CANADA LANDS COMPANY LIMITED
SOCIÉTÉ IMMOBILIÈRE DU CANADA LIMITÉE

2006–2007 Annual Report

pathways

Canada

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Canada Lands Company

CORPORATE PROFILE

Who We Are

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

- Canada Lands Company CLC Limited (CLC), a non-agent Crown corporation, which carries out the core real estate business, owns and manages Canada's National Tower (the CN Tower), and is active in 22 municipalities across Canada.

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

- Old Port of Montréal Corporation Inc. (OPMC), an agent Crown corporation, which is responsible for redeveloping the Old Port of Montréal, and which reports to Parliament as if it were a parent Crown corporation; and
- Parc Downsview Park Inc. (PDP), an agent Crown corporation, which was incorporated in 1998 to manage and develop the former Canadian Forces Base Toronto lands as Downsview Park, and which reports to Parliament as a deemed parent Crown corporation.

What We Do

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

Why We Do It

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

Letter to the Minister

JUNE 29, 2007

The Honourable Lawrence Cannon

Minister of Transport, Infrastructure and Communities
Ottawa, Canada

Minister:

It gives me great pleasure to enclose the annual report of Canada Lands Company Limited (CLCL) for the fiscal year ended March 31, 2007. This document highlights many of the accomplishments of the company over the past year in optimizing the financial and community value of properties no longer required by the Government of Canada.

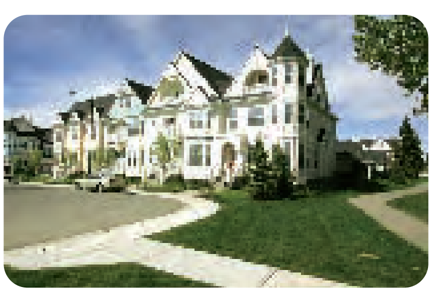
During the 2006–2007 fiscal year, the company made significant progress in a number of its development projects across the country, including its properties at the former Currie Barracks in Calgary and at Benny Farm in Montréal. It also laid the groundwork for a full marketing and business-building program at Canada's National Tower (the CN Tower). The company's most important strategic priority for the coming year will be to support efforts to address issues regarding land transfers, including aboriginal rights and claims.

CLCL will continue to assist the Government of Canada in providing innovative solutions to complex real estate challenges, tourism and hospitality leadership, and value and legacy creation for its stakeholders.

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

Sincerely,

Marc Rochon
Chairman
Canada Lands Company Limited



A Message from the Board of Directors

PATHWAY TO EXCELLENCE IN CORPORATE GOVERNANCE

Canada Lands Company Limited (CLCL) recognizes that a sound and effective corporate governance regime and a commitment to transparency are essential to its continued success. In recent years, CLCL has placed increased emphasis on corporate governance and is committed to regularly monitoring its practices and adapting them as necessary. This is accomplished through regularly scheduled meetings of the governance committee which, due to its importance, consists of all members of the CLCL board of directors.

As part of its commitment to sound corporate governance, the board engaged an independent consultant in 2006 to evaluate its performance. The resulting report noted a strong relationship between the board and CLC management, adding that a strong climate of confidence exists between the two. Also during the past year, the Office of the Auditor General completed a special examination of the company and noted no significant deficiencies either in its corporate governance regime or in any other aspect of the company's operations.

In addition, one CLCL director attended a two-day education session on corporate governance and associated issues to gain a better understanding of the role of individual board members and the role of the board within the company structure. Board members were also given a full briefing on the Government of Canada's *Federal Accountability Act* and its implications for CLC. Since 2003, CLCL has had its own policy on internal disclosure of information concerning wrongdoing in the workplace, which provides employees with mechanisms to report incidents of wrongdoing while ensuring that they are treated fairly and protected from reprisal.

In the latter half of the year, the board welcomed four new members: Michael Evans, Lloyd Fogler, Alana McPhee and Louise Pelletier. The board, and the company as a whole, are already benefiting from their experience and expertise. We also extend our thanks to Jim Lynes, who served as Acting President and CEO for almost two years, and to Robert Howald, who served in the same role from November 2006 to July 2007.

Subsequent to year-end, the board acknowledges the appointment of Mark Laroche to a five-year term as President and CEO effective July 30, 2007. The board and the company welcome this appointment and wish Mark success in his new role.

We invite potential Government of Canada clients and the general public to learn more about CLC and the financial and community benefits it creates in the divestment of strategic property that is surplus to the needs of the government. The company has enjoyed national and international recognition for its efforts in redeveloping and revitalizing these properties to create communities that will stand the test of time. We look forward to a bright and prosperous future as CLC continues to carry out this role.

Boards / Committees Composition

	Canada Lands Company Limited				Canada Lands Company CLC Limited			
	Board	Human Resources	Audit	Governance	Board	Human Resources	Audit	Governance
Directors								
Rochon, Marc	C			C	C			C
Fogler, Lloyd	M		M	M	M		M	M
McPhee, Alana	M	M	M	M	M	M	M	M
Pelletier, Louise	M		C	M	M		C	M
Evans, Michael	M	M	M	M	M	M	M	M
Star, Philip	M	M		M	M	M		M
Yee, Ernest	M	C		M	M	C		M
President & CEO					M	M		M

C Chair M Member

The Chairman shall be invited to and can attend all meetings of all committees of the board and be heard at such meetings, but will not be included for determination of a quorum.

Marc Rochon is Chairman of the Corporation. He served as President of the Canada Mortgage and Housing Corporation from 1995 to 2000. Mr. Rochon also served in several senior positions within the Government of Canada, giving him a wide range of experience in such areas as corporate governance and social policy issues.

W. Michael Evans, MBA, is President of Atlas Development Corporation, a private commercial real estate development company active throughout Western Canada. Mr. Evans has an Engineering degree from McGill University and an MBA from the Ivey Business School at the University of Western Ontario.

Lloyd S.D. Fogler, Q.C., is a senior partner at Fogler, Rubinoff LLP, Barristers and Solicitors in Toronto. He is a director of Brampton Brick Limited, as well as past chair and now director and honorary officer of both Mount Sinai Hospital and Mount Sinai Hospital Foundation. He is also a member of the board of trustees of the Royal Ontario Museum.

Alana McPhee is leader of a portfolio management group at Coventree Inc., a niche investment bank specializing in structured finance using securitization-based funding technology with over $1 billion in real estate assets under management. Ms McPhee holds a Bachelor of Commerce in finance and marketing from St. Mary's University and a Bachelor of Laws from Dalhousie Law School.

Louise N. Pelletier, BA, LL.B., LL.M., has been working in commercial real estate for the past 17 years as in-house counsel and in private practice. She is currently Director, Legal Affairs for SITQ Inc., an affiliate of the Caisse de Dépôt et de Placement du Québec with real estate assets in Canada, the U.S. and Europe.

Philip J. Star, Q.C., is a founding member of the law firm of Pink Star Murphy Barro in Yarmouth, Nova Scotia. Mr. Star is active in many community initiatives and is the incoming President of the Nova Scotia Barristers' Society and member of the Criminal Lawyers' Association.

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

Robert Howald is President and CEO (acting). Mr. Howald has over 26 years of real estate experience and previously served as CLC's Acting Vice President, Real Estate, Eastern Region. Prior to joining the company in 1999, he was Executive Vice President with TEDCO, the City of Toronto Economic Development Corporation.

From left to right: Philip Star, Alana McPhee, Robert Howald, Marc Rochon, Michael Evans, Ernest Yee Seated: Lloyd Fogler, Louise Pelletier

President's Message

PATHWAY TO CREATING VALUE

CLC enjoyed another outstanding year in 2006–2007. Buoyed by strong revenue growth in our real estate divisions and continued success in managing other properties such as the CN Tower, the company is poised to take on a number of challenging new projects as it begins its second decade of operations.

During the 2006–2007 fiscal year, CLC continued to earn praise for its real estate developments across Canada. Projects such as Montréal's Benny Farm, the Village at Griesbach in Edmonton, and Garrison Crossing in Chilliwack have all earned national and international awards, not only for their unique design features, but also for CLC's commitment to community consultation, environmental stewardship and sustainable development. This commitment reflects CLC's core values of "Innovation. Value. Legacy" and it will continue to form the cornerstone of our upcoming projects as well.

From a financial perspective, CLC posted the highest level of net income before taxes in the company's history. This is due to our skilled, motivated and experienced workforce.

In addition, the company acquired a number of new properties that were deemed surplus by the Government of Canada, including the Dominion building in Charlottetown, the Pointe-de-Longueuil site in the South Shore area of Montréal, and the former Canada Post site in Montréal. As well, CLC received local approvals to begin planning and development efforts for a number of properties already owned by the company, such as the former Currie Barracks site in Calgary.

2006 also marked the 30th anniversary of the completion of the CN Tower, and CLC proudly hosted the commemoration ceremonies for this significant national and international landmark. The CN Tower draws more than 2 million visitors annually, and its restaurants and themed attractions together consistently rank as one of Toronto's most popular destinations for tourists and local residents alike. This important facility has delivered another solid financial performance in 2006–2007.

Looking forward, the 2007–2008 fiscal year will present its share of challenges for CLC as it continues to deal with issues associated with the transfer of additional strategic properties from government departments and agencies across Canada, and ongoing adjustments in the tourism and hospitality sector. Nevertheless, I am extremely confident that our employees, in conjunction with our colleagues in government, will continue to develop innovative and effective solutions to address these complex issues, while providing value for our sole shareholder, the Government of Canada, and leaving a lasting legacy in local communities.

On behalf of the entire senior management team, I would like to thank all of our employees across Canada for a job well done in 2006–2007 and wish them continued success for the coming year.

Mark Laroche has been appointed President and CEO as of July 30, 2007. I know I speak for all employees in extending to Mark our support and wishing him all the best with the company.

Robert Howald
Acting President and CEO
Canada Lands Company Limited
Canada Lands Company CLC Limited

Corporate Governance

Board Committees and their Roles

GOVERNANCE

The governance committee's responsibilities include reviewing company policies, making recommendations on Governor in Council appointments, recommending terms of reference and composition of board committees, scheduling board meetings, training and orienting new board members, and reviewing the company's corporate social responsibility action plan. The company has a clear and concise board of directors' profile to assist with the selection of board members, and all directors are subject to a conflict of interest policy. There is also an established process for reviewing the board's performance. Due to the importance placed on governance, the committee is comprised of all members of the board.

HUMAN RESOURCES

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

AUDIT

The audit committee advises the board on the soundness of the financial management of the company, and assists the board in overseeing internal control systems, financial reporting, risk management and the audit process. It has the authority to investigate any activity of the company, and all employees are obliged to cooperate. The committee is composed of four directors who are not officers or employees of the company or any of its affiliates.

Board Member Orientation and Continuing Education

During 2006–2007, the four newly-appointed board members attended orientation sessions to familiarize them with the business activities of the company. One director also attended a two-day education session in Ottawa entitled *Corporate Governance for Federal Crown Corporations* – a governance course developed in collaboration with the Government of Canada specifically tailored to Crown corporation issues and situations. Board members are encouraged to attend other training events that will enhance their skills, performance and contributions to the board. The company's senior management team also regularly briefs the board and its committees on operational issues and provides reports and analysis for discussion, as well as property tours.

In order to engage key stakeholders, partners and opinion leaders in an open dialogue about issues and opportunities of mutual interest, the board hosted its first annual Stakeholder Outreach Luncheon in September 2006. It is intended that these luncheons be held on an annual basis. Furthermore, board meetings are held in various cities across Canada to allow board members to see projects first-hand and meet local stakeholders.

