada Lands' first public meeting for this project, people were understandably more concerned with rumours of contamination and radiological effects on their children than they were with the future development of the property. The company knew that its first task would be to carry out the appropriate environmental remediation of the site, and to educate and reassure the public about the safety of the 20 acre (8 hectare) property.

Through extensive community consultations, Canada Lands was able to create and receive unanimous consent for a redevelopment plan that, when implemented, will be financially viable and will meet both local municipal housing and sustainable development objectives. Open and transparent environmental remediation, planning and consultation programs succeeded in removing the stigma that had previously presented a barrier to development.

By the end of the public consultations, community concerns regarding the environmental condition of the property had been addressed. The ten foot fence is now gone, opening the way for a network of recreational trails, and an active park and storm water management facility that will enable the public to view the flora and fauna. Construction has begun on the new community, which will provide a variety of housing types, including an 80 unit affordable housing project. Through a recreational corridor, this new development has enabled linkages to another new community being developed by Canada Lands on its Lester Road property, just south of the Albion Road site.

Property values have increased dramatically in the surrounding neighbourhood and new life has been injected into the adjacent community shopping centre. The shopping centre now features a major new anchor tenant and other stores are undergoing significant refurbishment. New sports fields are currently being planned by the city on the adjacent lands and the local public library (previously scheduled for closure) will now be kept open.

The Albion Road property is breathing new life into the community and the municipality is benefiting from increased tax revenues that will help support the new infrastructure.

Canada Lands' National Capital Region Team


Garrison Crossing
www.garrisoncrossing.ca

"Canada Lands did such a good job with the public process, communicating the vision and gathering community input, that the public hearing was almost a non-event. I wish all developers took that kind of care with their projects."

Clint Hames
Mayor
City of Chilliwack

Canada Lands' Garrison Crossing redevelopment is underway on a 153 acre (62 hectare) portion of the former Canadian Forces Base (CFB) Chilliwack in British Columbia.

Building on the Legacy in Consultation with the Community

GARRISON CROSSING – Located approximately 100 km east of Vancouver, the property was originally purchased by the Department of National Defence (DND) in 1942.

In 1995, the Government of Canada announced the closure of several Canadian Forces Bases, and CFB Chilliwack was officially closed in 1997. In December 2001, Canada Lands acquired 25% of the total site, which included the former military quarters.

This portion of the site already possessed the foundation for an outstanding neighbourhood and a fully-serviced community. It included pedestrian friendly streets, a variety of housing, active and passive parks, indoor recreation facilities, a grand boulevard, hundreds of mature trees, conveniently located schools and adjacent shopping.

The challenge for Canada Lands and its design team was to take all of the existing elements and integrate them into a compact, contemporary and vital planned community that would thrive into the future and contribute to the growth of a healthy and vibrant Chilliwack.

Through a series of public meetings, Canada Lands unveiled its vision for Garrison Crossing. The near-final concept was shown at public meetings and displays, where further community input was invited. A formal rezoning application was made and the unanimous support of city council was received at a public hearing.

The city adopted new zoning and approved the detailed plans for Phase 1 of the development. Encompassing the first 22 acres (8.9 hectares), this portion will feature 173 housing units in a variety of styles and affordability ranges, the upgrading of the first half of the grand boulevard, and the beginnings of the planned integration of new and existing parks linked by pathways and legacies commemorating the military history of the site.

Canada Lands commenced construction in September 2003 and entered into agreements with local residential builders in January 2004. Four different housing types will be built in Phase 1.

Based on principles of smart growth and sustainable development, the Garrison Crossing community will ultimately be home to approximately 3,000 new residents, accommodating a diversity of ages, lifestyles and income levels in a unique, safe and beautiful setting.

Canada Lands' Garrison Crossing Team

Moncton
www.franklinyard.ca

"The stakeholder partnership used to guide this initiative was instrumental in making this project a tremendous success. This was an excellent example of cooperation between many parties in addressing an environmental challenge at the community level. Our involvement in this project allowed us to develop the brownfield model we currently use to promote the blending of contaminated sites management and economic redevelopment opportunities."

Brenda Fowlie
New Brunswick Environment
and Local Government Minister

Like a phoenix that has risen from the ashes, Canada Lands' Moncton properties were reborn from a derelict industrial eyesore into a legacy that the people of New Brunswick will enjoy for generations.

A Phoenix Rising from the Ashes

MONCTON PROPERTIES – In 2003, Canada Lands' Moncton properties started a new chapter in an already legendary story of community sustainable development. Emmerson Business and Technology Park welcomed its first tenant, AOL Canada, into a brand new 50,000 ft^2 (4,640 m^2) office complex. Giffels Enterprises Inc., the company that was retained by Canada Lands to build out the park, purchased two additional portions of the property and began construction in the fall. These buildings are scheduled to be completed by the end of 2004.

The City of Moncton further enhanced its 120 acre (48.5 hectare) portion of the property by naming the recreational complex CN Sportplexe to honour the memory of citizens who worked on the site. This city-led initiative was followed by Moncton's dedication of the four ice surfaces in honour of key local citizens.

Canada Lands' focus for 2003 was the residential development, Franklin Yard. With completion of a design charrette in late 2002, Canada Lands and a team of professionals commenced the process for rezoning this property from industrial to integrated development.

In late 2003, this process resulted in the city and Canada Lands signing an agreement allowing the development of an urban neighbourhood that will incorporate the principles of traditional architecture and landscaping. It is expected that approximately 900 distinctive housing units will be developed to meet the varying needs of the community while respecting market value. This unique neighbourhood will provide sustainable housing that makes use of the natural environment, passive energy alternatives and pedestrian friendly elements.

Within the Moncton Garrison portion of the property, construction of the new Moncton YMCA commenced. The facility is expected to be ready for use in 2004 and will include two multi-tenant complexes.

The greatest accolade for the Moncton properties over the past 12 months was the recognition by the United States Environmental Protection Agency and the Phoenix Award Foundation as recipient of the inaugural Phoenix Award – International Category. Canada Lands received the award at the 2003 National Brownfields Conference held in Portland, Oregon in October.

Canada Lands' Moncton Team

Griesbach
www.villageatgriesbach.com

"Canada Lands deserves an award for the way it has worked with neighbouring community groups. It has taken the time to consult with people, to fine-tune its plans and now has a wonderful product to market. Other developers would do well to follow this company's lead."

Allan Bolstad
Councillor
City of Edmonton

Griesbach is the 618 acre (250 hectare) former CFB in north Edmonton. During 2003, the first stages of redevelopment brought about significant changes, including site servicing, the building of show homes, and the sale of new and refurbished homes to the public by the builders.

Reshaping Edmonton's Future

GRIESBACH – The rapid start was made possible by Canada Lands' preparatory work, which included entering into agreements with all of the organizations party to future redevelopment.

The first phase of development for Griesbach includes single-family and duplex lots, and a multi-family parcel. Thirty of the lots incorporate former military quarters (MQ) units that have been moved from other parts of the site and are now being refurbished. These units are distributed among new housing units to produce an eclectic mix and a broad range of pricing.

Adjacent to this development is Major General Griesbach School. The building is leased to the Edmonton Public School Board and enrollment is increasing as a result of Canada Lands' redevelopment of the site. Negotiations are underway with the school board regarding the purchase of the school and the dedication of the land around it to the city.

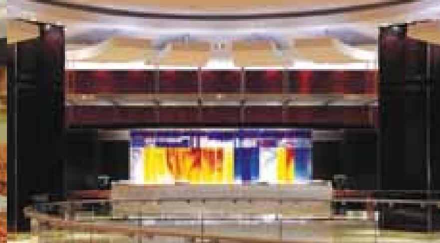
More than 300 MQ units at Griesbach house military families; the company assumed responsibility for the management of all MQ units in 2002. In addition, more than 200 MQ units have been rented on the open market. Three industrial buildings have been leased back to DND. The vibrancy of the area is being maintained by encouraging occupancy of the buildings on the property by the military, civilian families and businesses throughout the redevelopment process.

Other initiatives include leasing buildings for community functions such as Santa's Anonymous, Corporate Challenge, sports events and garden plots. Canada Lands has permitted the fire department, the police tactical squad, DND, and the Royal Canadian Mounted Police to carry out exercises and training on the site.

