



CANADA LANDS COMPANY LIMITED

AMENDED CORPORATE PLAN SUMMARY

2007-2008 TO 2011-2012

INCLUDING 2007-2008 OPERATING
AND CAPITAL BUDGETS





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Executive Summary

Canada Lands Company Limited (CLCL) and its subsidiary continue to carry out CLCL's policy mandate as approved by the Government of Canada (the government) on reactivation in 1995 "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." The company acts in line with government policy objectives and provides innovative solutions to complex real estate challenges, tourism leadership in its management of the CN Tower, and value and legacy creation for all of its stakeholders. It has made a significant contribution to one of the government's key priorities – the creation of strong, secure and competitive communities across Canada.

Canada Lands Company Limited

The key strategic priority facing CLCL over its five-year planning period is for the company to enhance corporate governance through identification and implementation of applicable best practices. This will be accomplished through maintenance of an action plan at regularly scheduled governance committee meetings of the board of directors.

Canada Lands Company CLC Limited

The key strategic priorities facing CLCL's core real estate subsidiary, Canada Lands Company CLC Limited (CLC), during the plan period are outlined below.

- **Address Issues Regarding Land Transfers Including Aboriginal Rights and Claims**
Significant delays in the transfer of federal surplus strategic real estate due to issues including asserted Aboriginal rights, title or treaty rights, will be proactively monitored and ways to contribute to their resolution will be sought.
- **Improve CN Tower Market Share in a Weaker Tourism Market**
Challenges facing the Greater Toronto Area tourism and hospitality industry will be met through a full marketing and business-building program.
- **Align Operations with Emerging Government Priorities**
Emerging government priorities will be supported, wherever appropriate, by the company's operations and this will be brought to the attention of the government.
- **Proceed with the CN Tower Base Project**
The company is developing a business strategy to proceed with a significant commercial/retail/ entertainment project on the lands at the base of the CN Tower.
- **Metro Toronto Convention Centre Complex (MTCCC)**
CLC will be evaluating its rights in accordance with contracts relating to the ownership and management of the MTCCC.



During the five-year planning period, CLC anticipates that its projects will result in the following benefits for local communities and Canadian taxpayers:

- \$167.8 million paid to the government as dividends, up-front payments and note repayments for properties;
- \$404.5 million invested by CLC on capital expenditures, including environmental remediation; and
- \$60.5 million paid to the government in federal income taxes less \$1 million paid to provinces.

The company's projected financial results compared to the budget for the fiscal year ending March 31, 2007 are presented below.

| | \$ Millions | |
|---|------------------------------|-----------------------------|
| | 2006-2007 Outlook | 2006-2007 Budget |
| Property sales | 81.1 | 65.8 |
| CN Tower attractions, food and beverage (gross) | 45.2 | 46.8 |
| Income before taxes | 30.3 | 17.6 |
| Income after taxes | 21.2 | 11.1 |
| Expenditures on properties | 61.1 | 74.4 |
| Cash flow before note repayments and dividends | 7.2 | (37.0) |
| General and administrative expenses | 22.3 | 21.5 |



1. Canada Lands Company Limited

This corporate plan outlines the roadmap for Canada Lands Company Limited (CLCL) over the next five years. It provides an analysis of the business environment in which the company operates, highlights the strategic priorities of the company and its subsidiary for the next five years, establishes corporate performance measures and targets, and presents operating and capital budget information for the company. As CLCL is a holding company, its real estate operations are primarily addressed in section 2.0 of this corporate plan dealing with its core real estate subsidiary.

1.1 Introduction

CLCL reports to the Parliament of Canada through the Minister of Transport, Infrastructure and Communities (the minister) as a parent Crown corporation. This document is structured to reflect the fact that CLCL is a holding company for its three wholly owned subsidiaries, Canada Lands Company CLC Limited (CLC), Parc Downsview Park Inc. (PDP) and the Old Port of Montréal Corporation Inc. (OPMC). The latter two corporations report separately to the Parliament of Canada through the minister as if they were themselves parent Crown corporations. Accordingly, PDP and OPMC autonomously prepare and submit their own corporate plans.