Corporate Governance: Year in Review

CLCL's commitment to improving its governance practices and the transparency of its operations has been instrumental in its success. The company proactively improves its governance and management practices, and has received widespread recognition for its leadership in this area. Listed on the following page are a number of corporate governance highlights from the past fiscal year.

- The following individuals were appointed to the board of directors and received orientation sessions:
  Michael Evans (November 22, 2006);
  Lloyd Fogler (January 25, 2007);
  Alana McPhee (January 25, 2007); and
  Louise Pelletier (November 22, 2006).
- An assessment of the board was conducted in the fall of 2006 by an independent consultant. The results were positive and indicated that communications between CLCL and its shareholder were strong; the relationship between the board and management was very strong; and the chairman was highly respected by both board members and management.
- An external review of executive compensation was conducted to assess compensation inversion and compression at senior levels within CLC and the various options proposed for action.
- A review was undertaken of the *Federal Accountability Act* and its implications for CLC.
- The senior management team succession plan was reviewed and updated.

Pay Policy

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

CLC's compensation philosophy is to pay a competitive total compensation package in order to attract and retain exceptional resources, while remaining accountable to all stakeholders through transparent compensation practices.

CLC's pay policy provides base compensation at the median of market comparators primarily on a national basis. Annual salary reviews are conducted and approved by the human resources committee. Increases are administered based on internal equity, external competitiveness (market data) and individual performance.

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

The position of President and CEO is a Governor in Council (GIC) appointment and, as such, the GIC sets the rate of compensation pursuant to the *Financial Administration Act.*

Policies

The company reviewed the overall policy framework for the board's oversight responsibilities and developed a *Policy Approval Policy* to establish a framework through which the board can provide integrated strategic leadership. Specifically, the policy reflects a reasonable division of labour between the board and the senior management team for approval of corporate policies and procedures of the company. The delegation of policy approval to the senior management team in no way reduces the board's ultimate responsibility for the management of the company. Rather, it enables operational efficiencies while also reflecting best governance practices.

Director Attendance and Compensation

There were six CLCL board meetings during the fiscal year. Attendance at board meetings was 93%. There were four meetings each of the human resources, audit, and governance committees. Attendance at committee meetings was 92%.

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.

Enterprise Risk Management

CLC continues to place emphasis on its enterprise risk management objectives and internal controls environment. The company's Director of Risk Management and Internal Controls works with his colleagues to ensure that risks are identified, assessed, mitigated, managed, monitored and, when appropriate, insured. The benefits of an enterprise risk management framework are becoming more apparent within CLC, and risk awareness is becoming more embedded.
The corporate risk register and resulting action plans, updated periodically for the board, bring greater visibility for both disciplined risk management and the interrelated nature of many important risks to the company. The risk management function also helps to identify and prioritize significant risks for senior management team review.

Enterprise risk management encompasses two functions at CLC. The internal audit function reports to senior management and to the board's audit committee that risk management policies, guidelines and internal controls are in place and are being followed. It also conducts risk-based internal audits. The risk management function addresses three broad types of enterprise risk faced by CLC:

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

In the past year, several initiatives were undertaken, including:

- a comprehensive threat, vulnerability and risk assessment of the Metro Toronto Convention Centre complex for security infrastructure purposes;
- a risk control engineering survey at CLC's former Canadian Forces base Griesbach project (the fifth such specific project risk survey) to identify and review risk exposures and measures, and form part of CLC's overall plan to mitigate risk exposure at the project level;
- the continued development of a comprehensive integrated business continuity and disaster recovery plan, including head office and CN Tower business resumption plans for time-critical functions;
- the annual risk evaluation of CLC's property assets and vacant land for the company's insurance program to ensure it continues to meet corporate needs and safeguards assets; and
- transferring responsibility for the company's records management process and compliance monitoring to the Risk Management and Internal Controls team and combining it with business continuity planning for operational efficiency.

A contracting management internal audit is planned for CLC's real estate divisions and IT department to ensure consistency and efficiency of practices, as well as compliance with contracting policies/guidelines and delegations of authority levels.

OUR STRENGTHS

- Leader in innovative redevelopment planning and community consultation
    - Winner of 2007 Showcase Award of Excellence in conjunction with UMA Engineering Ltd. from Consulting Engineers of Alberta for Village at Griesbach project in Edmonton
    - Benny Farm project task force in Montréal won 2006 Urban Leadership Award (City Renewal Category) from the Canadian Urban Institute
- Excellent track record in environmental remediation
    - Winner of 2003 Phoenix Award (International Category) for Moncton Shops environmental remediation project from the United States Environmental Protection Agency
    - Winner of 2003 City of Burnaby Environmental Award for Community Stewardship for Glenlyon Business Park
- Tourism and hospitality leadership in the management of the CN Tower
    - For the fourth consecutive year, the CN Tower was awarded Spirit of Excellence Awards for Best Safety Awareness Program and Best Employee Recognition Program by the International Association of Amusements and Attractions

OUR STRATEGIC PRIORITIES

- Address issues regarding land transfers, including aboriginal rights and claims, to secure title to strategic properties that have been deemed surplus to the Government of Canada's real estate needs
- Improve CN Tower market share in a weaker tourism market, which has been affected by a decline in tourist traffic from the United States and the stronger Canadian dollar
- Align operations with emerging government priorities

OUR NEXT STEPS

- Work with federal departments to monitor developments and proactively identify opportunities to assist with land transfer issues
- Implement a full marketing and business-building program for the CN Tower

Balanced Scorecard

PATHWAY TO SUSTAINABLE DEVELOPMENT

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

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

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

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

Shareholder and Board of Directors

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

Business and Financial Outcomes

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

Community and Legacy Initiatives

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

Human Resources

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

Municipal and Provincial Interests

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

Performance Highlights

Net income before taxes of

$28.1 million

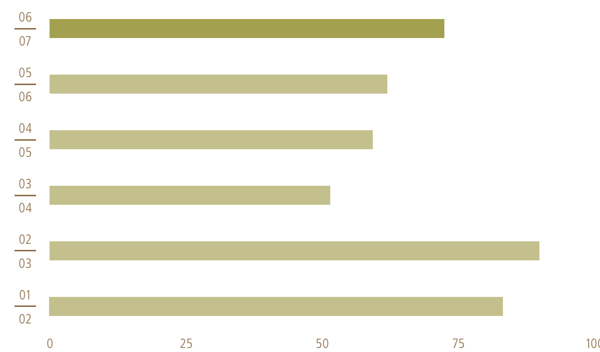
– highest in company history

Revenues of

$149.3 million

Real Estate Sales by Year

(IN MILLIONS OF DOLLARS)



Shareholder / Board of Directors

Operations

2006–2007 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Provide financial benefits to the Government of Canada	Pay dividends to the government of $19.9 million for 2006–2007 to 2010–2011	Paid $7.25 million in dividends to the government in 2006–2007
	Make up-front payments and note repayments for properties to the government and Crown corporations of $26.2 million for 2006–2007 and $74.7 million for 2006–2007 to 2010–2011	$0.5 million in distributions (note repayments) paid to the government for 2006–2007 due to several anticipated transfers not occurring
	Pay federal income taxes to the government of $6.3 million for 2006–2007 and $48.9 million for 2006–2007 to 2010–2011	Paid $6.8 million in total income taxes in 2006–2007

Business / Financial

Financial Performance

2006–2007 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Optimize financial value and returns	Achieve net income before taxes of $17.6 million for 2006–2007 and $134.9 million for 2006–2007 to 2010–2011	Net income before taxes of $28.1 million was achieved for 2006–2007, which is the highest in the company's history
	Achieve revenues of $126.3 million for 2006–2007 and $931.6 million for 2006–2007 to 2010–2011	Revenues of $149.3 million were achieved
	Achieve projected CLC capital expenditures, including investments in environmental remediation, of $74.4 million for 2006–2007 and $436.2 million for 2006–2007 to 2010–2011	Capital expenditures of $37.2 million were incurred

Business Development

Work with the Government of Canada to improve its property transfer process	Have CLC's concerns and input reflected in the government's implemented transfer process	Until recommendations to improve the property transfer process are implemented, CLC's concerns have been addressed in the interim solution
Assist in expediting property transfers	Develop measures and targets in 2006–2007 to help increase starting book value of property inventory	A list of federal CLC project milestones has been established and progress on achieving them is now tracked

Customer Relations

Continue to improve customer satisfaction for tenants and CN Tower visitors	Minimum overall customer satisfaction score of 75% for operating divisions	The CN Tower met its 75% target for the 2006–2007 fiscal year and also exceeded industry averages

Community / Legacy

Legacy Creation

2006–2007 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Implement legacy initiatives	Commemorate the heritage of company projects	Hosted opening of Garrison Crossing's Legacy Walk trail and dedicated Sappers Way roadway to honour the Royal Canadian Engineers in Chilliwack Dedicated a plaza and park at the Village at Griesbach in Edmonton to commemorate the 1st Canadian Parachute Battalion and the Canadian Airborne Regiment Streets in Victoria Village development in St. Catharines to commemorate Victoria Cross recipients

Corporate Philanthropy

Evaluate and act upon potential areas of donations and sponsorships	Contribute up to 1% of net income before taxes ($192,140) to corporate philanthropy, in line with the company's corporate philanthropy policy	Contributed $144,304 to corporate philanthropy initiatives, including $60,000 to match employee contributions to the annual Government of Canada employee charitable campaign

Human Resources

Work Environment

2006–2007 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Maintain positive and safe work environment, and recognize and reward employees appropriately	Maintain voluntary employee turnover rate below 5% for real estate divisions	Voluntary employee turnover rate was 4%
	Establish benchmark for voluntary turnover of non-seasonal CN Tower employees	Voluntary turnover industry benchmark of 38% established for the CN Tower based on 2001 data from Statistics Canada
	Expand health and safety programs for each province	Health and safety programs are being revitalized to ensure congruency with business continuity planning processes; Spirit of Excellence Award received by the CN Tower for Best Safety Awareness Program from the International Association of Amusements and Attractions
Continued focus on integration of programs at the CN Tower	Maintain succession plan for real estate divisions and create plan for the CN Tower, with increased focus on development opportunities	Succession planning process now formalized for all operating divisions and implementation is underway
	Increase communication and employee input at the CN Tower through introduction of HR Round Table and employee survey	HR Round Table, introduced at the CN Tower in 2005, continued through 2006–2007 and CN Tower employee survey participation rates improved for 2006–2007

Municipal / Provincial

Economic Stimulation

2006–2007 OBJECTIVES	PERFORMANCE TARGETS	PERFORMANCE ASSESSMENT
Promote timely and appropriate development and construction of sites, and track activity in line with the company's guidelines on tracking benefits beyond dividends	Increase cumulative development expenditures stimulated by CLC and its project associates by $84 million for 2006–2007 and $1.05 billion for 2006–2007 to 2010–2011	Increased expenditures by $10 million through the construction of residential units and industrial and commercial facilities
	Increase cumulative person-years of direct construction employment stimulated by CLC and its project associates by 660 for 2006–2007 and 8,300 for 2006–2007 to 2010–2011	Increased employment by 500 person-years for 2006–2007

Social Policy Objectives

Contribute to affordable housing and other social policy objectives where feasible, with each major project	Increase new or refurbished residential units stimulated by CLC and its project associates by 400 for 2006–2007 and 5,000 for 2006–2007 to 2010–2011	CLC decided to track the cumulative number of subsidized housing units stimulated since inception instead, which increased by 20 units to 512, as of the end of the 2006–2007 fiscal year