Construction of three additional phases will commence in 2004. These phases will involve a lake and park, new high-end and mid-range lots in the vicinity of the lake, and a residential area that will include a veterans' facility.

Canada Lands is working with the city and DND to build on the military heritage of the area. Plans are being finalized to name streets and features after important aspects of the former military presence in the area.

Canada Lands' Griesbach Team



InterContinental Hotel
www.torontocentre.intercontinental.com

"In partnership with Canada Lands and PRL, we have had the vision and leadership to renovate and rebrand the hotel. The new InterContinental Hotel provides the traveler with a downtown hotel unsurpassed in terms of luxury and technology, and the stakeholders have obtained a revitalized asset with a significantly enhanced value."

Louis Philippe
General Manager
InterContinental Toronto Centre Hotel

Located in the heart of Toronto, the InterContinental Toronto Centre Hotel is the city's newest luxury hotel. Canada Lands is the manager and landowner of this 586 room hotel and Pension Fund Realty (PRL) is the owner of the building.

Changing the Landscape of Hotels in Toronto

INTERCONTINENTAL HOTEL – The hotel was being operated as a three star upper mid-range facility; however, Canada Lands in conjunction with PRL and its advisor, Morguard Investments, concluded that the asset value would be optimized if the hotel could be rebranded under the InterContinental flag, and operate in a four-and-a-half star capacity.

A $30 million renovation project has re-energized the hotel and transformed it into one of the premier luxury hotels in Toronto. The lobby was completely renovated, and is showcased by a stunning new entrance and a beautiful 19 foot stained glass wall anchoring the front desk. The hotel features 90 newly renovated guest rooms located on three dedicated floors that provide a boutique flavour for visitors. In addition to the work on these Club Floors, the hotel renovated a further 216 guest rooms.

Along with its successful rebranding, the InterContinental has taken a commanding lead as the most technologically advanced hotel in Canada. The goal of the hotel is to provide the greatest variety of technological tools to today's business traveler. The hotel offers complimentary high-speed Internet cable access in every guest room, while WiFi antennas have been placed throughout the main floor lobby, lower lobby and common rooms. This provides business travelers using laptops and hand-held devices with constant access to high-speed, wireless communication.

The ultimate in technological achievement is found in the hotel's two new boardrooms. These next generation boardrooms go well beyond guests' expectations. They seat up to 22 and 20, respectively, are soundproof and provide every conceivable piece of modern meeting equipment, from 60 inch plasma screens to SMART Boards and touch-screen controls.

The InterContinental Toronto Centre Hotel offers the best technology and service in the hotel industry, and a glimpse into the future of what business travelers should expect.

Canada Lands' Property Management Team

Glenlyon Business Park
www.glenlyonbusinesspark.com

"I am proud to say that Canada Lands makes it a priority to create legacies for many of its projects, and the addition of a breathtaking new lookout celebrating the commercial history of the South Fraser River is another example of that."

The late Chuck Connaghan
Former Canada Lands board member for British Columbia

Canada Lands' Glenlyon Business Park is the premier suburban office park in Western Canada and has revolutionized the development of what were once called industrial parks.

Beauty, Sustainability and Value Delivered in One Setting

GLENLYON BUSINESS PARK – Situated in Burnaby, British Columbia, the award-winning project consists of 133 acres (53.8 hectares) surrounded by parkland, the Fraser River and the Riverway Golf Course. The beautiful outdoor setting offers companies a campus-style environment that is being developed to ensure consistent landscaping, building design and tenant use throughout.

The newest occupant, Nokia Canada, moved into its new 94,000 ft^2 (8,730 m^2) research and development facility in June. This is the first three storey office building in the park and includes a basketball court, a stunning front water feature and a rooftop deck. Mitroflow also moved into its new 50,000 ft^2 (4,640 m^2) lab facility in the Glendale Centre, a building that features impressive views of a landscaped pond and the Riverway Golf Course.

During the past year, Canada Lands opened North Fraser Way to Byrne Road, completing the internal road network to an interim standard. Completion of this network will improve public transit service to Glenlyon.

Canada Lands continued its improvements to Burnaby's Foreshore Park by adding another beautiful pond, which will enhance the adjacent lots in Glenlyon. The company also celebrated the opening of the interpretive lookout on the Fraser River. Canada Lands and the City of Burnaby partnered to create this public amenity.

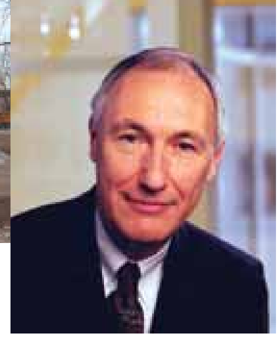
Glenlyon Business Park was awarded the City of Burnaby's Environmental Award for Community Stewardship in June 2003.

The balance of the land will be developed in stages until completion in the summer of 2007. When fully built out, Glenlyon Business Park will consist of over two million ft^2 (185,806 m^2) of office, and research and development space. To date, 680,000 ft^2 (63,174 m^2) of construction has been completed, accommodating approximately 2,500 employees.

Glenlyon Business Park is another example of Canada Lands' commitment to sustainable development and high standards of environmental stewardship. This strategy has been so successful that the park has attracted an impressive list of tenants, including Ballard Power Systems, Future Shop/Best Buy, INEX Pharmaceuticals, B.C. Hospital Employees Union, Telus and Nokia.

Canada Lands' Glenlyon Team

Cherry Beach
www.towaterfront.ca



"Cherry Beach is one of the first waterfront revitalization projects to get off the ground. Canada Lands' leadership on the project means that this summer, the people of Toronto will have a much improved beach to use and enjoy."

John Campbell
President and CEO
Toronto Waterfront Revitalization Corporation

The Toronto Waterfront Revitalization Corporation (TWRC) identified Cherry Beach as one of the first sites to benefit from a repair and maintenance program.

A First Step in Cleaning up the Waterfront of Canada's Largest City

CHERRY BEACH – The Cherry Beach Park area has the best water quality of any of the Toronto area beaches but the existing infrastructure – the buildings, parking lots and lighting fixtures – was inadequate and in severe disrepair. The TWRC saw this area as an opportunity to initiate a quick-start project for improvements on the waterfront in order to encourage increased public awareness and use of this site.

Canada Lands undertook the management of the Cherry Beach improvement project on behalf of the TWRC. The company's role involved all aspects of project management, including the retention and supervision of design and engineering consultants and construction contractors. Working closely with the TWRC, City of Toronto Parks Department and other stakeholders, Canada Lands developed a program of improvements that included the demolition of derelict buildings, reconstruction of the roadway entrance and parking lot, lighting upgrades, landscaping, and washroom building renovations.

Canada Lands also worked closely with the city to hold public information sessions, welcoming input from citizens and responding to their concerns and comments. Significant consideration was given to comments made by the city and the public that stressed a desire to retain the natural atmosphere of the park. As such, asphalt and hard surfacing were kept to a minimum while landscaping was enhanced with native species of plants and trees.

By the fall of 2003, roadway and parking lot improvements had been completed, along with building demolition and washroom renovations. The landscaping is scheduled to be complete in the spring of 2004. A significant visual improvement of the area has already been achieved, and has been positively received by the public.

The Cherry Beach improvement project has signaled the beginning of the revitalization of Toronto's waterfront, and is regarded as the first step toward the transformation of the area and a more accessible shoreline.

Canada Lands' Cherry Beach Team


Former CFB Calgary
www.clccalgary.ca

"Your diligence in protecting the military heritage at Garrison Woods and your plans for the peacekeeping legacy at Garrison Green are examples of your dedication to this cause and are most commendable."

Col. (Ret.) Donald S. Ethell, OMM, MSc, OStJ, AOE, CD
National President
Canadian Association of Veterans in United Nations Peacekeeping (CAVUNP)

The 450 acre (182 hectare) former CFB Calgary site is strategically located in the southwest quadrant of the city.

The Legacy Continues

FORMER CFB CALGARY – This former military base has evolved into a coveted location for residential, office and commercial development, and is one of Canada's most significant urban revitalization projects.

Acting as land developer of the site, Canada Lands installed infrastructure, built parks and sold the serviced lots to local builders. The development is the result of a public planning process initiated prior to the base's closure in 1997.

