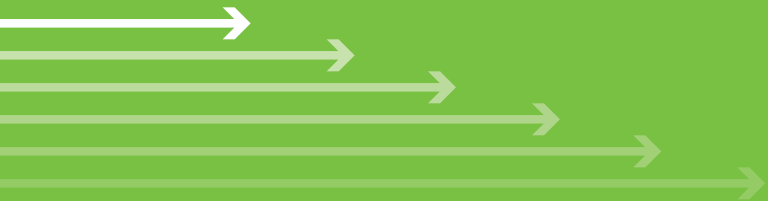


ANNUAL REPORT
Financial Review
For the year ended March 31, 2008



Getting the job done.



CANADA LANDS COMPANY LIMITED
SOCIÉTÉ IMMOBILIÈRE DU CANADA LIMITÉE

Canada

- 2 Management's Discussion and Analysis
- 13 Management's Responsibility for Financial Reporting
- 14 Auditors' Report
- 15 Consolidated Statement of Income, Comprehensive Income and Retained Earnings
- 16 Consolidated Balance Sheet
- 17 Consolidated Statement of Cash Flows
- 18 Notes to Consolidated Financial Statements

Management's Discussion and Analysis

May 9, 2008

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

Through its core real estate subsidiary, Canada Lands Company CLC Limited (CLC), Canada Lands Company Limited (CLCL) carries out its policy mandate "to ensure the commercially oriented, orderly disposition of selected surplus federal real properties with optimal value to the Canadian taxpayer and the holding of certain properties." This mandate was approved by the Government of Canada (the government) on reactivation in 1995. All real estate operations are carried out through CLC and are consolidated in CLCL. Discussion of financial results in this section of the annual report will occur from the perspective of CLC, even though the results are identical to those of CLCL for the 2007-2008 fiscal year.

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

Balanced Scorecard

CLCL continues using a balanced scorecard method of setting objectives, monitoring and managing performance and reporting outcomes in five key result areas: community/legacy, business/financial, human resources, municipal/provincial and shareholder/board of directors' interests. Each key

result area reflects the interests of one of CLCL's five major stakeholder groups. Both financial and non-financial interests are covered by the key result areas, which create a balance of all interests important to CLCL and its stakeholders. The results of the [balanced scorecard are summarized on pages 11 to 15](#) of the Operational Review.

Governance

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

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

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

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

Results of Operations

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

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

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

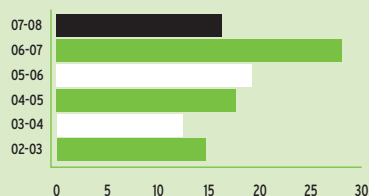
Included in expenses this year was a write-off of \$14.7 million of costs related to all the costs capitalized to properties that CLC does not have title to and the development costs relating to the CN Tower base development project and the Upton Farm (Charlottetown). The majority of the write-off relates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

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

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

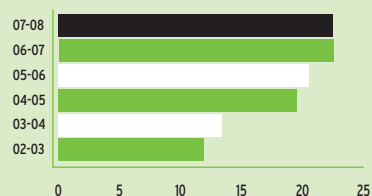
Net income before taxes

(in millions of dollars)



General and Administrative Expenses

(in millions of dollars)



Real Estate Operations

(in millions of dollars except where noted)

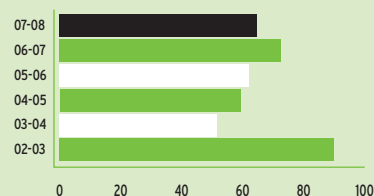
	YE08	Budget	YE07
Property sales	\$ 64.6	\$ 61.4	\$ 72.5
Net profit on property sales	26.2	15.8	28.6
Gross margin on property sales	40.6%	25.7%	39.5%
Expenditures on properties	48.4	76.6	34.1

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

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

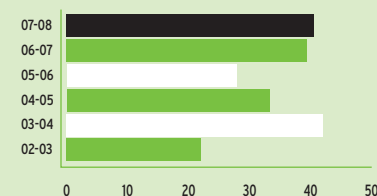
Real Estate Sales by Year

(in millions of dollars)



Gross Margin on Property Sales

(percentage)



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

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

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

Capital expenditures excluding the CN Tower were \$28.2 million less than budget. The major reason for the reduced capital expenditures were the delay in commencing servicing at CFB Calgary (\$17.6 million) and the delay

in commencing the retail component at CFB Chilliwack (\$13.8 million). Lower capital expenditures due to the delay in transfers resulted in a reduction of \$4.2 million.