Sustainable Development

Incorporate sound principles of sustainable development for each development initiative	Demonstrate sustainable development approaches for company projects	Elements of CLC's Benny Farm project in Montréal and CLC's Village at Griesbach project in Edmonton provide excellent examples of energy efficiency and sustainable development
Recycling and/or reusing demolition or construction wastes	Divert minimum of 60% of demolished materials (by weight) from landfills for company projects	Steam line removal in Ottawa resulted in over 98% of materials diverted, Chilliwack demolition resulted in approximately 95% diverted, Calgary demolition resulted in approximately 80% diverted and Edmonton demolition resulted in over 75% diverted

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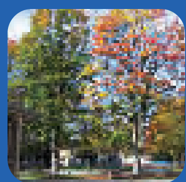
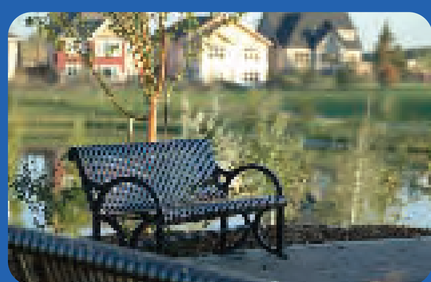




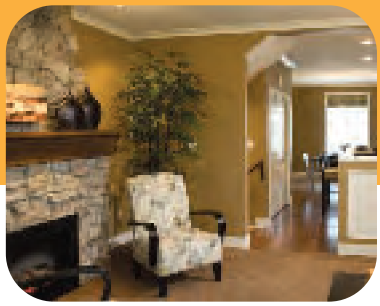
Western Region

"WESTERN CANADA'S STRONG ECONOMIC GROWTH HAS PROVIDED CLC WITH EXCELLENT OPPORTUNITIES TO INCREASE THE FINANCIAL AND COMMUNITY VALUE OF FORMER GOVERNMENT PROPERTIES."

Doug Kester, Vice President, Real Estate
Western Region, Canada Lands Company

What has set Garrison Crossing apart is CLC's commitment to use innovative new ideas to create a compact, efficient community that provides an excellent quality of life for its residents.

innovation



Garrison Crossing

Located on the site of the former Canadian Forces base in Chilliwack, Garrison Crossing represents CLC's commitment to support innovative engineering and construction ideas that have helped to create one of the most desirable residential neighbourhoods in British Columbia's Fraser Valley.

This 153-acre (61.9-hectare) site was acquired by CLC in 2001 from the Department of National Defence. CLC's vision for the property, developed after an extensive public consultation process and discussions with the City of Chilliwack, called for a mixture of single family homes, townhouses, and rental and condominium apartments. Additional units will include retail space, and potentially seniors' housing.

What has set Garrison Crossing apart is CLC's commitment to use innovative new ideas to create a compact, efficient community that provides an excellent quality of life for its residents. These ideas include:

- saving as many mature trees as possible to create an instantly mature neighbourhood;
- renovating and refitting the existing military housing units on the site, rather than demolishing them;
- narrowing roadways and putting rear lanes in place to calm street traffic and make the community safer for pedestrians;
- implementing a complete stormwater collection system and a treatment and groundwater recharge system, to protect the City of Chilliwack's water aquifer located beneath the property;
- putting all utility wires, cables, transformer boxes and cable/telephone connection kiosks underground; and
- creating a pedestrian-friendly retail and residential complex, rather than a traditional vehicle-oriented strip mall.

Private sector builders have completed 300 homes on the property, with more on the way in 2007–2008. As Garrison Crossing evolves to meet the needs of its residents, it will eventually include 1,500 to 2,000 homes suited to a wide range of family sizes and income levels.

Glenlyon Business Park represents an investment of more than $400 million, and will provide not only a significant return to CLC, but also $9 million annually of direct tax revenue to the City of Burnaby.

pathway to

Glenlyon Business Park

Glenlyon Business Park is the premier suburban office park in Western Canada, combining a beautiful natural setting with easy access to all of Greater Vancouver.

Located on 133 acres (53.8 hectares) of property bordering the Fraser River in Burnaby, the Glenlyon site was acquired by CLC from Canadian National Railway Company. Due to the property's sensitive ecological location, CLC was faced with the challenge of developing it to meet the exacting standards of potential business clients, while also respecting the community's wishes to protect the environment.

After extensive consultations, the CLC project team, together with city officials, created a plan that has resulted in Glenlyon being one of the most attractive business locations in Canada. Landscaped medians and island features, many ponds and creekways, curvilinear sidewalks, large setbacks from the roadways and an extensive path system all combine to create a park-like setting at Glenlyon.

Since its opening in 1994, high profile companies such as Nokia, Ballard Power Systems, Future Shop/Best Buy, Telus and Inex Pharmaceuticals have been attracted to Glenlyon and have constructed office facilities there. Over 725,000 ft^2 (67,355 m^2) of new facilities, primarily office space, have been completed to date, and more than 3,500 people are currently working on the site and enjoying its many amenities.

When fully developed, Glenlyon Business Park will contain more than 2 million ft^2 (186,000 m^2) of office and research space, representing an investment of more than $400 million, and will provide not only a significant return to CLC, but also $9 million annually of direct tax revenue to the City of Burnaby.

Glenlyon is another outstanding example of CLC's commitment to develop projects that produce solid financial results while providing lasting benefits to the communities in which they are located.

prosperity

Construction of housing by private sector builders must adhere to the company's vision for the property, which calls for a wide range of housing designs.

pathway to

Village at Griesbach

Taking on challenging projects and creating a lasting environmental legacy for future generations are among CLC's most important responsibilities. Nowhere is this better illustrated than in our highly successful efforts at the Village at Griesbach in Edmonton.

The site of the former Canadian Forces base Griesbach was sold to CLC in January 2003 by the Department of National Defence, which had declared the base surplus to its needs. At that time, the 620-acre (251-hectare) site, which is located in one of the city's busiest neighbourhoods, contained more than 50 derelict industrial buildings.

CLC's redevelopment plan for the property has seen these derelict buildings either demolished or refurbished for interim leasing. Most of the existing roadways are being removed and thousands of tonnes of gravel, asphalt and other construction byproducts have been either recycled for future use or, in the case of hazardous materials, disposed of in the safest possible manner.

Construction of housing by private sector builders must adhere to the company's vision for the property, which calls for a wide range of housing designs, including the remodeling and updating of many of the existing former military homes. The entire neighbourhood has been planned so that many of the mature trees will be retained and protected. Traffic calming measures have been implemented and, along with an interconnected network of parks and recreational trails, they create a vibrant, pedestrian-friendly environment. Street names pay tribute to Edmonton's military past and to the community's namesakes, Major General William Griesbach and his wife Janet Griesbach.

When development is complete, more than 12,000 residents will be living, playing and even working within the Griesbach neighbourhood. In addition to more than 4,000 housing units, the village will also have its own retail/office complex with a mixture of shops and services that will attract visitors from other parts of the city. Four stormwater management lakes will provide improved water quality and sedimentation control, while adding to the natural beauty of the community.

The Village at Griesbach project is a testament to CLC's commitment to promoting the development of sustainable and environmentally friendly urban communities that provide lasting benefits. The Canadian Homebuilders' Association and the Consulting Engineers of Alberta honoured this project with major awards in 2006–2007.

sustainability

pathway to

CLC's vision has been to establish a series of residential communities that will not only integrate with existing neighbourhoods, but also draw people from all over Calgary to work and play.

Currie Barracks

The Currie Barracks project is the third phase and will be the largest redevelopment project on the site of the former Canadian Forces base (CFB) Calgary. It will also mark a departure from CLC's two existing developments on the site (Garrison Green and Garrison Woods), as it will lead to the creation of a much larger and more densely populated urban community at the centre of one of Canada's fastest growing cities.

CLC's commitment to the CFB Calgary site dates back to 1998, when it acquired the property from the Department of National Defence. From the beginning, CLC's vision has been to establish a series of residential communities that will not only integrate with existing neighbourhoods, but also draw people from all over Calgary to work and play.

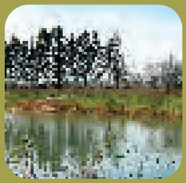
To accomplish this, CLC undertook an extensive series of public consultations with local residents and other stakeholders in an effort to determine the most appropriate uses for the Currie Barracks site, while ensuring that any development would integrate as seamlessly as possible with the surrounding residential neighbourhoods.

Redevelopment plans for the Currie Barracks project call for the construction of 3,100 housing units, including single family homes, semi-detached units, townhouses and apartments, on the 200-acre (81-hectare) site. There will also be 200,000 ft^2 (18,580 m^2) of retail shops and 300,000 ft^2 (27,870 m^2) of office space. When the project is completed, more than 2,500 people will be working in businesses at the former Currie Barracks site. In addition, a significant amount of land has been set aside for parks and outdoor recreation areas.

CLC's goal with this project is to have every home within walking distance of parks, shopping and public transit. When completed, the Currie Barracks property will be home to more than 6,600 people and will fulfill CLC's commitment to create a sustainable, pedestrian-friendly community.

Interest from the local building and real estate industries has been strong, and work on the project is expected to break ground in the spring of 2008 and take eight to ten years to complete. CLC is proud to play the leading role in the development of the former CFB Calgary site for the lasting benefit of today's homeowners and future generations.

community



Eastern Region

"AT CLC, OUR JOB IS TO PROVIDE LEADERSHIP BY DEVELOPING EFFECTIVE SOLUTIONS TO COMPLEX REAL ESTATE CHALLENGES, WHILE PROVIDING VALUE FOR OUR SHAREHOLDER AND OUR STAKEHOLDERS, AND LEAVING A LASTING LEGACY IN COMMUNITIES."

Norm Jarus, Acting Vice President, Real Estate Eastern Region, Canada Lands Company

The site includes 570 private, rental and subsidized housing units destined for households with low and moderate incomes, and community facilities that include a health and social services centre, a recreation centre and daycare facilities.

pathway to

Benny Farm

CLC's involvement with Benny Farm in Montréal's Notre-Dame-de-Grâce (NDG) district began in the late 1990s, when the company acquired the property from the Canada Mortgage and Housing Corporation. Originally intended to provide housing for returning World War II veterans and their families, the redevelopment of the property was launched in February 2004 after an innovative community-based consultation process led to a redevelopment plan that was accepted by the City of Montréal and local community groups.

The plan for the 18-acre (7.3-hectare) site includes 570 private, rental and subsidized housing units destined for households with low and moderate incomes, and community facilities that include a health and social services centre, a recreation centre and daycare facilities. More than 220 units are now occupied by residents who are proud to call Benny Farm home. Twenty-four additional two- and three-bedroom units are scheduled to become available in the summer of 2007. These units have been developed by Les Habitations Communautaires NDG, a community non-profit housing organization that is one of the many developers working with CLC to provide affordable homes at Benny Farm.

Construction is scheduled to begin in 2007 on the final phase of residential development on the property – Square Benny, which will see the construction of 120 condominium units as well as Les Sentiers Prince-of-Wales, a 36-unit townhouse complex. These projects are scheduled to welcome their first new residents in 2008.

The Benny Farm project and its builders have won numerous national and international awards to honour the project's unique construction and innovative engineering features. In 2006, a $3 million grant from the Federation of Canadian Municipalities' Green Municipal Fund was received to complete the process of "greening" 187 newly renovated and constructed units.