The first part of the site to be redeveloped was Garrison Woods, a 175 acre (70.8 hectare) neighbourhood created on the eastern portion of the site. The major objective for Garrison Woods was to create a compact, mixed use and pedestrian friendly neighbourhood consistent with the principles of new urbanism. This was achieved through a higher density of ten units per acre, lane and alley access, and a mix of housing types, tenure and prices. The site is now home to 565 housing units.

The site's heritage and military elements were highlighted in a set of architectural codes, and through the reuse of existing features. 400 units of former military housing were refurbished into affordable housing. Existing street patterns and many of the site's mature trees were also retained.

Canada Lands' efforts on the site are now focused on Garrison Green. This portion of the residential redevelopment project will include 1,000 residential units in seven complementary building styles. Canada Lands held a special event in August 2003 that celebrated United Nations Peacekeepers' Day. At this event, the company unveiled pedestals dedicated to 13 Canadian peacekeepers who will be honoured with Calgary street names in Garrison Green.

As a result of this vast redevelopment project, Calgary's property tax revenues from this site will increase from $2 million per year to between $8 million and $10 million, with minimal municipal investment in physical and social infrastructure.

Garrison Woods has won numerous national, provincial and local awards. Not only is it one of the most complex and innovative urban redevelopment projects in North America, it is also a unique community that residents are proud to call home.

Canada Lands' Calgary Team

Defining the Toronto skyline, Canada's National Tower is Canada's most recognizable and celebrated icon.

Canada's National Tower – Our Wonder of the World

The World's Tallest Building

At a height of 1,815 feet (553.33 metres), Canada's National Tower is the world's tallest freestanding structure, a wonder of the modern world, an important telecommunications hub, the centre of tourism in Toronto, and a first-class dining and event centre. In January 2004, Canada Lands reassumed day-to-day operational responsibility for the Tower, presenting a tremendous opportunity for the company.

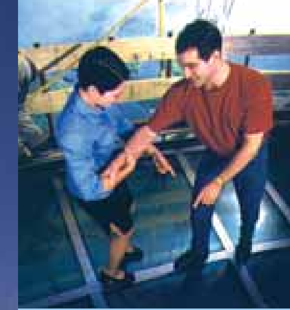
The Tower was constructed in 1976 by the Canadian National Railway Company primarily as a telecommunications facility, and as a demonstration of the strength of Canadian industry. From Canada Lands' inception in 1995 until 1997, the Tower was operated through a subsidiary corporation. The asset, the responsibility for its operation and its employees were all housed within this subsidiary.

In 1996, Canada Lands initiated an international call requesting proponents to submit proposals for the operation of the Tower through a long-term lease and for development of the lands at its base.

TrizecHahn Corporation (TrizecHahn) was selected as the successful proponent in June 1997 with an agreement to construct an expansion at the base of the Tower. There were two reasons for the subsequent termination of the lease between Canada Lands and TrizecHahn. The first was TrizecHahn's change in business focus to no longer hold Canadian assets and the second was TrizecHahn's decision to not implement the base development. An attempt by TrizecHahn to assign the lease to a third party in December 2002 failed, primarily because the proposed assignment and the requested lease amendments reduced Canada Lands' ability to meet its corporate objectives, while exposing the company to additional business risks without adequate compensation.

Launch of Canada's first CityPass

World's highest mailbox



www.cntower.ca

As a result, Canada Lands reassumed full operational control of the Tower in January 2004. The base development is now a key business objective for Canada Lands, and the company is formulating strategies and assembling its project team to begin work on this exciting initiative.

In the months since Canada Lands reassumed operation of the Tower, performance improvements are already evident, attributable to the excellent team at the Tower. Employee morale and commitment are high and a number of projects, including the refurbishment of the 360 Restaurant, are well underway.

Through the ingenuity of staff and innovative business development initiatives, financial performance levels at the Tower have also increased. The Tower team has been able to achieve financial results that exceed an aggressive plan as well as setting an attendance record for the March break period.

Canada Lands is very appreciative of the calibre and commitment of the Tower team, and their support throughout a highly complex transition phase. Canada Lands looks forward to keeping Canada's National Tower at the forefront of tourism in Toronto and Canada.

Canada Lands reassumed the day-to-day operational responsibility for Canada's National Tower in January 2004. The Tower has been a major global tourist attraction and Canadian icon since it opened in 1976.

The Tower's award-winning 360 Restaurant was recently refurbished.

A Year in Review

Canada Lands achieved the following results during the 2003–2004 fiscal year:

FINANCIAL RESULTS

- net income before tax of $12.4 million, which was $7.4 million below budget; the budget included approximately $16.7 million in net income before tax relating to the recognition of TrizecHahn's prepaid rent for Canada's National Tower; adjusting the budget for this item, results would have been $9.3 million above budget;

- overheads have been reduced dramatically in a positive, sustainable manner with accumulated savings in excess of $4 million over the last two years, equating to a 33% reduction from the benchmark; and

- gross profit on sales of $21.6 million, which was $10.8 million higher than budget.

ACQUISITIONS

- obtained Treasury Board approval and then acquired title for the remainder of DND's former 408 acre (165.1 hectare) CFB Chilliwack Parcel B property in Chilliwack, British Columbia;

- obtained Treasury Board approval for the transfer of Correctional Service of Canada's 8.1 acre (3.3 hectare) 40 Sir John A. MacDonald Boulevard, a former women's prison property in Kingston, Ontario; and

- obtained Treasury Board approval for the transfer of the Department of Fisheries and Oceans' (DFO) 6.8 acre (2.7 hectare) West Vancouver Laboratories property in West Vancouver, British Columbia.

OPERATIONS HIGHLIGHTS

- completed the nature lookout on the Fraser River, and a new 94,000 ft² (8,730 m²) research and development facility for Nokia Canada at Glenlyon Business Park in Burnaby, British Columbia;

To mark the first phase of the Garrison Crossing redevelopment at the former CFB Chilliwack in British Columbia, Canada Lands held a tree planting ceremony.

Canada Lands celebrated Peacekeepers' Day with the unveiling of pedestals dedicated to 13 Canadian peacekeepers at the company's former CFB Calgary property in Alberta.

- commenced the first phase of the Garrison Crossing redevelopment at the former CFB Chilliwack, British Columbia;
- entered into an agreement for a new master planned multi-family development in Kelowna, British Columbia;
- held Peacekeepers' Day at the former CFB Calgary, Alberta in August 2003;
- completed a proposal call for Garrison Green Phase 1 and commenced the servicing of the Garrison Green community, which will accommodate 1,000 housing units in Calgary, Alberta;
- began the first phase of development at the former CFB Griesbach in Edmonton, Alberta, which will ultimately accommodate 4,200 housing units;
- concluded the execution of a purchase and sale agreement for all the lots in Phase 1 of the former CFB Griesbach in Edmonton, Alberta, and for the 10 acre (4 hectare) site to accommodate the development of an extended care facility for veterans and market housing for seniors;
- reassumed the day-to-day operational responsibility for Canada's National Tower in Toronto, Ontario;
- remediated the Cherry Beach area of the waterfront in Toronto, Ontario;
- opened the Rideau Veterans' Memorial Park in Ottawa, Ontario;
- received city council approval for the redevelopment plan of the Benny Farm site in Montréal, Québec; and
- sold the Place Bonaventure South Block property in Montréal, Québec.

In September 2003, Canada Lands opened the Rideau Veterans' Memorial Park in Ottawa, Ontario.

Canada Lands' work on the Cherry Beach improvement project has resulted in a brand new landscape and a completely refurbished washroom building.

AWARDS

Canada Lands' projects won the following awards over the past fiscal year:

- the Moncton Shops remediation project won the first ever Phoenix Award – International Category from the United States Environmental Protection Agency;
- Glenlyon Business Park was awarded the City of Burnaby's Environmental Award for Community Stewardship;
- Canada's National Tower was awarded first runner-up for best employee recognition program by the International Association of Amusement Parks and Attractions, in addition to being awarded best attraction by the Toronto Sun, City Parent magazine and Toronto.com;
- the Tower's 360 Restaurant was awarded an Eat Smart Award by Toronto's Health Department for healthy food choices on a menu, non-smoking seating and food safety;
- the 360 Restaurant also received an Award of Excellence and two wine goblets from Wine Spectator magazine for its wine list; and
- the Toronto Sun awarded 360 Restaurant Best Restaurant with a View and Where magazine readers voted 360 the most romantic restaurant in Toronto.