CN Tower Operations

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

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

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

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

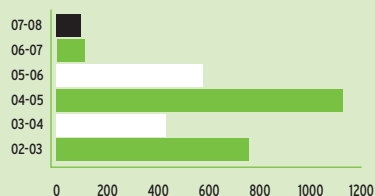
Food and beverage (F&B) revenues are also at an all-time high at \$21.1 million, which is \$1.8 million or 9.1% more than budget and \$1.0 million or 5% more than last year. The dinner restaurant sittings at the CN Tower were almost at capacity during Season A from May to October. The F&B operations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

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

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

Transfer of Property by Year

(in acres)



Properties

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

(in millions of dollars)	March 2008	March 2007
Revenue producing properties	\$ 113.4	\$ 111.4
Properties under development for sale	112.4	100.6
Land held for development or sale	63.9	46.7

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

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

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

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

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

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

Cash Flows

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

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

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

Financial Condition and Liquidity

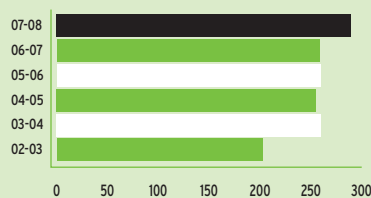
On January 27, 2004, CLC issued a \$47.0 million, ten-year fully amortized first mortgage bond at 5.37%, secured by the CN Tower asset and guaranteed by CLC. The mortgage bond had a balance of \$30.6 million at March 31, 2008. The bond for the CN Tower received a rating of "A" with a stable trend from Dominion Bond Rating Service Limited on January 29, 2008, in connection with the mortgage bond.

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

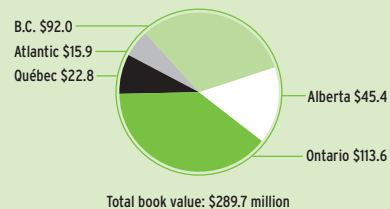
As at March 31, 2008, CLC had \$35.8 million in discounted notes payable to the government. These notes are unsecured obligations and are repayable on the earlier of their maturity dates or the dates on which net proceeds become available from the sale of the properties in respect of which the notes were issued. CLC expects that proceeds from these sales will enable the notes to be paid prior to their maturity dates. CLC estimates repayment of notes payable of \$0.3 million during the year ending March 31, 2009. CLC expects to repay \$34.2 million of these notes during the next five years.

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

Property Inventory
(in millions of dollars)



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



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

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

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

Risks and Uncertainties

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

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

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

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

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

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

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

- the total cost of operational and hazard risk was reduced by improving communication on loss prevention programs, transferring risk where feasible through contracts and leases, improving insurance protection and considerably reducing corporate insurance premiums.

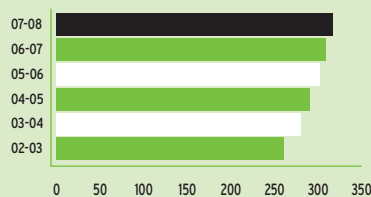
A contracting management internal audit review was completed for CLC's real estate divisions and the company headquarters Information Technology department to ensure consistency and efficiency of practices as well as compliance with contracting policies/guidelines and delegations of authority levels.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

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

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

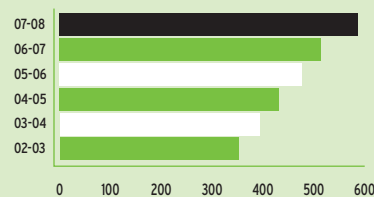
Cumulative Distributions to Shareholder (dividends)

(in millions of dollars)



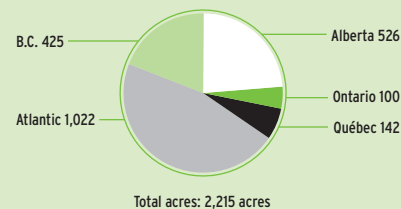
Cumulative Expenditures on Properties

(in millions of dollars)



Property Distribution by Region

(in acres)



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

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

Historically, the CN Tower's operations have been directly linked to the tourism sector in Toronto, as demonstrated dramatically by the impact of SARS in 2003. The number of visitors to the CN Tower is also related to both the seasons and daily weather conditions. Recognizing and acting upon the potential of both attracting a higher percentage of Toronto's tourists and focusing on less seasonal corporate business will further enhance the performance of the CN Tower's business development initiatives. Since

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

Future Prospects

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

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

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

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

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

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

Declaration

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

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

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

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



Mark Laroche
President and CEO



Brian Evans
Vice President, Finance
Chief Financial Officer

May 9, 2008

Management's Responsibility for Financial Reporting

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

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

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

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

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

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



Mark Laroche
President and CEO

May 9, 2008



Brian Evans
Vice President, Finance
and Chief Financial Officer

Auditors' Report

To the Minister of Transport, Infrastructure and Communities

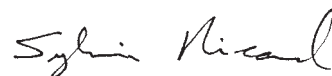
We have audited the consolidated balance sheet of Canada Lands Company Limited (the "corporation") as at March 31, 2008 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the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

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

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

required by Canadian generally accepted accounting principles in accounting policies for financial instruments as explained in note 2(i) to the consolidated financial statements, on a basis consistent with that of the preceding year.