By working with community groups, developers and municipal officials, CLC has played a significant role in providing affordable housing in Montréal and has helped to establish a vibrant and growing community in one of North America's most exciting cities.

affordable housing

The potential development of Pleasantville involves the creation of a mix of housing units, geared towards purchasers with a variety of needs and income levels.

pathway to

Pleasantville

Pleasantville is a name that conjures up many memories for residents of Newfoundland and Labrador. During the early years of World War II, the United States military established a large base in St. John's, in an area known as Pleasantville, as part of an agreement with the British government to help defend the then-British colony of Newfoundland and keep open the vital sea link between North America and Britain. The base remained a local fixture until the last American military units departed in 1961.

In subsequent years, ownership of most of the base was transferred to the Government of Canada, with the remainder going to the Government of Newfoundland. In early 2006, CLC acquired the federal government's share of the property from Public Works and Government Services Canada, although the Department of National Defence (DND) continues to lease space on an interim basis on the property for housing and defence-related purposes.

The 80-acre (32.3-hectare) site is located in the east end of St. John's and enjoys a number of amenities, including a nearby golf course and views of Quidi Vidi Lake. Since acquiring the property, CLC has met with officials from the City of St. John's and residents of the surrounding neighbourhoods to establish a process for planning the development of the site. The potential development of Pleasantville involves the creation of a mix of housing units, geared towards purchasers with a variety of needs and income levels.

The Virginia River, which flows through the site, is rich in marine life and extra care will be taken to protect the vitality of this important local resource. As well, CLC faces a number of challenges in the development of this property, including the requirement for a schedule that will allow DND to continue to operate and also begin construction of new facilities on the site.

Moving forward, CLC has hired a local consulting firm to help develop a vision and master plan for the site, and will hold public consultations and information sessions in the coming months to incorporate the views of the local community. This plan is scheduled to be finalized in the spring of 2008.

CLC created and built a recreational park, complete with gazebo, shade shelter, rock-climbing structure and children's play equipment.

revitalization

Deerfield Village

Cooperation and community involvement have helped create Deerfield Village, a new neighbourhood that combines natural beauty with easy access to Canada's capital. This 73.5-acre (30-hectare) site is located in South Ottawa and within its Greenbelt, a large tract of greenspace that surrounds much of the city. The property was severed from the Greenbelt in 1996 and acquired by CLC from the National Capital Commission in February 2002.

CLC's analysis determined that only 38 acres (15.4 hectares) were suitable for development due to soil conditions, parkland allocations and the setback measures needed to protect Sawmill Creek, which runs through the property. In developing its plans for the remaining portion of the site, the company launched an extensive public consultation and outreach process, which involved city officials, local residents, community associations and other stakeholders, such as the Rideau Valley Conservation Authority. CLC officials also helped organize local events, such as a one-day cleanup of the Sawmill Creek riverbank. As a result, much of the project's support has come from the local community.

CLC's development plan for Deerfield Village, which serves as the template for private sector companies building homes on the site, incorporates many of the property's natural design features, including a regenerated Sawmill Creek and fish habitat, mature trees and hedgerows. As part of its commitment to the property, CLC has added numerous other amenities, including a pathway system and a stormwater pond that attracts birds and other wildlife. As well, CLC created and built a recreational park, complete with gazebo, shade shelter, rock-climbing structure and children's play equipment, prior to the arrival of the first residents in October 2006.

The second phase of construction at Deerfield Village begins in 2007 and when all four phases are complete, a total of 550 homes will have been built. Featuring a diverse range of housing styles, these homes will reflect sustainable development principles and various family needs and income levels. Deerfield Village is also the first residential development in Ottawa to have all homes qualify for the Energy Star designation, which promotes the use of energy-efficient design and products. All Energy Star homes are at least 40 percent more energy-efficient than requirements under the 2004 International Residence Code.

CLC's work will extend beyond the construction phase, with a commitment to the City of Ottawa to maintain Deerfield Village's pathways, greenspaces and recreational infrastructure for the next three to five years when it will be dedicated to the city. This is just one more way that CLC can help Deerfield Village continue its evolution into one of Ottawa's most desirable communities.

Streets within the community will be named to honour two local men who received the British Commonwealth's highest award for military bravery during World War I.

pathway to

Victoria Village

Nestled along the historic Welland Canal in St. Catharines, Ontario, Victoria Village represents a unique opportunity for CLC. The property is one of the last remaining sites available for development in St. Catharines, which is the major urban centre in the Niagara Peninsula – a region renowned for its tender fruit farming and wineries.

The 14-acre (5.7-hectare) site was formerly owned by Transport Canada and was acquired by CLC in late 2005. The property is located along the Welland Canal within the city's urban boundary. It offers excellent access to schools and other amenities, and is close to the recreational pathways that run along the canal.

After evaluating local market conditions, CLC worked with the City of St. Catharines to secure municipal planning approval for a 119-unit low-rise residential development on the property. These units will consist of 89 single family detached homes and 30 freehold townhouse units. Construction of municipal services and roads will be initiated by CLC in the summer of 2007. The residential housing lots have been purchased by a builder active in the area, and construction of the units will begin in the fall of 2007.

Streets within the community will be named to honour two local men who received the British Commonwealth's highest award for military bravery during World War I: the Victoria Cross (VC). Fred Fisher Crescent will commemorate Lance Corporal Fred Fisher, a native of St. Catharines, who was awarded the VC for his actions while serving with the Royal Highlanders of Canada (The Black Watch) during the Second Battle of Ypres in April 1915. Colonel Lyall Street will pay tribute to Colonel Graham Thompson Lyall, who received the VC for his actions in the fall of 1918 while serving with the 19th Lincoln Regiment of St. Catharines. A third street in the community will be named Valour Way, in recognition of the words "For Valour," which appear on the Victoria Cross. An interpretive marker will be installed on-site to explain the origin of the street names to the public.

Victoria Village provides yet another example of CLC's commitment to develop surplus government lands in partnership with local communities and to recognize and celebrate their heritage.

legacy

pathway to

CN TOWER – On June 26, 2006, Canada's National Tower (the CN Tower) celebrated its 30th anniversary as a Toronto landmark and a national icon.

The events of that day, which included a recreation of the CN Tower's famous "topping off" ceremony in April 1975, helped solidify its reputation as a place where special memories are created that last a lifetime. At the same time, it reinforced the CN Tower's legacy as the World's Tallest Building, an engineering Wonder of the Modern World, a symbol of pride, a critical telecommunications link, and a world-class entertainment and dining facility.

The anniversary event and the activities leading up to it successfully met all objectives, resulting in heightened awareness and increased attendance at the CN Tower.

Erickson Aircrane helicopter reenacts antenna topping off of CN Tower for 30th anniversary

Guinness World Records designates *360 Restaurant*'s wine cellar as "world's highest"

Canada's National Icon

Among the preliminary events was the launch in March 2006 of a limited edition commemorative coin from the Royal Canadian Mint. The launch received extensive media coverage, and the 15,000 limited edition CN Tower coins sold out within months. The coin received an award as the best commemorative merchandise item from Festivals and Events Ontario.

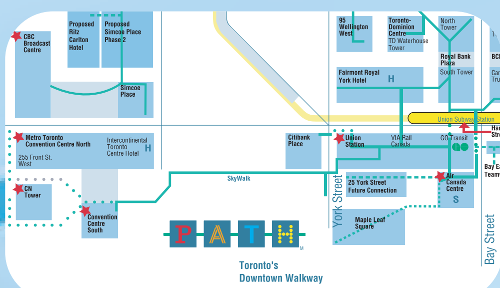
Total media coverage for the CN Tower's 30th anniversary reached an estimated audience of 24.5 million in Canada alone, with an advertising value of almost $1 million. The publicity campaigns for the CN Tower's 30th anniversary received awards from both the Canadian Public Relations Society (Toronto) and the Toronto chapter of the International Association of Business Communicators.

From a financial perspective, the food and beverage enterprise at the CN Tower enjoyed another record-setting year, reaching $20.1 million in overall revenues. This includes revenue from *360, The Restaurant at the CN Tower*, *Horizon's Café*, and the CN Tower's food court and catering services. In November 2006, the *Guinness Book of World Records* recognized the wine cellar at *360, The Restaurant at the CN Tower* as the world's highest wine cellar, providing an excellent springboard for the cellar's 10th anniversary celebrations throughout 2007. As well, the importance of wine to the restaurant's operations was highlighted by the CN Tower's Jazz in the Sky program, a new and innovative culinary/entertainment event launched in March 2007 to critical acclaim.

These examples, along with continuing support for the Communities in Bloom program, demonstrate that the CN Tower continues to develop strategic and non-traditional partnerships as a major component of its pathway to success.

Highlights

- Increase in overall revenues to $56.3 million, with net income of $11.2 million achieved.
- Second year of record-setting revenues for *360, The Restaurant at the CN Tower*, achieving revenues of $16.3 million.
- Record corporate event revenue of $2.7 million was achieved.
- Per visit spending increased over the previous fiscal year by 4.5% to $34.61.

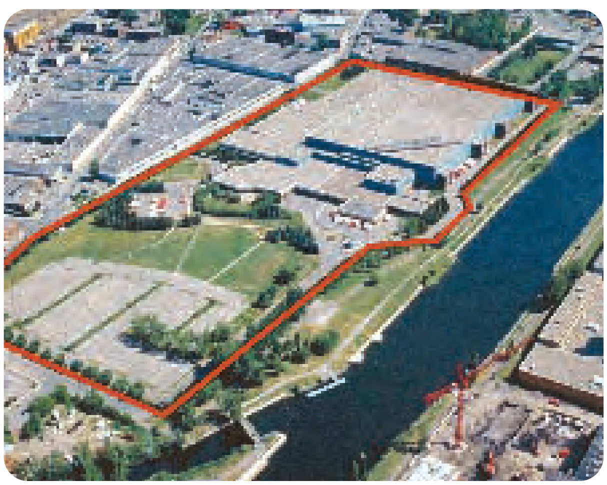


The Tower's location in downtown Toronto using the city's PATH pedestrian system

An environmental stewardship initiative, the CN Tower's organic herb garden supports a fresh regional cuisine philosophy for *360 Restaurant*

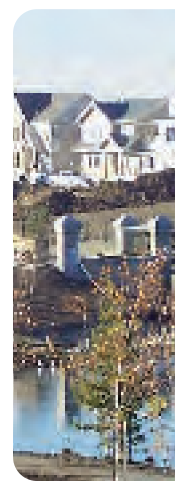
FINANCIAL RESULTS

- Net income before tax of $28.1 million, which was 59.3% above budget and the highest in the company's history.
- Gross profit on real estate sales of $28.6 million, which was 63.9% above budget.



1500 Ottawa Street
Montréal

Victoria Village
St. Catharines, Ontario



AWARDS

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

- The Village at Griesbach received the Showcase Award of Excellence in Community Development (in conjunction with UMA Engineering Ltd.) from the Consulting Engineers of Alberta. This project was also honoured with a regional SAM award by the Edmonton branch of the Canadian Homebuilders' Association.
- Garrison Crossing was awarded the Development Excellence Award – Residential/Recreational for the second consecutive year from the Chilliwack Chamber of Commerce.
- For the fourth consecutive year, the CN Tower in Toronto received Spirit of Excellence Awards for Best Safety Awareness Program and Best Employee Recognition Program from the International Association of Amusements and Attractions.