Transporting housing units from other parts of the site and distributing them among new residential units produces an eclectic mix of housing types at Canada Lands' redevelopment of the former CFB Griesbach lands in Edmonton, Alberta.

Former Canada Lands board member, Charles Connaghan, dedicating the new lookout at Glenlyon Business Park in Burnaby, British Columbia.

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

- $3.7 billion in development expenditures;
- 29,600 person-years of direct construction employment;
- $36.6 million invested in environmental remediation;
- 19,200 new or refurbished residential units; and
- 11.7 million ft² (1.1 million m²) of non-residential construction.

Canada Lands was awarded the 2003 Phoenix Award – International Category for its former Moncton Shops property revitalization in Moncton, New Brunswick.

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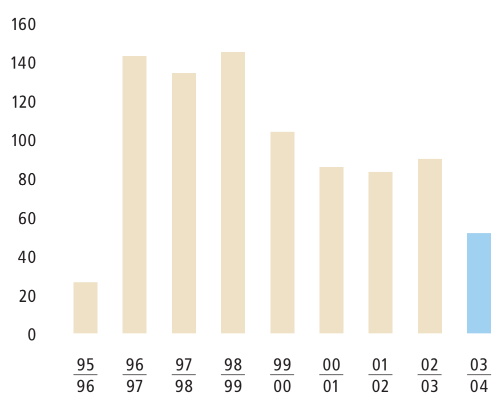
SALES BY YEAR

(in millions of dollars)



Management's Discussion and Analysis

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

The real estate business activities of Canada Lands Company Limited (CLCL) are carried out primarily through its wholly-owned subsidiary, Canada Lands Company CLC Limited (Canada Lands). In January 2004, Canada Lands assumed responsibility for the operations of Canada's National Tower (the Tower). The results of the Tower's operations for the period from January 27, 2004 to March 31, 2004 are included in the financial statements. On September 3, 2003, Parc Downsview Park Inc. (PDP) was deemed a parent Crown corporation and after this date has no longer been considered a subsidiary of CLCL for reporting purposes.

BALANCED SCORECARD

Canada Lands 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, and municipal/provincial and shareholder/board of directors interests. Each key result area reflects the interests of one of the company's five major stakeholder groups. Both financial and non-financial interests are covered by the key result areas, which create a balance of all interests important to the company and its stakeholders. The five key result areas of the balanced scorecard are summarized on page 8.

RESULTS OF OPERATIONS

For the year ended March 31, 2004 (YE 04), CLCL earned revenues of $82.7 million and income of $12.4 million before tax, and generated cash of $1.6 million before distributions (repayment of notes payable and dividends) to the Government of Canada (the government) and affiliates. Cash flow was $19.7 million above budget, due mainly to increased sales and reduced capital expenditures. Adjusting the budget to exclude the Tower's prepaid rent with TrizecHahn Office Properties Ltd. (TrizecHahn), net income before tax exceeded budget by $9.4 million. This was due to reduced cost of sales at CFB Calgary, the sale of Canada Lands' property on Thorne Avenue in Burnaby and the sale of the Place Bonaventure South Block property in Montréal, which was budgeted in YE 03, as well as further reductions in general and administrative expenses resulting from operational effectiveness and cost efficiencies.

The budget included approximately $16.7 million in revenue and income before tax, in recognition of TrizecHahn's prepaid rent relating to the Tower's lease cancellation. The transaction was subsequently negotiated with

TrizecHahn so that a portion of the purchase price was a refund of the $16.7 million prepaid rent. This resulted in a cash flow savings of approximately $5.0 million compared to budget.

The net profit on sales was $1.5 million more than last year. The sale of the 401 Burrard Street building in Vancouver accounted for over 65% of sales revenues for last year. Excluding the sale of 401 Burrard Street, sales revenues were up $19.6 million from last year. Although gross sales are down, the gross margin on sales has increased.

Property sales for YE 04 totaled $51.5 million, compared with average property sales per year of $101.5 million over the five year period from 1998 to 2003. The decrease in sales reflects the effect of the time required to service and sell the properties recently transferred from the government to replace the original property inventory Canada Lands has sold. The property inventory is now back to the same level it was five years ago, which reflects the turnaround in the company.

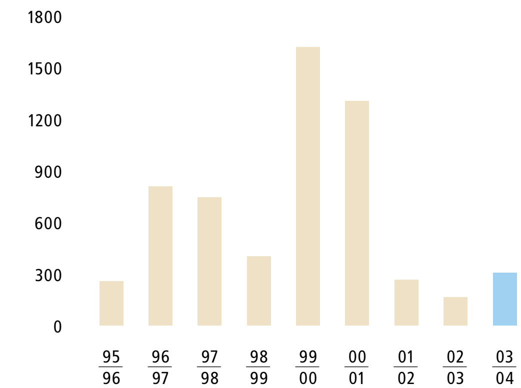
CLCL and its subsidiaries are subject to federal and certain provincial taxes at corporate rates. When CLCL's subsidiary, Canada Lands, was initially formed, it was a tax-exempt entity; however, when CLCL became a prescribed corporation, Canada Lands' status changed from tax-exempt to being subject to federal income and capital tax, as well as tax in certain provinces. At the time of change in status, Canada Lands was required to estimate the fair market value of all its assets and liabilities. A provision for additional tax was made to reflect the effect of this change. This provision is no longer required as Canada Revenue Agency (CRA) has just completed an audit for the 1999 to 2002 taxation years with a focus on the valuation of Canada Lands' properties at the time of change in status, and has not proposed any adjustments. The income taxes for the 2004 taxation year were adjusted to reflect the elimination of this provision for additional tax. Excluding the effect of the provision for additional tax on this year's income taxes would result in income taxes of $2.5 million, representing an effective rate of 21% of income before tax. This is lower than the expected combined rate of 36%, due mainly to the beneficial tax effect of the non-taxable element of capital gains, and the fact that the corporation's income is not taxable in certain provinces.

PROPERTIES

The property holdings of Canada Lands fall into three categories: rental properties, properties under development and lands held for development or sale.

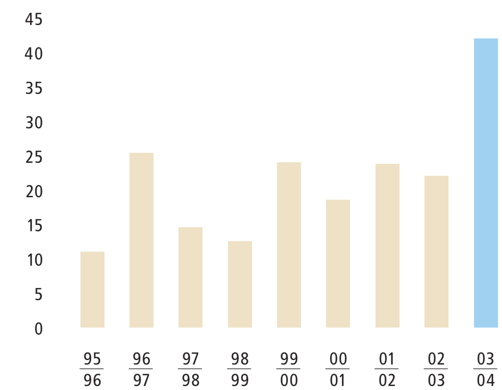
SALES BY YEAR

(in acres)



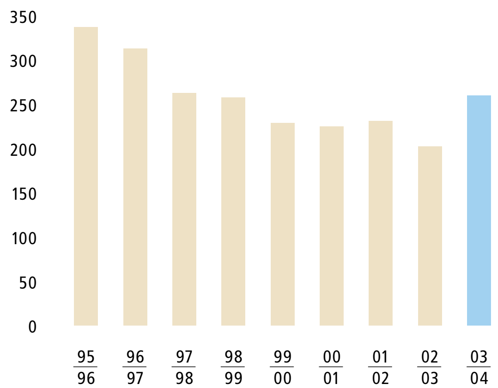
GROSS PROFIT ON SALES

(percentage)



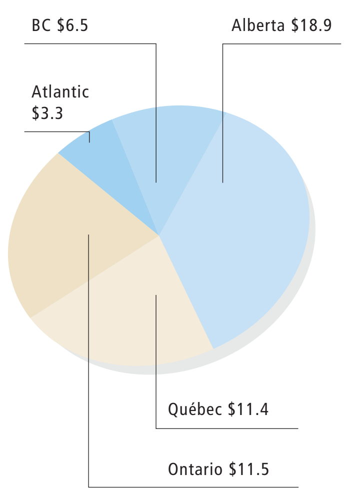
PROPERTY INVENTORY

(in millions of dollars)



PROPERTY SALES BY REGION

(in millions of dollars)



Total sales: $51.5 million

Canada Lands' principal property asset is Canada's National Tower in Toronto, which will be retained by the corporation and was rented until January 28, 2004. The company's rental properties include a retail shopping centre in Edmonton, an office/research building in Burnaby, an office building in Montréal, and parking facilities in Montréal and Toronto. At March 31, 2004, Canada Lands owned six rental properties with a book value of $129.5 million, compared to six properties with a book value of $79.1 million at March 31, 2003. Canada Lands manages two other projects: an office and hotel complex in Toronto, and a residential complex in Montréal.