CLCL has no assets other than the shares of its subsidiary companies. Although PDP and OPMC are subsidiaries of CLCL, they operate in diverse business environments with different business objectives. CLC has the same principal goal in its policy mandate as CLCL and carries out the parent company's core real estate business. Consequently, this corporate plan will discuss CLCL's performance and future strategic directions primarily through section 2.0 of this corporate plan dealing with its CLC subsidiary which, as outlined in section 2.2, includes the Western and Eastern Region Real Estate and CN Tower operating divisions.

CLCL's board of directors approved this amended corporate plan on January 17th, 2008. This document is the second and most recent of two amended versions.

1.2 Mandate

Through fulfilling its mandate, CLCL takes pride in strengthening the many communities in which it operates across Canada. The company optimizes the financial and community value obtained from properties no longer required by the Government of Canada (the government) and attempts to enhance the quality of life in local communities.

The legal objects of CLCL, as contained within its letters patent of 1956, permit the company to “acquire, purchase, lease, hold, improve, manage, exchange, sell, turn to account or otherwise deal in or dispose of real or personal property or any interest therein.”



CLCL's policy mandate, which was approved by Cabinet upon reactivation in 1995, states that the fundamental purpose or principal goal of the company is to ensure the commercially oriented, orderly disposition of surplus strategic real properties with best value to the Canadian taxpayer and the holding and managing of certain properties. It also indicates that, in addition to financial and other strategic considerations, the government requires that the views of affected communities and other levels of government be taken into consideration by the company. A review of CLCL's mandate, with a special focus on the mandate of CLC, was completed in June 2001 and the mandate was subsequently renewed.

CLCL and its CLC subsidiary ensure that all of their activities are consistent with this mandate. Although provincially regulated in many areas, the CLC subsidiary is guided by the spirit of federal government policies in the areas of employment equity, official languages, and heritage. The mandate of CLC is addressed in section 2.1 of this corporate plan.

1.3 Corporate Profile

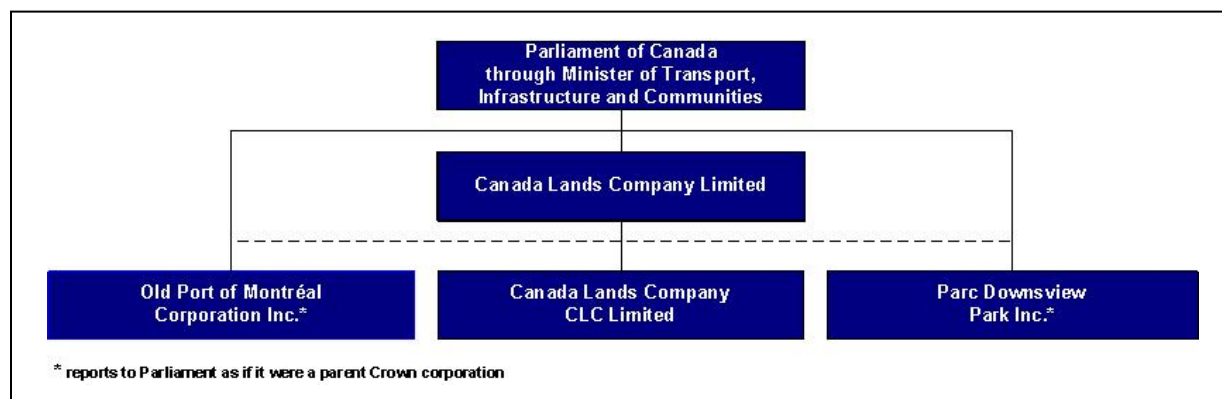
CLCL reports to the Parliament of Canada through the minister and is an agent Crown corporation. Through its commercially oriented non-agent CLC subsidiary, the company ensures the orderly disposition of surplus strategic properties, maintains ownership or management of certain strategic properties such as Canada's National Tower (the CN Tower) in Toronto and pursues the realization of both financial and community objectives. The company's fiscal year end is March 31.

The three wholly owned subsidiaries of CLCL are:

- CLC, a non-agent Crown corporation, which carries out the core real estate business;
- PDP, an agent Crown corporation, which was incorporated in 1998 to manage and develop the former Canadian Forces Base (CFB) Toronto lands as Downsview Park, and which reports to Parliament as if it were a parent Crown corporation; and
- OPMC, an agent Crown corporation, which is responsible for redeveloping the Old Port of Montréal and which also reports to Parliament as if it were a parent Crown corporation.