A Year in Review

CLC ACHIEVED THE FOLLOWING RESULTS DURING THE 2006–2007 FISCAL YEAR:

OPERATIONS HIGHLIGHTS

- Received approval from the City of Calgary for land use application for the Currie Barracks redevelopment project.
- Welcomed first residents to new homes in Deerfield Village, CLC's newest residential housing project in Ottawa.
- Contracted to acquire 1500 Ottawa Street in Montréal from Canada Post Corporation. The 24-acre (9.7-hectare) site near the Lachine Canal will become the focus of a major redevelopment project on Montréal's new harbourfront.
- Began work on development plans for two Atlantic properties – Pleasantville in St. John's and Shearwater in Halifax. Both properties are former Canadian Forces bases acquired by CLC.
- Acquired Dominion building in Charlottetown and Forintek building in Ottawa from PWGSC.
- Hosted celebrations surrounding the 30th anniversary of the CN Tower in Toronto.
- City of St. Catharines approved Victoria Village.
- Completed the sale of residential land for the final phase at CLC's Brandt's Creek Crossing property in Kelowna.

Village at Griesbach
Edmonton

Garrison Crossing
Chilliwack

BENEFITS

CLC's activities since reactivation in 1995, along with estimates for its sold projects at completion, will provide the following benefits for Canadian communities:

- $4.4 billion in development expenditures;
- 35,100 person-years of direct construction employment;
- $61 million invested in environmental remediation;
- $107 million in increased property taxes paid on CLC properties;
- 512 subsidized housing units built; and
- 12 million ft² (1.12 million m²) of non-residential construction.

Management's Discussion and Analysis

MAY 11, 2007

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

Through its core real estate subsidiary, Canada Lands Company CLC Limited (CLC), Canada Lands Company Limited (CLCL) carries out its policy mandate "to ensure the commercially oriented, orderly disposition of selected surplus federal real properties with optimal value to the Canadian taxpayer and the holding of certain properties". This mandate was approved by the Government of Canada (the government) upon reactivation of CLCL in 1995. All real estate operations are carried out through CLC and are consolidated in CLCL. Discussion of financial results in this section of the annual report will occur from the perspective of CLC, even though the results are identical to those of CLCL for the 2006–2007 fiscal year.

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

Balanced Scorecard

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

Governance

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

An assessment of CLCL's board of directors was conducted in the fall of 2006 by an independent consultant. The results were positive and indicated that the communications between CLCL and its shareholder were strong, the relationship between the board and management was very strong, and the chairman was highly respected by both board members and management.

CLCL's board of directors is composed of the chairman and six directors. The chairman and the directors are independent of management, and appointed by Governor in Council. The following appointments were made to the board of directors this past year: Louise Pelletier and Michael Evans (November 2006); and Lloyd Fogler and Alana McPhee (January 2007). One board member is on over hold as his term has expired. The board held five meetings and one strategic planning retreat during the year.

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

The board's expenses for the year ended March 31, 2007 (YE 07), including travel expenses, conferences and seminars, liability insurance and annual retainers and per diems, totalled $359,000, an increase of $80,000 from 2005–2006 (YE 06). This increase is attributed to consulting fees related to the assessment of the board and the increased travel expenses associated with all board vacancies now being filled.

Results of Operations

(in millions of dollars)	**YE 07**	Budget	YE 06
Property sales	**$ 72.5**	$ 65.8	$ 62.0
Attractions, food and beverage and other CN Tower revenues	**56.3**	56.2	54.2
Gross revenues	**149.3**	140.5	136.4
General and administrative expenses	**22.5**	21.5	20.6
Income before income taxes	**28.1**	17.6	19.2
Cash flows before dividend and note repayments	**35.9**	(37.0)	12.9

In YE 07, CLC earned revenues of $149.3 million and income before income taxes of $28.1 million, and generated cash flows of $35.9 million before distributions (repayment of notes payable and dividend) to the government. The CN Tower operations generated income before income taxes of $11.2 million and real estate operations generated income before income taxes of $16.9 million.

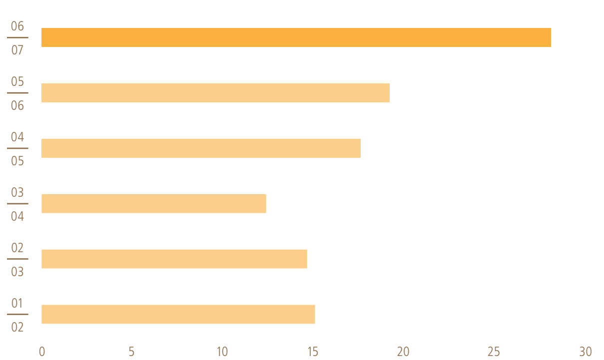
Total revenues were $8.8 million above budget, which resulted mainly from property sales and interest and other income exceeding budget by $6.7 million and $3.0 million, respectively. This is the third consecutive year of increased property sales since 2003–2004, which saw the lowest sales level since the reactivation of CLCL. Sales levels are expected to dip slightly next year and then increase dramatically over the following four years.

Included in expenses this year was a provision for the write-off of $1.8 million related to CFB Rockcliffe's soft costs that are more than five years old. CFB Rockcliffe has received Treasury Board approval for the transfer of title to CLC, but the transfer is presently delayed pending the resolution of aboriginal issues. CLC has implemented a policy of reviewing all soft costs five years old and older, relating to properties not yet transferred.

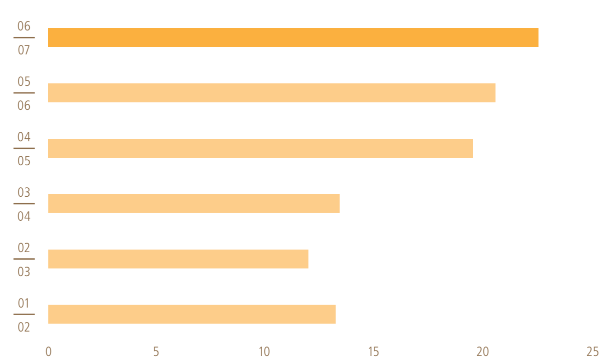
General and administrative expenses increased by $2.0 million over the prior year. Excluding the incentive portion, the increase was due mainly to the additional staffing, marketing and sales promotions and training and development costs related to operations at the CN Tower. General and administrative expenses attributed to real estate operations were unchanged from the previous year.

CLCL is subject to federal and certain provincial taxes at corporate rates. Income taxes of $7.0 million for YE 07 represent an effective rate of 25% of income before income taxes, due to the fact that CLCL's income is not subject to provincial income taxes in Ontario and Alberta.

Income Before Income Taxes
(in millions of dollars)



General and Administrative Expenses
(in millions of dollars)



Real Estate Operations

(in millions of dollars except where noted)	**YE 07**	Budget	YE 06
Property sales	**$ 72.5**	$ 65.8	$ 62.0
Net profit on property sales	**28.6**	17.5	17.3
Gross margin on property sales (%)	**39.5%**	26.6%	27.9%
Expenditures on properties	**34.1**	66.7	43.5

The net profit on property sales was $11.3 million higher than last year. With the value of property sales $10.5 million higher than last year, sales for the first time since reactivation are greater than the rolling five-year average of $67.0 million. This reflects positive sales growth as previous transfers are serviced and marketed.

The gross margin on property sales increased from 27.9% to 39.5%. This reflects the prospective cost of sales adjustment for Garrison Green and the sale of the downtown Kelowna lands, both having gross margins in excess of 50%. The actual gross margin is 13.0% above the YE 07 budget due to the sales mentioned above and the reduction in Eastern region sales, which have a lower gross margin. Next year's budget anticipates a gross margin of 25.7%.

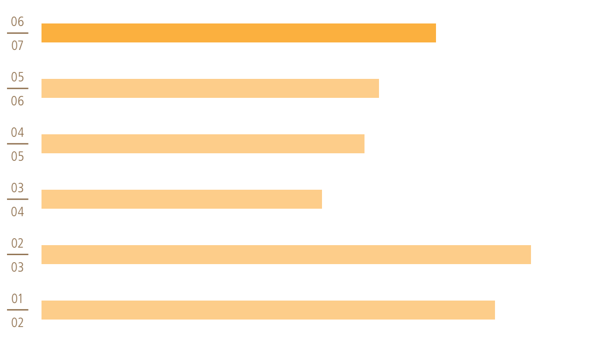
Property sales exceeded budget by $6.7 million and profit exceeded budget by $11.1 million. The increase in sales was due primarily to the Oliver Village retail shopping centre in Edmonton, partially offset by a delay in closing regarding some Eastern region sales. The profits relate to the downtown Kelowna lands, Oliver Village and Garrison Green. The majority of sales (87%) took place in the Western region, compared to 77% last year. Until further transfers are achieved for Eastern region, this trend will continue, as most active developments are located in the West.

One of the company's objectives for YE 07 was to gain approval for three property transfers from Treasury Board and to receive title transfer for eight properties totalling $57.8 million. The company received approval for the transfer of three properties and received title for four properties totalling $11.5 million. Of the properties budgeted and not transferred by March 2007, 1500 Ottawa St. in Montréal was transferred during April 2007. The remaining properties are budgeted to be transferred in YE 08. Transfer of CFB Rockcliffe is currently delayed pending the resolution of aboriginal issues.

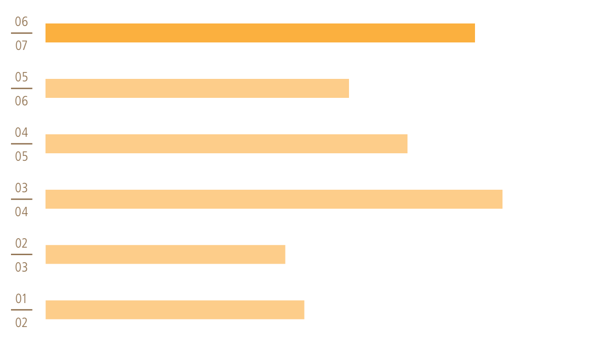
The company continued with its national milestones this year, consisting of federal and municipal approvals. The federal milestones consisted of projects receiving Treasury Board approval and transfer of title. The total objective was 21, of which 10 were achieved. Of these, 8 approvals were achieved in Eastern region. Municipal milestones consisted of obtaining development permits, engineering drawings, site registration, site zoning, plan approval, development agreements and environmental approvals. The milestone was set at 85, of which 65 were achieved. The majority (40) of these relate to the Western region, where most of the development is presently taking place.

Capital expenditures excluding the CN Tower were $32.7 million below budget. The delay in receiving municipal approval at Currie Barracks resulted in a reduction of $11.8 million in expenditures. Municipal approval was received in March 2007. The delay in transfers resulted in a reduction of $5.5 million in capital expenditures.

Real Estate Sales by Year
(in millions of dollars)



Gross Margin on Property Sales
(percentage)



CN Tower Operations

(in millions of dollars except where noted)	YE 07	Budget	YE 06
Revenues	**$ 56.3**	$ 56.2	$ 54.2
Earnings before interest, tax and depreciation	**17.9**	17.5	18.3
Income before income taxes	**11.2**	11.1	12.1
Attendance (in millions of people)	**1.6**	1.7	1.6
Average spending per visitor (in dollars)	**$ 34.61**	$ 32.49	$ 33.15

Attendance at the CN Tower decreased by less than 1.0%, or 12,000 visitors, from last year. Attendance levels have reached approximately 85% of the pre-9/11 and SARS levels. This is the sixth consecutive year of decline in the number of U.S. visitors to Ontario. While the number of European and Asian visitors has increased, the majority of these were in group tours that purchased discounted tickets. The average spending per visitor increased by $1.46 over last year and is $2.12 above budget. The budget assumed the return of American visitors, who normally have the highest rate of spending of all visitors. The budget also assumed a greater increase in the number of Asian and European visitors. This was not realized because Canada has not yet received Approved Destination Status from mainland China and Europeans stayed at home last summer for the World Cup of soccer. Weather conditions are another factor affecting attendance. In YE 07, there were 172 clear days, compared to 201 clear days in YE 06.