Properties under development are comprised of nine property holdings totaling approximately 1,505 acres (609.1 hectares), with a carrying value of $94.2 million, an increase of $11.8 million from March 31, 2003. The sites under active development are Glenlyon Business Park in Burnaby, the former Canadian Forces Bases (CFBs) in Chilliwack, Calgary and Edmonton, residential projects in Toronto and Ottawa, the former CFB Saint-Hubert, and the retrofit of an office building in Montréal. To mitigate risk and exposures, Canada Lands pre-leases or pre-sells buildings prior to the commencement of construction.

Lands held for development or sale consist of approximately 30 property holdings located across Canada totaling 1,739 acres (703.8 hectares). At March 31, 2004, the carrying value of lands in this category was $36.2 million, a $4.6 million decrease from the carrying value of $40.8 million at March 31, 2003.

During YE 04, Canada Lands spent $41.0 million on construction, site servicing, environmental remediation and other investments on its various property holdings. In addition, Canada Lands acquired two properties from the government at a discounted cost of $8.7 million, satisfied by the issuance of notes payable.

CASH FLOW

Cash provided by operating activities during YE 04 totaled $9.2 million, a decrease of $31.9 million from the $41.1 million generated in YE 03. The decrease resulted largely from a decrease in sales of $38.4 million.

Cash provided by financing activities for YE 04 amounted to $10.6 million, representing the issuance of the mortgage bond of $47.0 million, partially offset by the note repayments to the government of $14.7 million and a dividend to the government of $5.0 million. Note repayments to the government and to affiliates in YE 03 totaled $30.1 million.

In summary, CLCL generated $1.6 million in cash flow in YE 04 prior to distributions to the shareholder and note repayments, as compared to $40.0 million in YE 03.

FINANCIAL CONDITION AND LIQUIDITY

On January 27, 2004, Canada Lands received a financial rating of "A" with a stable trend from Dominion Bond Rating Service Limited. The rating was obtained to aid Canada Lands in financing the buyback of the Tower lease from TrizecHahn. Canada Lands issued a $47.0 million, fully amortized, ten-year first mortgage bond at 5.37%, secured by the Tower asset and guaranteed by Canada Lands. Canada Lands was able to price and close the transaction on the same day, benefiting the company through a lower interest rate.

At March 31, 2004, CLCL had cash and short-term investments totaling $23.1 million. In addition, Canada Lands has a line of credit of $50.0 million with a Canadian chartered bank, which is unused, apart from letters of credit issued in the amount of $12.3 million. The Minister of Finance has approved an additional $56.0 million in short-term to mid-term debt to be used to finance real estate acquisitions and expenditures. Canada Lands is having preliminary discussions with financial institutions in this regard.

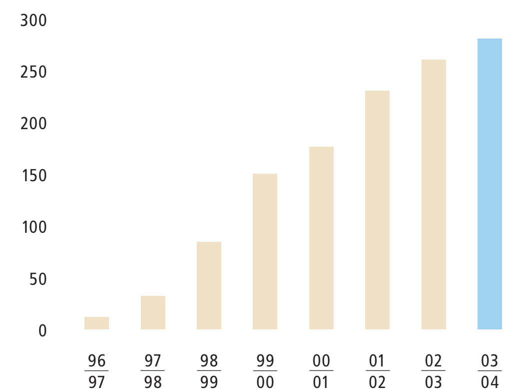
As at March 31, 2004, Canada Lands had $32.0 million in notes payable to the government. These notes are unsecured obligations and are repayable on the earlier of their maturity dates or the dates on which net proceeds become available from the sale of the properties in respect of which the notes were issued. Canada Lands expects that proceeds from these sales will enable the notes to be paid prior to the maturity dates. Canada Lands estimates repayment of notes payable of $6.3 million during the year ending March 31, 2005. Canada Lands expects to repay $25.0 million of these notes during the next five years.

In the coming year, Canada Lands anticipates investing approximately $83.4 million on its existing and new properties for construction, site servicing, environmental remediation and generally preparing the land inventory for sale. Substantial expenditures are expected to be incurred on the former military bases in Calgary, Chilliwack and Edmonton.

Based on the current level of cash and short-term investments, and the existing line of credit, Canada Lands 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 the corporation's business needs and provide funds for distribution to the shareholder.

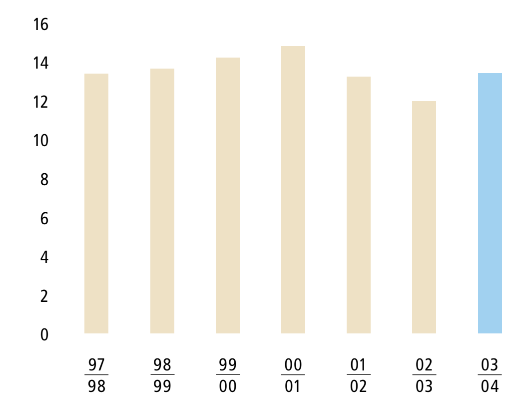
CUMULATIVE DISTRIBUTION TO SHAREHOLDER

(in millions of dollars)



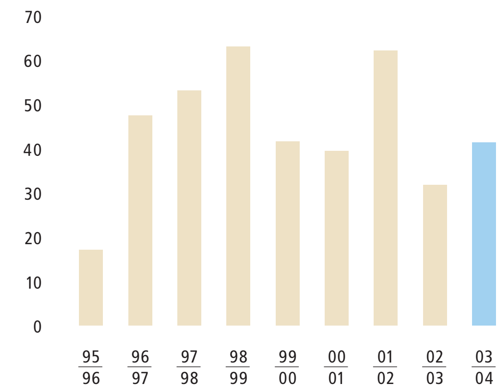
GENERAL AND ADMINISTRATIVE EXPENSES

(in millions of dollars)



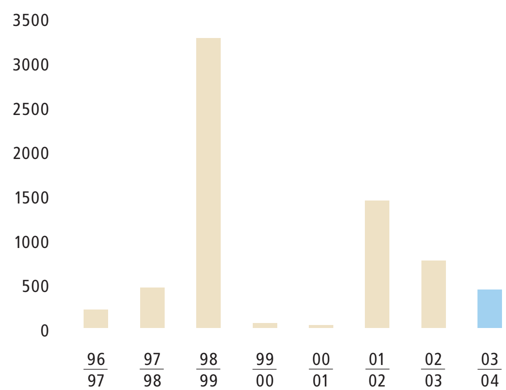
CAPITAL EXPENDITURES

(in millions of dollars)



TRANSFERS OF PROPERTY BY YEAR

(in acres)



RISKS AND UNCERTAINTIES

CLCL, through Canada Lands, 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 Canada Lands conducts business. Canada Lands and CLCL acted in a manner consistent with this mandate in YE 04.

Canada Lands has adopted a proactive approach of identifying, eliminating or managing its business risks. In this context, a risk management committee was formed and continued its activities over the course of the past year. The mandate of the committee is to identify and quantify the risks facing Canada Lands, and then act to eliminate risks where possible, or mitigate, manage and insure where elimination is not possible. A consultant from PricewaterhouseCoopers was retained through a competitive selection process to advise the committee. Four items identified as the most significant risks were addressed over the course of the year as follows:

- a review of safety procedures was undertaken at both the Tower and the Metropolitan Toronto Convention Centre Complex, and management is presently following up on all resultant recommendations;
- a safety checklist for special events was developed;
- an agreement for special events held on a property was prepared, as well as general wording for other documents with an emphasis on risk transfer; and
- an emergency response guide has been completed.

In addition, an occupational health and safety policy, and an associated procedures manual were prepared.