The reporting structure of CLCL and its subsidiaries is illustrated in Exhibit 1.

Exhibit 1: CLCL and Its Subsidiaries





1.4 Strategic Priorities for the Plan Period

1.4.1 Enhance Corporate Governance

CLCL recognizes that sound corporate governance and transparency will continue to be instrumental to its future success. The company has acted proactively in the past few years to improve its governance practices, and remains committed to continually monitoring and enhancing them, as appropriate, through regularly scheduled governance committee meetings of its board. Due to the importance placed on governance, the governance committee is comprised of all directors of the board. Its activities include reviewing company policies, making recommendations on Governor-In-Council appointments, recommending terms of reference and composition of board committees, board meeting scheduling, orientation and training of new board members, and reviewing the company's corporate social responsibility action plan. The board of CLCL undertook an assessment of its effectiveness in 2002.

In line with good governance practices, another evaluation was completed by an external consultant in 2006, and a positive report was received by the board in a December 2006 meeting. Carried out with the aid of a survey and one-on-one discussions with board members, senior management and government officials, the report concluded that "communications and relations between the Crown corporation and the shareholder are strong and working well". It also concluded that "the relationship between the board and management at CLCL is very strong" and that "A strong climate of confidence exists". The company will review the minor recommendations arising from this evaluation and implement a resulting action plan.

The Office of the Auditor General furthermore completed a special examination of the company in 2006 and no significant deficiencies were noted.

The government has furthermore taken the issue of the governance of Crown corporations very seriously. In February 2005, the President of the Treasury Board tabled a report entitled "Meeting the Expectations of Canadians – *Review of the Governance Framework for Canada's Crown Corporations*", which sets out 31 measures to improve governance and accountability.

CLCL supports the intentions of these measures and is in compliance with all of those that pertain to it. The company has also participated in consultations with the government on the 31 measures, particularly in such areas as how best to ensure appropriate skill recruitment in CEO and board appointment processes, and how best to support the arm's-length relationship of commercially-oriented Crown corporations.

Since the 2003-2004 fiscal year, as a good governance initiative, CLC has undertaken bare certification of its financial statements by its President and Chief Executive Officer, and Vice President, Finance and Chief Financial Officer. Bare certification is an accounting/governance term referring to basic or first step certification by the CEO and



CFO that the financial statements fairly present the company's financial condition, operational results and cash flows.

As discussed in section 2.6.4 of this plan, CLC has also implemented an enterprise-wide/integrated risk management framework (ERM), which is allowing corporate and operational management to better understand and assess key risks of the company that could impede corporate and operational objectives. Implementation of the ERM is an ongoing process that has flagged issues such as the succession planning and talent management issue mentioned in section 2.6.1 of this plan.

1.5 CLCL 2007-2008 Objectives and Performance Targets

CLCL's 2007-2008 objectives and performance targets are outlined in Appendix A. They apply to the first or budget year of the five-year planning period.

1.6 CLCL 2006-2007 Performance Assessment

CLCL's 2006-2007 performance assessment is located in Appendix B. CLCL assesses its performance on an ongoing basis and attempts to learn from its successes and failures alike. Where the company falls short of ambitious targets, it assesses why and acts appropriately to either pursue these targets, or adjust expectations to more reasonable levels.

1.7 Dividends

Based on the dividend program principles approved by the government and outlined in this section of the corporate plan, CLCL has forecasted dividend payments to the government of \$92.0 million during the plan period. The company will have a closing cash balance of \$50.7 million at the end of the five-year plan period, which will be available for dividend payments in the fiscal year 2012-2013.

The company's dividend program will continue as established in the 2002-2003 to 2006-2007 corporate plan. Under the dividend program, working capital requirements are generally determined by the cash demands on CLC to carry out its business activities and are based on projected cash flow from operations for the subsequent three years, less note repayments during the same period.

The following principles are contained within the dividend program to ensure the most efficient use of cash generated from operations and the commercial viability of the corporation.