Attractions generated gross revenues of $26.5 million, $1.28 million below budget but $0.8 million more than last year. The attractions portfolio managed to provide a healthy 90.5% operating margin, up slightly from last year.

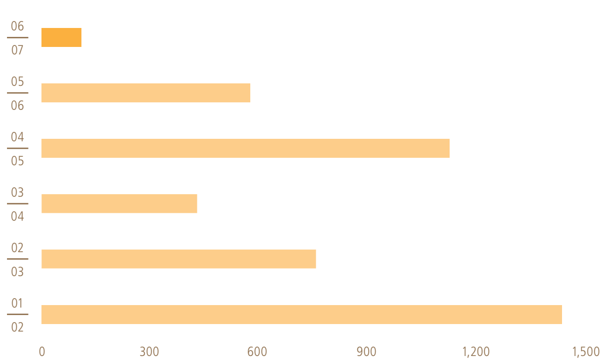
Food and beverage (F&B) revenues are at an all-time high at $20.1 million, which is $1.0 million or 5.5% above budget and $0.9 million or 5% more than last year. The evening restaurant sittings at the CN Tower were almost at capacity during Season A from May to October. The F&B operations provided an encouraging 27.4% operating margin, which was 0.6% above budget but reflected a 2.0% decrease from last year mainly due to higher cost of sales.

Retail store operations generated $5.8 million of revenues, with an operating margin of $2.2 million or 38.2%, above the budgeted 36.3% but below last year's 38.6%.

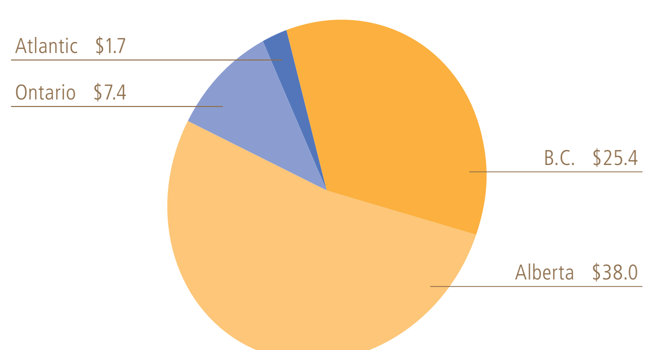
The CN Tower attendance increased in Season B from November to April, growing by 7.5% or almost 30,000 over last year. During Season A, the CN Tower operated at close to maximum capacity. The total Season B attendance represents 27.3% of the annual attendance, an increase of 2.2% over last year.

The focus for growth in YE 08 will be on attendance from international markets (i.e., Asia Pacific and Europe), which is expected to grow in Ontario by approximately 3%. Attendance from the U.S. market is expected to decline again, by approximately 6%. More emphasis will be placed on the domestic/local market. Another objective for YE 08 is to maintain momentum in the growth of F&B operations revenues by increasing average spending with new offerings, such as a high-end tea/coffee program and high-end side order options.

Transfers of Property by Year
(in acres)



Property Sales by Region
(in millions of dollars)



Total sales: $72.5 million

Properties

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

(in millions of dollars)	**March 2007**	March 2006
Revenue producing properties	**$ 111.4**	$ 121.2
Properties under development	**100.6**	97.2
Land held for development or sale	**46.6**	41.1

At March 31, 2007, CLC owned four revenue producing properties with a book value of $111.4 million. During the year, Oliver Village, a retail shopping centre in Edmonton, was sold. Revenue producing properties had a book value of $121.2 million at March 31, 2006. CLC's principal property asset is the CN Tower in Toronto. CLC's revenue producing properties also include an office/research facility in Burnaby and a parking facility in Toronto. CLC also receives a portion of the revenue generated from the parking facility at the Metro Toronto Convention Centre.

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

Properties under development consist of five property holdings totalling approximately 855 acres (346.0 hectares), with a carrying value of $100.6 million, which represents an increase of $3.4 million from March 31, 2006. The sites under active development include Glenlyon Business Park in Burnaby, the former military bases in Chilliwack, Calgary and Edmonton, and a residential project in Ottawa.

Land held for development or sale consists of 27 property holdings located across Canada totalling approximately 1,441 acres (583.1 hectares). At March 31, 2007, the carrying value of lands in this category was $46.6 million, a $5.5 million increase from March 31, 2006.

During YE 07, CLC spent $37.2 million on construction, site servicing, environmental remediation and other investments at its various property holdings, including the CN Tower.

Cash Flows

Cash provided by operating activities during YE 07 totalled $43.4 million, an increase of $24.3 million from the $19.1 million generated in YE 06.

Cash used in financing activities for YE 07 amounted to $11.8 million, representing note repayments to the government of $0.5 million, a dividend payment to the government of $7.25 million and mortgage bond repayments of $4.1 million. Cash used in financing activities for YE 06 was $15.3 million.

Cash used in investing activities for YE 07 was $3.4 million, $0.8 million more than YE 06.

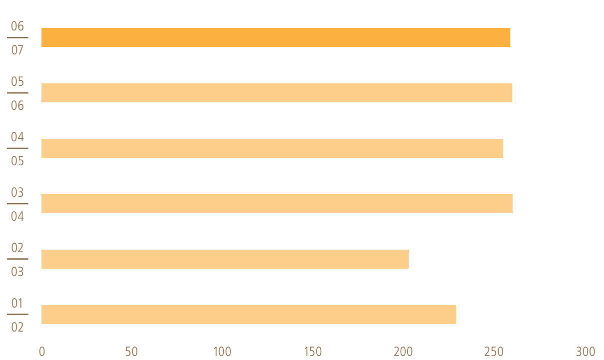
Financial Condition and Liquidity

On January 27, 2004, CLC issued a $47.0 million, ten-year fully amortized first mortgage bond at 5.37%, secured by the CN Tower asset and guaranteed by CLC. The mortgage bond had a balance of $35.4 million at March 31, 2007. The CN Tower received a rating of "A" with a stable trend from Dominion Bond Rating Service Limited on January 22, 2007, in connection with the mortgage bond.

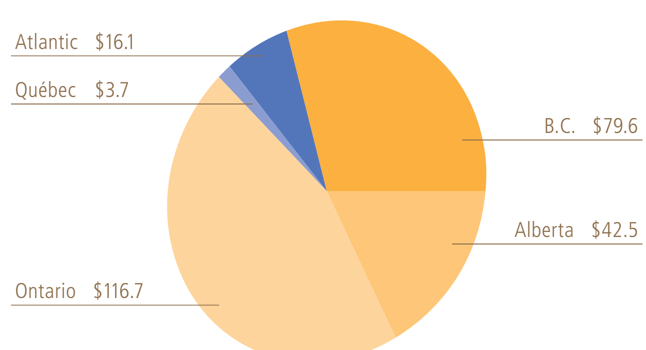
At March 31, 2007, CLC had cash and short-term investments totalling $87.0 million. In addition, CLC has a line of credit of $85.0 million with a Canadian chartered bank, which is presently being used for letters of credit issued in the amount of $23.1 million.

As at March 31, 2007, CLC had $46.9 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.

Property Inventory
(in millions of dollars)



Property Distribution by Region by Book Value
(in millions of dollars)



Total book value: $258.6 million

CLC expects that proceeds from these sales will enable the notes to be repaid prior to their maturity dates. CLC estimates repayment of notes payable of $19.2 million during the year ending March 31, 2008. CLC expects to repay $39.6 million of these notes during the next five years.

In the coming year, CLC anticipates capital expenditures of approximately $108.8 million on its existing and new properties for construction, site servicing, environmental remediation and general preparations for the sale of properties in its land inventory. Substantial expenditures are expected to be incurred on the former military bases in Calgary, Chilliwack, Edmonton and Ottawa, in addition to Glenlyon Business Park and the CN Tower. CLC also anticipates property transfers from government departments and Crown corporations of $50.0 million, of which $29.0 million will be cash payments.

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

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

Risks and Uncertainties

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

CLCL, through CLC, manages and disposes of strategic surplus properties on behalf of the government to ensure that optimal value is realized from these assets. Optimal value recognizes financial value, economic stimulation and contributions to the quality of life in local communities where CLC conducts its business. CLC acted in a manner consistent with this mandate in YE 07.

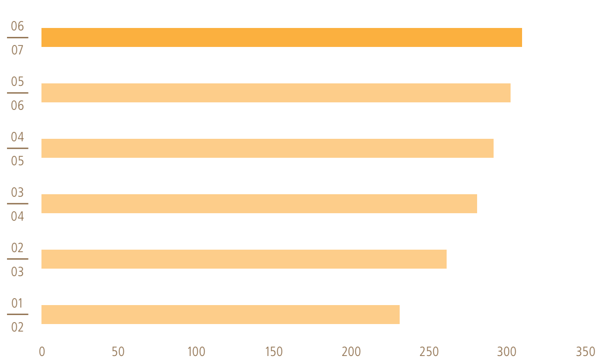
CLC has adopted a proactive approach to business and operational risk management. The mandate of CLC's Risk Management Committee is to identify and assess the key risks facing the company and then act to eliminate risks where possible, or mitigate, manage and insure them where elimination is not possible. The committee is chaired by the Director of Risk Management and Internal Controls, who also manages the internal audit function, risk management and the corporate insurance portfolio.

In keeping with its comprehensive insurance program and targeting its important operational risks, the company improved its overall insurance protection and continued its favourable cost performance. This year's insurance renewal exercise saw significant improvements to the coverage, which include:

- an increase in the property terrorism coverage from $200 million to $350 million;
- an increase in the liability (third party) terrorism coverage from $70 million to $95 million; and
- a reduction in the property terrorism coverage deductible from $5 million to $1 million.

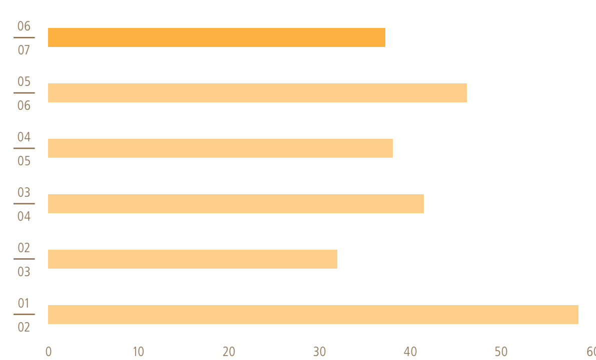
Cumulative Distribution to Shareholder

(in millions of dollars)



Capital Expenditures

(in millions of dollars)



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

- a comprehensive threat, vulnerability and risk assessment of the Metro Toronto Convention Centre complex for security infrastructure purposes;
- a risk control engineering survey at CLC's former Canadian Forces base Griesbach project to identify and review risk exposures and measures. This survey formed part of CLC's overall plan to mitigate risk exposure at the project level, and is the fifth such risk survey on specific projects;
- the continued development of a comprehensive integrated business continuity and disaster recovery plan, which included the creation of several head office and CN Tower business resumption plans for time-sensitive functions;
- the annual risk evaluation of CLC's property assets and vacant land for the company's insurance program (covering hazards and operational risks) to ensure it continues to meet corporate needs and safeguards the company's important assets; and
- transferring responsibility for the company's records management process and compliance monitoring to Risk Management and Internal Controls in September 2006 (that function was combined with Business Continuity Plan Coordinator for operational efficiency).