During the year, 429 acres (173.6 hectares) of land were transferred from government departments and agencies to Canada Lands. As at March 31, 2004, Canada Lands had a land bank of approximately 3,261 acres (1,319.6 hectares). Treasury Board has approved additional transfers of a further 2,746 acres (1,111.2 hectares), of which the 85 properties of the St. Lawrence Seaway portfolio still to be transferred total 2,595 acres (1,050.1 hectares). Canada Lands is currently in negotiations with government departments and agencies regarding a further 1,838 acres (743.8 hectares). Of the properties approved and under negotiations, 72% are located in the eastern region, where there is presently a shortage of inventory. As many of the individual properties potentially available for transfer are substantial in size, ranging from 200 to 1,200 acres (81 to 485 hectares), their planning, development and reintegration into local communities will take place over a number of years. Although this makes Canada Lands vulnerable to adverse changes in local real estate market conditions, and can affect demand, it also allows Canada Lands to wait for improvement in local real estate markets as it has other properties for sale across Canada.

Across Canada, but particularly in British Columbia, Canada Lands' holdings and potential transfers of properties from the government are impacted by First Nations land claims. Canada Lands has guidelines and procedures in place for advancing commercial transactions on its lands that are subject to First Nations comprehensive land claims. The corporation continues to work with various government agencies and organizations to assist in establishing a process whereby such surplus lands could be transferred to Canada Lands. On January 26, 2004, the federal court rendered a decision to grant an interlocutory injunction to the Musqueam Band, until the Musqueam's request for a judicial review of the Treasury Board's decision regarding the transfer of the Richmond lands to Canada Lands is concluded. The federal Department of Justice has not yet filed a notice to appeal the decision. Until this matter is settled, custodians have placed on hold any transfers of land with First Nations implications.

Historically, the Tower's operations have been directly linked to the tourism sector in Toronto, as demonstrated dramatically by the impact of SARS last year. The number of visitors to the Tower has also been related to both the seasons and daily weather conditions. Recognizing and acting upon the tremendous potential of both attracting a higher percentage of Toronto's tourists and focusing on corporate business that is less seasonal will further enhance the performance of the Tower business development initiatives. Since reacquisition, this focus has already resulted in a record attendance for March break 2004.

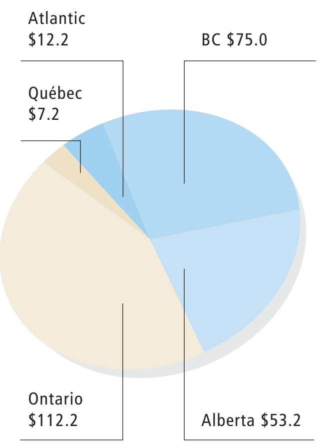
FUTURE PROSPECTS

Last year, the rate of growth of Canadian GDP decreased to 1.7% from 3.4% in 2002. This was due to the effects of the SARS virus in Toronto, the closing of foreign borders to Canadian beef related to mad-cow disease, forest fires in British Columbia, the dramatic strengthening of the Canadian dollar and its effects on exports, and the massive blackout in Eastern North America. Consumer spending remained resilient last year due to low borrowing costs. Canadian interest rates are presently at a 44-year low. Canadian household debt level is at an all-time high, which could dampen the economy if interest rates increase dramatically. The Bank of Canada has lowered interest rates, but rates are expected to increase over the long term.

The United States accounts for 85% of Canada's exports. The US economic recovery that started last year is continuing. This should help Canadian manufacturing, which has been feeling the impact of weaker US demand. The strengthening US economy, partially offset by the increase in the exchange rate of the Canadian dollar, should bolster Canada's export-oriented manufacturing sector, materially affecting output in Ontario, Québec, Manitoba and New Brunswick. The brightest spot in the Canadian economy continues to be the crude oil and natural gas sectors in Alberta and Newfoundland. The growth rate in the Canadian economy is expected to increase to 2.2% from 1.7% in 2003.

PROPERTY DISTRIBUTION BY REGION BY BOOK VALUE

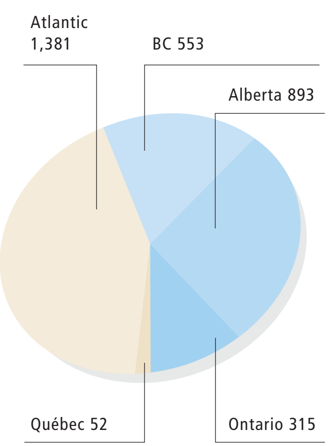
(in millions of dollars)



Total book value: $259.9 million

PROPERTY DISTRIBUTION BY REGION

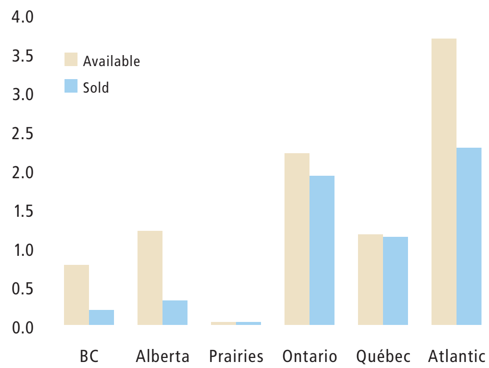
(in acres)



Total acres: 3,194

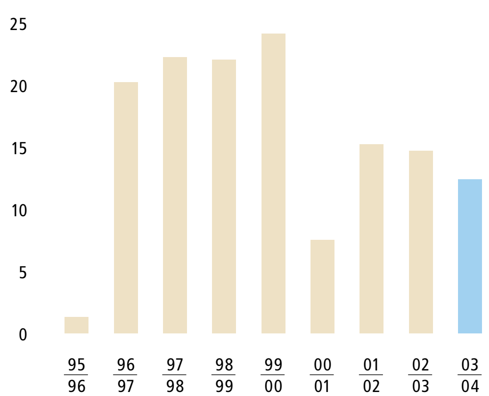
SUMMARY OF PROPERTY SINCE INCEPTION BY REGION

(acreage in thousands)



INCOME BEFORE TAX

(in millions of dollars)



Real estate markets continue to vary across Canada. The housing market is expected to remain strong, supported by low interest rates. Residential rental, resale and new housing markets are expected to remain strong in Alberta, where Canada Lands' redevelopment of the former CFB Calgary and CFB Griesbach continues to receive a very positive response from local home buyers. Space at the former Canadian Forces bases attracts moderate but steady demand across Canada. Canada Lands' 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. Although gross sales have decreased, net profit on sales has increased, demonstrating one positive outcome of Canada Lands' focus on improved value creation.

There remains a very large inventory of surplus properties within the federal government real estate portfolio. Transferring more of these properties to Canada Lands will enable the company to further enhance the value it creates for the Government of Canada, and to continue to fulfill its mandate of creating optimal value for the government while reintegrating properties into the community in a financially prudent and socially responsible manner. In certain cases, and particularly where decommissioned military bases are involved, new property transfers may create an initial cash drain on the corporation's resources. Most bases transferred from the Department of National Defence (DND) require major expenditures for site servicing, infrastructure and remediation in order to make the properties suitable for community use. As Canada Lands starts to develop new properties transferred from the government, there will be added demand on the corporation's cash resources; however, Canada Lands 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, CLCL, through its Canada Lands subsidiary, anticipates another profitable year of operation. The turnaround in the company with the additional transfer of properties from the government will result in increased revenue in the next two to three years. Canada Lands' highest annual net income level historically was $24.1 million, and is now projected to exceed $40.0 million during the upcoming five-year plan period. Overheads have been reduced dramatically in a positive, sustainable manner with accumulated savings in excess of $4.0 million over the last two years, equating to a 33% reduction from the benchmark. Finally, the property asset base by year two of the upcoming plan period is conservatively projected to be nearly $465 million compared to the highest historical level of $337 million at the company's reactivation in 1995.