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



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

Ottawa, Canada
May 9, 2008



Chartered Accountants
Licensed Public Accountants

Toronto, Canada
May 9, 2008

Consolidated Statement of Income, Comprehensive Income and Retained Earnings

For the year ended March 31

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

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

As at March 31

In thousands

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

On behalf of the board,



Marc Rochon



Wayne MacIntosh

Consolidated Statement of Cash Flows

For the year ended March 31

In thousands

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

Supplemental cash flows information

11

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Authority and Activities of CLCL

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

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

2. Summary of Significant Accounting Policies

a) General

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

b) Consolidation

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

CLCL holds the shares of Old Port of Montréal Corporation Inc. (OPMC) and Parc Downsview Park (PDP) in trust for Her Majesty in right of Canada. OPMC and PDP are excluded from consolidation because CLCL does not have continuing power to determine their strategic operating, investing and

financing policies and because OPMC and PDP have been directed by the government to report as parent Crown corporations. CLCL has no recorded investment in OPMC and PDP. As at March 31, 2007, the latest date for which audited financial statements are available, OPMC had assets of \$23.2 million, liabilities of \$22.8 million and equity of \$0.4 million, with revenues of \$14.0 million and an excess of operating expenditures over revenues of \$16.1 million for the year then ended. As at March 31, 2007, PDP had assets of \$20.7 million, liabilities of \$8.4 million and equity of \$12.3 million, with revenues of \$5.2 million and an excess of operating expenditures over revenues of \$5.0 million for the year then ended.

c) Revenue Recognition

CLCL recognizes revenue as follows:

i) Sales

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

ii) Rental

Rental revenues include rents from tenants under operating leases, property taxes and operating cost recoveries and parking income.

Rental revenue is recognized in accordance with each lease over the term of the lease.

iii) Attractions, food and beverage

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

d) Capitalization of Pre-acquisition Costs

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

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

e) Properties

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

ii) Properties under development for sale and land held for development or sale are carried at the lower of cost and estimated net realizable value. Adjustments to the carrying value of properties are recorded in the "impairment loss" line in the consolidated statement of income. During the year, the corporation wrote off \$3.5 million of costs that were deemed to have no future benefits relating to two projects.

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

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

f) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities,

the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from those estimates.

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

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

g) Income Taxes

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

h) Other Capital Assets

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

Office equipment and computer software and hardware	Straight-line over 3 to 5 years
Catering and entertainment equipment	Straight-line over 3 to 6 years
Leasehold improvements	Straight-line over 8 years

i) Adoption of New Financial Instruments Standards

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

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

Financial Instruments – Recognition and Measurement

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

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

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

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

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

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

Comprehensive Income

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

Future Changes in Accounting Policies

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

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

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

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

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

3. Revenue Producing Properties

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

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

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

4. Cash and Cash Equivalents

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

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

5. Amounts Receivable and Other Assets

Amounts receivable and other assets are comprised of the following:

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

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

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

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

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

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

d) Other capital assets are comprised of the following:

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

Depreciation expense of approximately \$2.0 million (2007 – \$2.0 million) was charged to depreciation and other expenses.

6. Mortgage Bond Payable

The original amount issued of First Mortgage Bond, Series A, is \$47 million. Maturity is in January 2014 with semi-annual principal and interest payments at a fixed rate of 5.37%.

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

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

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

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

7. Notes Payable

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

During the year ended March 31, 2008, interest capitalized was \$5.6 million (2007 – \$3.1 million).

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

In thousands		
Years ending March 31	2009	\$ 250
	2011	9,400
	2012	14,300
	2013	10,286
Subsequent years		12,590
Subtotal		46,826
Less amounts representing imputed interest		11,068
		<u>\$ 35,758</u>

8. Capital Stock

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

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

9. Income Taxes

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

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

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

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

The components of the future tax liabilities are as follows:

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

10. Other Liabilities, Commitments and Contingencies

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

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

CLCL's estimated obligation in respect of these commitments, assuming the early termination clause is exercised, is \$1.2 million (2007 – \$3.0 million) and is included in accounts payable and accrued liabilities. This estimate is based on assumptions regarding future events and economic conditions and the actual obligation may be materially different from this estimate.

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

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

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

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

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

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

11. Consolidated Statement of Cash Flows – Supplemental Information

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

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

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

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

12. Related Party Transactions and Balances

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

During the year ended March 31, 2008:

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

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

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

13. Financial Instruments

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

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

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

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

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

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

14. Benny Farm Property

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

15. Segmented Information

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

Additional information on these activities is as follows:

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

16. Pension Plan

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

17. Subsequent Event

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

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

18. Comparative Amounts

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

CANADA LANDS COMPANY LTD.

Head Office, Toronto

1 University Avenue

Suite 1200

Toronto, Ontario

M5J 2P1

Tel: 416 952 6100

Fax: 416 952 6200

Internet: www.clc.ca



CANADA LANDS COMPANY LIMITED
SOCIÉTÉ IMMOBILIÈRE DU CANADA LIMITÉE



Mixed Sources

Product group from well-managed
forests, controlled sources and
recycled wood or fiber.

Cert no. SW-COC-1383

www.fsc.org

© 1996 Forest Stewardship Council

Canada