A contracting management internal audit is planned for CLC's real estate divisions and the company's headquarters Information Technology department to ensure consistency and efficiency of practices, as well as compliance with contracting policies/guidelines and delegations of authority levels.

During the year, a total of 110 acres (44.5 hectares) were transferred to CLC. These consisted of portions of the St. Lawrence Seaway portfolio (Ontario), Pointe-de-Longueuil (Montréal), Forintek (Ottawa) and the Dominion building (Charlottetown). On March 31, 2007, CLC had a land bank of approximately 2,308 acres (934.0 hectares). The Treasury Board approved transfers of a further 781 acres (316.0 hectares), relating to CFB Rockcliffe (Ottawa), Kapyong Barracks (Winnipeg), Kingston Prison for Women (Kingston), Senneville (Montréal), the John Thompson Building (Halifax), La Prairie (Québec) and the Montréal Harbourfront site which includes 1500 Ottawa Street (the former Canada Post site).

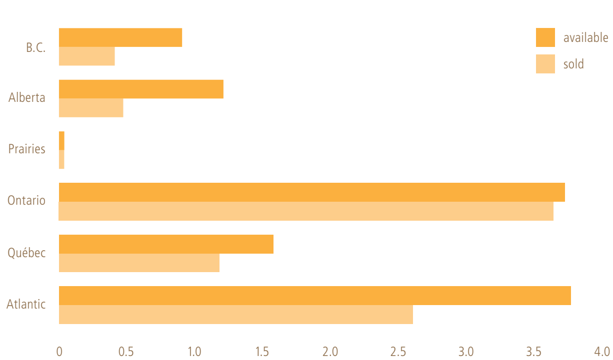
CLC is currently in negotiations with government departments and agencies regarding a further 2,110 acres (853.8 hectares). As many of the individual properties potentially available for transfer are substantial in size, ranging from 50 to 1,600 acres (20.0 to 647.5 hectares), the planning, development and reintegration of these properties into local communities will take place over a number of years. Although this makes CLC vulnerable to adverse changes in local real estate market conditions and can affect demand, it also allows CLC to wait for improvement in some local real estate markets as it has other properties for sale across Canada.

Across Canada, but particularly in British Columbia, CLC's holdings and potential transfers of properties from the government are impacted by aboriginal land claims. CLC has guidelines and procedures in place for advancing commercial transactions on its lands that are subject to comprehensive aboriginal land claims. CLC continues to work with various government agencies and organizations to assist in establishing a process whereby such surplus lands could be transferred to CLC.

Historically, the performance of the CN Tower's operations has been directly linked to the tourism sector in Toronto, as demonstrated dramatically by the impact of SARS in 2003. The number of visitors to the CN Tower is also related to both the seasons and the daily weather conditions. Recognizing and acting upon the potential of both attracting a higher percentage

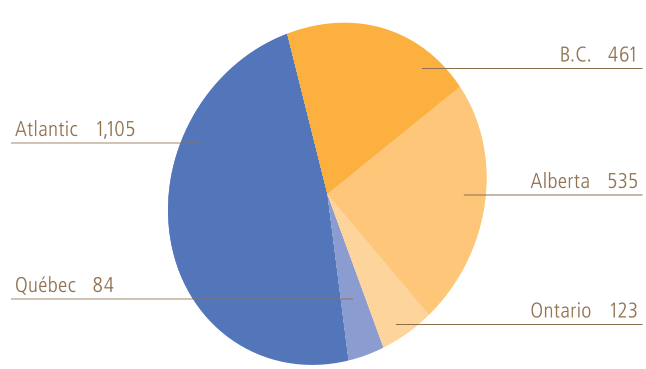
Summary of Properties Since Inception by Region

(acreage in thousands)



Property Distribution by Region

(in acres)



Total acres: 2,308

of Toronto's tourists and focusing on less seasonal corporate business will further enhance the performance of the CN Tower's business development initiatives. Since reacquisition, this focus has resulted in attendance levels reaching 85% of the pre-SARS levels and record income before income taxes for the year ended March 2007. Attendance levels at the CN Tower will be affected by the introduction of the new U.S. passport requirement in 2008 and the increasing value of the Canadian dollar. These factors are expected to reduce the number of American tourists visiting the CN Tower.

Future Prospects

Last year, the rate of growth of Canadian GDP was 2.7%, which was a decrease of 0.2% from the prior year. Although there was continued development of energy projects and strong consumer spending, export-oriented manufacturing was in decline. The decrease in export-oriented manufacturing is due to a slowdown in the U.S. economy and the rise in the Canadian dollar in the past two years.

The growth rate of the Canadian economy is expected to decrease to 2.4% in 2008, with continued strong growth in Western Canada and Newfoundland and lower growth in Central Canada. Residential rental, resale and new housing markets are expected to remain strong in Alberta and British Columbia, where CLC's redevelopment of the former CFB Calgary, CFB Griesbach and CFB Chilliwack continue to receive a very positive response from local home buyers. The market is also strong in St. John's, where CLC is starting development of the former CFB Pleasantville. New housing space at the former military bases attracts moderate but steady demand across Canada. CLC's recent sales activities demonstrate that there is ongoing demand for its land holdings and it can continue to create significant benefits and/or value from its property portfolio, which is diverse as to location, value, size and current or potential uses.

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

Looking forward, CLC anticipates another profitable year of operation. The transfer of additional properties from the government will result in increased revenues over the next two to three years.

Previously, CLC's highest level of income before income taxes was $24.1 million, which the company exceeded this year by $4.0 million. Income before income taxes is expected to decrease to $15.7 million in 2007–2008 and then increase to $48.0 million in year five of the upcoming plan period, averaging $30.5 million per year. Property sales of $61.4 million are anticipated in 2007–2008, increasing to $159.3 million in year five.

Attendance levels at the CN Tower are expected to increase by 11% over the five-year plan period and reach 93% of the highest historical annual attendance level, resulting in a proportional increase in revenues. Finally, the value of the property asset base by year three of the upcoming plan period is projected to be more than $450 million, compared to the highest level of $337 million at the company's reactivation in 1995.

Declaration

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

we have reviewed the consolidated financial statements of Canada Lands Company Limited for the fiscal year ended March 31, 2007;

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

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

Robert Howald
Acting President and CEO

May 11, 2007

Brian Evans
Vice President, Finance
and Chief Financial Officer

Management's Responsibility for Financial Reporting

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

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.

R Howald

Robert Howald
Acting President and CEO

May 11, 2007

B Evans

Brian Evans
Vice President, Finance
and Chief Financial Officer

Auditors' Report

To the Minister of Transport, Infrastructure and Communities

We have audited the consolidated balance sheet of Canada Lands Company Limited as at March 31, 2007 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 March 31, 2007 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 subsidiary that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the corporation and its wholly-owned subsidiary.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 11, 2007

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
May 11, 2007

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED MARCH 31

(in thousands)	Note	2007	2006
REVENUES			
Real estate sales		**$ 72,496**	$ 61,999
Rental		**17,140**	17,757
Interest and other	11	**4,822**	3,620
Attractions, food and beverage and other CN Tower revenues		**54,811**	52,976
		149,269	136,352
EXPENSES			
Real estate cost of sales		**43,899**	44,727
Rental operating costs		**14,622**	15,328
General and administrative		**22,531**	20,550
Attractions, food and beverage and other CN Tower expenses		**29,965**	28,377
Other expenses		**6,359**	5,827
Interest and other financing costs		**2,016**	2,329
Write-off of capitalized costs		**1,792**	–
		121,184	117,138
INCOME BEFORE INCOME TAXES		**28,085**	19,214
Future income tax expense (recovery)	9	**(418)**	188
Current income tax expense	9	**7,393**	5,550
		6,975	5,738
NET INCOME		**21,110**	13,476
Retained earnings, beginning of year		**97,998**	95,522
Dividend declared and paid		**(7,250)**	(11,000)
RETAINED EARNINGS, END OF YEAR		**$ 111,858**	$ 97,998

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

AS AT MARCH 31

(in thousands)	Note	2007	2006
ASSETS			
Properties			
Revenue producing properties	3	**$ 111,380**	$ 121,231
Properties under development		**100,598**	97,190
Land held for development or sale		**46,655**	41,089
		258,633	259,510
Other Assets			
Cash and cash equivalents	4	**87,015**	58,834
Amounts receivable and other assets	5	**31,297**	29,937
		118,312	88,771
		$ 376,945	$ 348,281
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Mortgage bond payable	6	**$ 35,411**	$ 39,480
Notes payable	7	**46,915**	35,863
Accounts payable and accrued liabilities	10	**28,146**	22,375
Income taxes payable		**3,388**	2,486
Future tax liabilities	9	**1,633**	2,051
Prepaid rent and deposits		**4,513**	2,947
		120,006	105,202
Shareholder's Equity			
Capital stock	8	**–**	–
Contributed surplus	8	**145,081**	145,081
Retained earnings		**111,858**	97,998
		256,939	243,079
		$ 376,945	$ 348,281
Commitments and contingencies	10		

See accompanying notes to consolidated financial statements

On behalf of the Board

Marc Rochon

Louise Pelletier

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED MARCH 31

(in thousands)	Note	2007	2006
OPERATING ACTIVITIES			
Net income		**$ 21,110**	$ 13,476
Recovery of costs on sale of properties held for development or sale		**42,456**	42,475
Expenditures on properties held for development or sale		**(33,737)**	(43,542)
Write-off of capitalized costs		**1,792**	–
Increase in restricted cash		**(605)**	(383)
Depreciation		**5,891**	4,953
		36,907	16,979
Net change in non-cash working capital		**6,505**	2,073
CASH PROVIDED BY OPERATING ACTIVITIES		**43,412**	19,052
FINANCING ACTIVITIES			
Repayment of notes payable		**(498)**	(479)
Dividend paid		**(7,250)**	(11,000)
Repayment of mortgage bond		**(4,069)**	(3,860)
CASH USED IN FINANCING ACTIVITIES		**(11,817)**	(15,339)
INVESTING ACTIVITIES			
Expenditures on revenue producing properties		**(3,414)**	(2,591)
CASH USED IN INVESTING ACTIVITIES		**(3,414)**	(2,591)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**28,181**	1,122
Cash and cash equivalents, beginning of year		**58,834**	57,712
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 87,015**	$ 58,834
Supplemental cash flows information	11		

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Authority and Activities of CLCL

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

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

CLCL and its subsidiary are prescribed federal Crown corporations for tax purposes and are subject to federal income and large corporation taxes under the *Income Tax Act*.

2. Summary of Significant Accounting Policies

a) General

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

b) Consolidation

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

CLCL holds the shares of Old Port of Montréal Corporation Inc. (OPMC) and Parc Downsview Park Inc. (PDP) in trust for Her Majesty, in right of Canada. OPMC and PDP are excluded from consolidation because CLCL does not have continuing power to determine their strategic operating, investing and financing policies and because OPMC and PDP have been directed by the government to report as parent Crown corporations. CLCL has no recorded investment in OPMC and PDP. As at March 31, 2006, the latest date for which audited financial statements are available, OPMC had assets of $21.4 million, liabilities of $20.8 million and equity of $0.6 million, with revenue of $12.5 million and an excess of operating expenditures over revenue of $16.0 million for the year then ended. PDP had assets of $19.3 million, liabilities of $4.5 million and equity of $14.8 million, with revenue of $2.4 million and an excess of operating expenditures over revenue of $1.6 million for the year then ended.

c) Revenue Recognition

CLCL recognizes revenue as follows:

i) Sales

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

ii) Rental

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

iii) Attractions, food and beverage

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

d) Capitalization of Pre-Acquisition Costs

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

e) Properties

i) Revenue producing properties are carried at the lower of depreciated cost and net recoverable amount or, if intended for disposition, at the lower of depreciated cost and estimated net realizable value. Properties under development and land held for development or sale are carried at the lower of cost and estimated net realizable value. Adjustments to the carrying value of properties are recorded in the "provision for decrease in property values" line in the statement of income. During the year, no provision for decrease in property values was recognized as no properties suffered a decline in value.