We, Kathy Milsom, President and CEO, and Brian Evans, Vice President, Finance and Chief Financial Officer, certify that:

we have reviewed the financial statements of Canada Lands Company Limited for the fiscal year ending March 31, 2004;

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

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

Kathy Milsom
President and CEO

Brian Evans
Vice President, Finance
and Chief Financial Officer

May 14, 2004

Management's Responsibility for Financial Reporting

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

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

K. Milsom

Kathy Milsom
President and CEO

May 14, 2004

B Evans

Brian Evans
Vice President, Finance
and Chief Financial Officer

Auditors' Report

To the Minister of State (Infrastructure)

We have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 2004 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at 31 March 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Shahid Minto

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

Ottawa, Canada
May 14, 2004

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
May 14, 2004

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED MARCH 31

In thousands	Note	2004	2003
REVENUES			
Sales		**$ 51,524**	$ 89,948
Rental		**20,729**	20,870
Interest and other	12	**6,054**	6,596
Attractions, food and beverage and other Tower revenue		**4,412**	–
		82,719	117,414
EXPENSES			
Cost of sales		**29,944**	69,888
Rental operating costs		**15,942**	16,880
General and administrative		**13,397**	11,956
Attractions, food and beverage and other Tower expenses		**3,810**	–
Other		**3,424**	2,725
Provision for environmental remediation		**3,000**	1,200
Interest and other financing costs		**752**	–
Provision for decrease in property values		**60**	113
		70,329	102,762
INCOME BEFORE TAXES		**12,390**	14,652
Future income taxes expense (recovery)	10	**(453)**	1,116
Current income taxes expense (recovery)	10	**(4,330)**	756
		(4,783)	1,872
NET INCOME BEFORE RESULTS FROM PARC DOWNSVIEW PARK INC.		**17,173**	12,780
Net income of Parc Downsview Park Inc., net of tax	9	**143**	73
NET INCOME		**17,316**	12,853
Retained earnings, beginning of year		**76,199**	67,946
Dividend		**(5,000)**	(4,600)
Deconsolidation of the assets and liabilities of Parc Downsview Park Inc. as of September 2003		**(1,262)**	–
RETAINED EARNINGS, END OF YEAR		**$ 87,253**	$ 76,199

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

AS AT MARCH 31

In thousands	Note	2004	2003
ASSETS			
Properties			
Rental properties	3	**$ 129,480**	$ 79,110
Properties under development		**94,187**	82,400
Land held for development or sale		**36,188**	40,800
		259,855	202,310
Other Assets			
Cash and cash equivalents	4	**23,114**	41,166
Amounts receivable and other	5	**67,158**	71,997
		90,272	113,163
Assets of Parc Downsview Park Inc.	9	**–**	26,412
		$ 350,127	$ 341,885
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Mortgage bond payable	6	**$ 47,000**	$ –
Notes payable	7	**32,036**	33,593
Accounts payable and accrued liabilities	11	**37,483**	42,359
Prepaid rents, deposits and lease assignment obligation	3	**1,274**	19,360
		117,793	95,312
Liabilities of Parc Downsview Park Inc.	9	**–**	6,293
Shareholder's Equity			
Capital stock	8	**–**	–
Contributed surplus		**145,081**	145,081
Retained earnings		**87,253**	76,199
Equity of Parc Downsview Park Inc. arising from note payable to the Government of Canada		**–**	19,000
		232,334	240,280
		$ 350,127	$ 341,885
Commitments	11		

On behalf of the Board,

Marc Rochon

Kevin Garland

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31

In thousands	Note	2004	2003
OPERATING ACTIVITIES			
Net income before results from Parc Downsview Park Inc.		$ 17,173	$ 12,780
Recovery of costs on sale of properties held for development or sale		18,117	64,014
Expenditures on properties held for development or sale		(33,431)	(29,277)
Provision for decrease in property values		60	113
Depreciation		2,906	2,450
		4,825	50,080
Net change in non-cash operating assets and liabilities		4,349	(8,998)
CASH PROVIDED BY OPERATING ACTIVITIES		9,174	41,082
FINANCING ACTIVITIES			
Return of Tower prepaid rent		(16,708)	–
Repayment of notes payable		(14,684)	(25,534)
Dividend paid		(5,000)	(4,600)
Issuance of mortgage bond		47,000	–
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		10,608	(30,134)
INVESTMENT ACTIVITIES			
Acquisition of Tower leasehold interest		(35,627)	–
Recovery of costs on sale of rental properties		5,228	–
Expenditures on rental properties		(7,936)	(2,544)
Decrease in restricted cash		501	1,502
CASH USED IN INVESTMENT ACTIVITIES		(37,834)	(1,042)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE CASH FLOW FROM PARC DOWNSVIEW PARK INC.		(18,052)	9,906
Increase in cash flow from Parc Downsview Park Inc.	9	693	2,704
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(17,359)	12,610
Deconsolidation of Parc Downsview Park Inc. as of September 2003	9	(17,484)	–
Cash and cash equivalents, beginning of year		57,957	45,347
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 23,114	$ 57,957
Cash and cash equivalents, end of year, excluding Parc Downsview Park Inc.		23,114	41,166
Cash and cash equivalents of Parc Downsview Park Inc.		–	16,791
		$ 23,114	$ 57,957
Supplemental cash flow information	12		

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. AUTHORITY AND ACTIVITIES OF THE CORPORATION

Canada Lands Company Limited 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*.

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

On September 3, 2003, approval was given by the Governor in Council (order in council number P.C. 2003-1306) to make the corporation's wholly-owned subsidiary, Parc Downsview Park Inc. (PDP), an agent Crown corporation, and also to have it report to Parliament as a deemed parent Crown corporation. This same approval changed Canada Lands Company Limited from a non-agent Crown to an agent Crown corporation. While the corporation continues to own the shares of PDP, the results of PDP have been included in the consolidated accounts of Canada Lands Company Limited only for the period to September 3, 2003. Summarized financial statements for the period are presented in note 9 to the financial statements. After this date, PDP has been excluded from the consolidation because the corporation was deemed a parent Crown corporation by the government. As a result, the corporation has no recorded investment in PDP as of March 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. With respect to real estate activities, the corporation's accounting policies and standards of financial disclosure are also substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

b) Consolidation

The corporation has two wholly-owned subsidiaries the accounts of which are consolidated with the corporation's accounts. They are Canada Lands and an inactive company, 3148131 Canada Limited (3148131). Canada Lands Company Limited was given the authority to dissolve 3148131 by the Governor in Council (order in council number P.C. 2003-1304). The subsidiary was dissolved under the *Canada Business Corporations Act* on July 9, 2003.

The corporation owns shares of Old Port of Montréal Corporation Inc. (Old Port). Old Port is excluded from consolidation because the corporation does not have continuing power to determine its strategic operating, investing and financing policies and because Old Port has been directed by the government to report as a parent Crown corporation. The corporation has no recorded investment in Old Port. As at March 31, 2003, the latest date for which audited statements are available, Old Port had assets of $21.5 million, liabilities of $20.8 million and equity of $0.07 million, with revenue of $13.9 million and an excess of operating expenditures over revenue of $14.7 million for the year then ended.

c) Revenue Recognition

The corporation recognizes revenue as follows:

i) Sales

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

ii) Rental

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

d) Properties

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

ii) The corporation capitalizes interest on specific debt on properties under development and land held for development or sale. During the year ended March 31, 2004, interest capitalized was nil (2003 – $0.02 million).

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

e) Use of Estimates

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

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

The corporation's properties are subject to various laws and regulations relating to the protection of the environment. The corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations. Where estimated costs are reasonably determinable, the corporation considers such costs in arriving at estimates of net realizable value of its properties, based on management's estimate of such costs. Such estimates are, however, subject to change based on agreements with regulatory authorities, changes in laws and regulations, the ultimate use of the property, and as new information becomes available.

f) Income Taxes

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

3. RENTAL PROPERTIES

The corporation's rental properties consist primarily of the Tower, Nokia (office/research facilities) and car parking facilities. During the year, the corporation repurchased a leasehold interest in the Tower for $51.8 million. Of this amount, $16.7 million represented the return of prepaid rent to the vendor. The net cost of this purchase has been allocated to buildings.

In thousands of dollars	**2004**	2003
Land	**$ 12,198**	$ 11,261
Buildings	**139,578**	88,178
	151,776	99,439
Accumulated depreciation	**22,296**	20,329
	$ 129,480	$ 79,110

4. CASH AND CASH EQUIVALENTS

In thousands of dollars		2004		2003
Cash	$	714	$	666
Cash equivalents		22,400		40,500
	$	23,114	$	41,166

At March 31, 2004, cash equivalents were comprised of discounted notes with an original term to maturity ranging from 14 to 91 days.

5. AMOUNTS RECEIVABLE AND OTHER

Amounts receivable and other assets are comprised as follows:

In thousands of dollars		2004		2003
Mortgages and secured notes	$	50,909	$	55,211
Assignment of rents		5,756		5,987
Rents and other		10,243		10,048
Restricted cash		250		751
	$	67,158	$	71,997

a) Mortgages and secured notes receivable bear interest at a weighted average rate of 5.84% (2003 – 5.79%), and are receivable as follows:

In thousands of dollars			
Years ending March 31	2005	$	13,340
	2006		7,238
	2007		5,109
	2008		3,851
	2009		4,544
Subsequent years			16,827
		$	50,909

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

c) Mortgage receivables that are greater than 10% of the Canada Lands receivable balance include City Place (51.0%) and Malvern (11.9%).

d) Restricted cash of $0.3 million represents holdback money owing for Glenlyon Phase II and CFB Chilliwack North Side projects (2003 – $0.8 million).

6. MORTGAGE BOND PAYABLE

The original amount issued of First Mortgage Bonds, Series A, was $47.0 million. The bond matures January 2014 with semi-annual principal and interest payments.

Certain of the corporation's properties have been pledged as collateral. The mortgage bond payable has a maturity schedule as follows:

In thousands of dollars

Years ending March 31	2005	$ 3,660
	2006	3,859
	2007	4,070
	2008	4,291
	2009	4,525
Subsequent years		26,595
		$ 47,000

Interest is payable at an annual rate of 5.37%. Interest incurred on the mortgage payable amounted to $0.4 million for the period.

Canada Lands will have the right to redeem the Series A Bonds at any time upon payment of a specified redemption price.

7. NOTES PAYABLE

The notes payable were issued in consideration for the acquisition of real estate properties (note 13), and are due to the government. The notes are repayable on the earlier of their maturity dates, or the dates on which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued. All notes are non-interest bearing. For these interest-free notes where the project has a life greater than five years, the notes are discounted using an imputed interest rate. The imputed interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average rate of 7.3% (2003 – 5.6%).

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

In thousands of dollars

Years ending March 31	2005	$	6,311
	2006		3,043
	2007		3,539
	2008		7,996
	2009		16,613
Subsequent years			14,954
			52,456
Less amounts representing imputed interest			20,420
		$	32,036

8. CAPITAL STOCK

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

9. MODIFICATION TO THE LEGAL FRAMEWORK OF PDP

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

Income Statement Disclosure

In thousands of dollars	**2004**	2003
Revenues	**$ 3,877**	$ 13,061
Expenses	**3,776**	14,319
	101	(1,258)
Government funding	**63**	1,381
Income before income taxes	**164**	123
Income taxes	**21**	50
Net income	**$ 143**	$ 73

Balance Sheet Disclosure

In thousands of dollars	September 3, 2003	March 31, 2003
ASSETS		
Capital assets	$ 7,565	$ 7,572
Other assets	18,328	18,840
	$ 25,893	$ 26,412
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities	$ 4,257	$ 4,856
Deferred government funding	1,374	1,437
	5,631	6,293
SHAREHOLDER'S EQUITY		
Capital stock	–	–
Equity arising from note payable to the Government of Canada	19,000	19,000
Retained earnings	1,262	1,119
	20,262	20,119
	$ 25,893	$ 26,412

Cash Flows Disclosure

In thousands of dollars	2004	2003
Cash provided by operating activities	$ 980	$ 3,040
Cash used in investment activities	(287)	(336)
Increase in cash	693	2,704
Cash and cash equivalents, beginning of period	16,791	14,087
Cash and cash equivalents, end of period	$ 17,484	$ 16,791

10. INCOME TAXES

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

In thousands of dollars		**2004**		2003
Expected statutory rate of tax		**36%**		38%
Expected income tax expense	**$**	**4,460**	$	5,568
Increase (decrease) in tax expense resulting from:				
Non-taxable portion of capital gains		**(553)**		(612)
Income not taxable in certain provinces		**(1,148)**		(972)
Large corporation tax		**400**		411
Other		**(7,942)**		(2,523)
Actual income tax expense (recovery)	**$**	**(4,783)**	$	1,872

Other includes the reversal of $7.2 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 2004, after the completion of tax audits on certain tax filings made by the corporation involving previous years, the corporation determined that these tax reserves were no longer required.

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

In thousands of dollars		**2004**		2003
Future Tax Liabilities				
Income producing properties	**$**	**(2,860)**	$	(1,700)
Notes payable		**(5,361)**		(1,172)
Reserves		**–**		(323)
		(8,221)		(3,195)
Future Tax Assets				
Property under development		**5,361**		394
Reserves		**276**		–
Financing costs		**236**		–
		5,873		394
Net Future Tax Liability	**$**	**(2,348)**	$	(2,801)

11. OTHER LIABILITIES AND COMMITMENTS

a) In 1995, the corporation acquired a portfolio of real estate properties from Canadian National Railway Company (CN Rail). As part of this transaction, the corporation assumed an obligation relating to a property that had previously been sold by CN Rail. The corporation is required to repurchase this property in 2083 at a predetermined price plus a share of any excess of the fair value of the property over the predetermined price; however, there is an early termination clause in this agreement which the corporation may trigger in 2009.

The corporation 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.

The corporation's estimated obligation in respect of these commitments, assuming the early termination clause is exercised, is $4.3 million (2003 – $4.5 million) and is included in accounts payable and accrued liabilities. This estimate is based on assumptions regarding future events and economic conditions, and the actual obligation may be materially different from this estimate.

b) Capital commitments for servicing requirements and other development costs at March 31, 2004 totaled $19.4 million (2003 – $19.3 million).

c) Canada Lands has a $50.0 million line of credit with the Bank of Montreal. This line is presently used for letters of credit issued for the fulfillment of certain obligations totaling $12.3 million at March 31, 2004 (2003 – $11.7 million).

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

e) In 1998, the corporation sold certain properties. The corporation has a commitment under the sales agreement to fund a portion of the environmental clean up costs for these properties. Currently, the corporation has recorded $13.0 million as its best estimate of its share of the anticipated clean up costs. If the clean up costs exceed $29.0 million, of which the corporation's share would be approximately $20.0 million, the purchaser has the right to return to the corporation all lands on which no development has commenced. In such a situation, the corporation would repurchase these lands at a predetermined formula price. Currently, there is no indication that the clean up costs will exceed $29.0 million or that any lands will be returned to the corporation.

12. CONSOLIDATED STATEMENT OF CASH FLOWS – SUPPLEMENTARY INFORMATION

Property acquisitions and additions that were satisfied by the issuance of notes payable in the amount of $13.1 million (2003 – $12.2 million) have been excluded from the financing and investing activities in the consolidated statement of cash flows.

Property disposals satisfied by the issuance of mortgages and secured notes by the corporation or the assumption of debt by the purchasers in the amount of $6.6 million (2003 – $5.9 million) have been excluded from the financing, investment and operating activities in the consolidated statement of cash flows.

During the year ended March 31, 2004, interest received totaled $1.6 million (2003 – $2.9 million), interest paid amounted to $0.3 million (2003 – $0.6 million) and income taxes paid totaled $3.6 million (2003 – $4.1 million).

13. RELATED PARTY TRANSACTIONS

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

In addition to transactions previously disclosed, during the year ended March 31, 2004:

a) The corporation acquired an interest in real estate properties from government departments for an aggregate purchase price of $8.2 million (2003 – $9.7 million). Consideration for these assets was cash payment or the issuance of notes payable (note 7).

b) Canada Lands paid interest totaling nil (2003 – $0.6 million) to a Crown corporation.

c) PDP received from a government department funding of nil (2003 – $1.2 million) and rental revenue of $0.3 million (2003 – $1.4 million).

d) Canada Lands received management fees of $0.1 million (2003 – $0.2 million) from a Crown corporation. PDP received management fees from a government department of $0.1 million (2003 – $0.2 million).

e) The corporation has a net receivable of $0.1 million (2003 – $0.05 million) from federal agencies and departments for reimbursement of costs.

14. FINANCIAL INSTRUMENTS

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

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

15. BENNY FARM

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

16. COMPARATIVE AMOUNTS

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

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Corporate Secretary

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

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

4) **Gordon McIvor**
Vice President, Public and Government Affairs

5) **Kathy Milsom**
President and CEO

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

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

8) **Monique St. Laurent**
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9) **Jack Robinson**
General Manager, Canada's National Tower and Vice President

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