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

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

f) Use of Estimates

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

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

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

g) Income Taxes

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

h) Other Capital Assets

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

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

i) Future Accounting Changes

The Canadian Institute of Chartered Accountants issued in January 2005 two new accounting standards that will impact the Corporation. These new standards came into effect for fiscal years beginning on or after October 1, 2006 and will be applied prospectively.

Section 3855, Financial Instruments – Recognition and Measurement, establishes standards for recognizing, measuring and classifying financial instruments. The Corporation will be required to classify its financial assets as held for trading, held-to-maturity, loans and receivables or available-for-sale, and financial liabilities as held for trading or other than held for trading. Financial assets and liabilities classified as held for trading will be measured at fair value with gains and losses recognized in net results of operations.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those held for trading will be measured at amortized cost. Financial assets classified as available-for-sale will be measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Section 1530, Comprehensive Income, introduces a new requirement to temporarily record certain gains and losses in other comprehensive income until it is considered appropriate to recognize them in net results of operations. The Corporation may be required to present a new financial statement titled Comprehensive Income to record such amounts until they are realized.

The Corporation is currently evaluating the impact of these new recommendations, which become applicable for CLC in fiscal year 2007–08.

3. Revenue Producing Properties

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

(in thousands)	2007	2006
Land	**$ 11,176**	$ 11,367
Buildings	**132,818**	139,600
	143,994	150,967
Accumulated depreciation	**32,614**	29,736
	$ 111,380	$ 121,231

Depreciation expense of approximately $3.9 million (2006 – $3.8 million) was charged to other expenses.

4. Cash and Cash Equivalents

(in thousands)	2007	2006
Cash (overdraft)	**$ 730**	$ (1,158)
Cash equivalents	**86,285**	59,992
	$ 87,015	$ 58,834

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

5. Amounts Receivable and Other Assets

Amounts receivable and other assets are comprised of the following:

(in thousands)	2007	2006
Mortgages and secured notes	**$ 2,848**	$ 6,015
Assignment of rents	**4,686**	5,100
Rents, prepaids and other receivables	**18,162**	14,371
Other capital assets	**4,569**	4,024
Restricted cash	**1,032**	427
	$ 31,297	$ 29,937

a) Mortgages and secured notes receivable bear interest at a weighted average rate of 7.77% (2006 – 5.86%) and are all receivable within two years.

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

c) Restricted cash represents holdback money owing for the CFB Chilliwack North Side and 4200 North Fraser Way projects.

d) Other capital assets are comprised of the following:

(in thousands)			2007			2006
	Cost	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Office equipment and computer software and hardware	**$ 5,774**	**$ 3,942**	**$ 1,832**	$ 4,197	$ 1,992	$ 2,205
Catering and entertainment equipment	**3,527**	**949**	**2,578**	2,720	913	1,807
Leasehold improvements	**389**	**230**	**159**	230	218	12
Total	**$ 9,690**	**$ 5,121**	**$ 4,569**	$ 7,147	$ 3,123	$ 4,024

Depreciation expense of approximately $2.0 million (2006 – $1.1 million) was charged to other expenses.

6. Mortgage Bond Payable

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

Certain of CLCL's properties have been pledged as collateral. The carrying value of the pledged properties as of March 31, 2007 was $92.2 million (2006 – $92.5 million). The mortgage bond payable has a maturity schedule as follows:

(in thousands)

Years ending March 31	2008	$ 4,291
	2009	4,525
	2010	4,771
	2011	5,030
	2012	5,304
Subsequent years		11,490
		$ 35,411

Interest is payable at an annual rate of 5.37%. Interest incurred on the mortgage bond payable amounted to $2.0 million for the year ended March 31, 2007 (2006 – $2.2 million).

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

7. Notes Payable

The notes payable were issued in consideration of the acquisition of real estate properties (note 12), and are due to the government. These notes are repayable on the earlier of their due dates (2007 to 2018) or the dates on which net proceeds become available from the sale by CLCL of the properties in respect of which the notes were issued. All notes are non-interest bearing. For those 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 7.1% (2006 – 8.5%).

During the year ended March 31, 2007, interest capitalized was $3.1 million (2006 – $2.5 million).

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

(in thousands)

Years ending March 31	2008	$ 19,228
	2009	2,037
	2010	7,423
	2011	6,255
	2012	4,622
Subsequent years		24,039
		63,604
Less amounts representing imputed interest		16,689
		$ 46,915

8. Capital Stock

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

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

9. Income Taxes

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

(in thousands)	**2007**	2006
Expected statutory rate of tax	**36%**	36%
Expected income tax expense	**$ 10,111**	$ 6,917
Increase (decrease) in tax expense resulting from:		
Income not taxable in certain provinces	**(3,331)**	(2,210)
Large corporation tax	**–**	232
Other	**195**	799
Actual income tax expense	**$ 6,975**	$ 5,738

The components of the future tax liabilities are as follows:

(in thousands)	**2007**	2006
Future tax liabilities		
Income producing properties	**$ (2,489)**	$ (2,772)
Notes payable	**(4,124)**	(4,795)
	(6,613)	(7,567)
Future tax assets		
Property under development	**3,215**	3,834
Land held for development	**909**	961
Reserves	**802**	613
Financing costs	**54**	108
	4,980	5,516
Net future tax liabilities	**$ (1,633)**	$ (2,051)

10. Other Liabilities, Commitments and Contingencies

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

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

CLCL's estimated obligation in respect of these commitments, assuming the early termination clause is exercised, is $3.0 million (2006 – $3.2 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, 2007 totalled $34.4 million (2006 – $28.7 million).

c) CLC has an $85 million line of credit with the Bank of Montréal. This line of credit is presently used for letters of credit issued for the fulfillment of certain obligations totalling $23.1 million at March 31, 2007 (2006 – $23.1 million).

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

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

(in thousands)

Years ending March 31	2008	$ 636
	2009	557
	2010	444
	2011	424
	2012	425
Subsequent years		1,777
		$ 4,263

11. Consolidated Statement of Cash Flows – Supplemental Information

Property acquisitions and additions which were satisfied by the issuance of notes payable in the amount of $11.6 million (2006 – $7.2 million) have been excluded from financing and investing activities in the consolidated statement of cash flows.

Non-cash increase in properties and notes payable of $3.1 million (2006 – $2.5 million) for capitalization of interest have been excluded from financing and investing activities in the consolidated statement of cash flows.

Property disposals satisfied by the issuance of mortgages and secured notes by CLCL or the assumption of debt by the purchasers in the amount of $1.4 million (2006 – $2.3 million) have been excluded from operating, financing and investing activities in the consolidated statement of cash flows.

During the year ended March 31, 2007, interest received totalled $2.9 million (2006 – $1.8 million), interest paid amounted to $1.5 million (2006 – $1.8 million) and income taxes paid totalled $6.8 million (2006 – $4.9 million).

12. Related Party Transactions

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

In addition to transactions previously disclosed, during the year ended March 31, 2007:

a) CLCL acquired an interest in real estate properties from government departments for an aggregate purchase price of $8.5 million (2006 – $9.8 million). Consideration for these assets was cash payment or the issuance of notes payable (note 7).

b) CLC received management fees of $0.1 million from a Crown corporation (2006 – $0.1 million). CLC also received various revenues and cost recoveries from federal agencies and departments of $2.6 million (2006 – $1.2 million).

c) CLCL has a net payable of $1.1 million (2006 – $0.5 million) to federal agencies and departments for reimbursement of costs.

13. Financial Instruments

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

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

14. Benny Farm Property

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

15. Segmented Information

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

Additional information on these activities is as follows:

(in thousands)	Real estate activities	Entertainment and hospitality	**Total 2007**	Total 2006
Revenues	$ 92,947	$ 56,322	**$ 149,269**	$ 136,352
Depreciation	1,183	4,708	**5,891**	4,953
Income before income taxes	16,879	11,206	**28,085**	19,214
Acquisitions and expenditures on properties	34,074	3,077	**37,151**	46,133
Identifiable assets	274,434	102,511	**376,945**	348,281
Identifiable mortgage bond and notes payable	46,915	35,411	**82,326**	75,343

16. Pension Plan

CLCL has a defined contribution pension plan covering all of its full-time employees and certain part-time employees in accordance with the plan. Employees are eligible to join either at the date they begin employment or after a year of employment. The amount of the current service cost for the year charged to expense for this plan was $0.9 million for the year ended March 31, 2007 (2006 – $0.9 million).

17. Comparative Amounts

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

Senior Management Team

Robert Howald is President and CEO (acting). Mr. Howald has over 26 years of real estate experience and previously served as CLC's Acting Vice President, Real Estate, Eastern Region. Prior to joining the company in 1999, he was Executive Vice President with TEDCO, the City of Toronto Economic Development Corporation.

Brian Evans, CA, is Vice President, Finance and Chief Financial Officer. Mr. Evans has over 25 years of experience in the field of real estate financial management. He has been with CLC since 1995 and was previously Corporate Controller for CN Real Estate.

Fiorina Guido is the Corporate Secretary for Canada Lands Company and has been with the company since 1995. In 1988, she joined CN Real Estate, holding progressively senior administrative positions.

Norm Jarus is Acting Vice President, Real Estate, Eastern Region. Mr. Jarus has 25 years of experience in the real estate development industry. He joined CLC in 1995, and was previously with CN Real Estate.

Doug Kester is the Vice President, Real Estate, Western Region for Canada Lands Company. Mr. Kester has over 35 years of experience in the real estate business. He has been with the company since 1995 and prior to that with CN Real Estate.

Jim Lynes is Vice President for Canada Lands Company and has over 33 years of experience in property and financial management. Previously, he served as President and CEO of Canada Ports Corporation, a Crown corporation responsible for 13 of the largest commercial ports in Canada.

Gordon McIvor, Ph.D., is Vice President, Strategic Acquisitions, Public and Government Affairs. He has over 25 years of experience in the field of public and government affairs, focusing on real estate and financial industries, and joined CLC in 1995, having been previously with CN Real Estate.

Jack Robinson is Chief Operating Officer of the CN Tower. Mr. Robinson has been with the CN Tower since 1993 and previously served as Director of Sales. He has over 30 years of attractions and consumer management experience.

Barry K. Singer is the Vice President, Corporate Services for Canada Lands Company. Prior to joining CLC, Mr. Singer held senior executive roles in the telecommunications, transportation and resource sectors.

From left to right: Barry Singer, Gordon McIvor, Jim Lynes, Robert Howald, Jack Robinson, Brian Evans Seated: Norm Jarus, Fiorina Guido, Doug Kester

Second year of record-setting revenues for *360, The Restaurant at the CN Tower*, achieving
$16.3 million

$7.25 million
dividend to the government

Income before income taxes of
$28.1 million
– the highest in the company's history

Increased cumulative development expenditures stimulated by CLC and its project associates by
$10 million
for 2006–2007

CN Tower overall customer satisfaction
score of 75%
exceeding industry averages

Increased cumulative person-years of direct construction employment by
500

Average of **87%** of demolished materials diverted from landfills in Ottawa, Calgary, Edmonton and Chilliwack

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