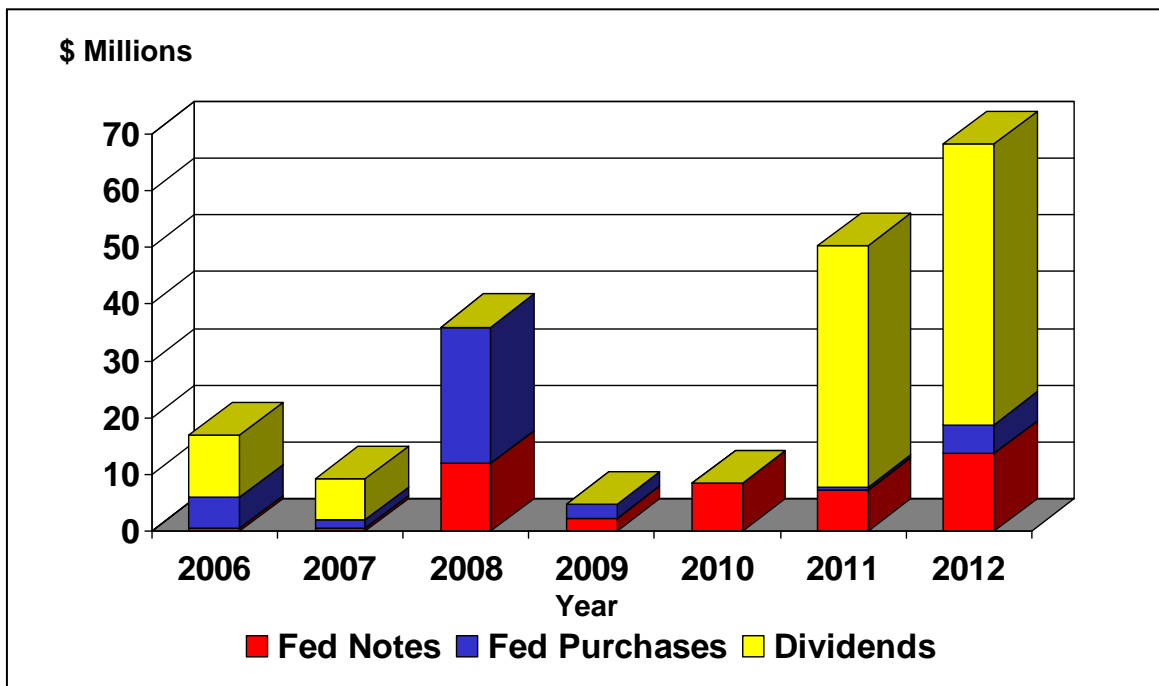
- Dividends are paid when the year ending cash balance is greater than the working capital requirement. The working capital requirement is the cash flow from normal business for the subsequent three years less any note repayments.



- The actual dividend payment in a given year can be different from the budgeted dividend estimated in the previous year.
- The amount of the dividend payment will never be of such amount that CLC will have to borrow funds to pay it but the corporation will, in the normal course of its business operations, fund major capital projects of the corporation through appropriate external financing, following acceptable industry practice.

Under the dividend program principles, no dividend payment would have been forthcoming in the fiscal year 2006-2007 (for fiscal year 2005-2006). Due to the excess cash on hand from certain projects being delayed as explained in section 2.8.2 however, the company's board decided to override the dividend program principles and declare and pay a dividend of \$7.25 million in June 2006. Exhibit 2 illustrates the company's anticipated distributions to the government over the plan period.

Exhibit 2: Distributions to the Government of Canada





2. Canada Lands Company CLC Limited

2.1 Mandate

As the core real estate subsidiary of CLCL, CLC has the same principal goal in its policy mandate as its parent company: to ensure the commercially oriented, orderly disposition of selected surplus strategic federal real properties with optimal value to the Canadian taxpayer and the holding and managing of certain properties. This was laid out by the government in 1995 and reconfirmed in 2001. The realization of optimal value recognizes financial value, economic stimulation and the strengthening of the quality of life in communities where the company operates.

CLC's role is further elaborated on in Treasury Board's *Policy on the Management of Real Property* and *Directive on the Sale or Transfer of Surplus Real Property*. Strategic surplus real properties are properties or portfolios of properties with potential for significantly enhanced value, those that are highly sensitive, or a combination of these factors. Because of the complexity associated with these properties, they may require innovative efforts and a comprehensive management approach to move them into the market.

CLC ensures that all of its activities are consistent with this policy mandate. It also follows transparent processes and ensures that it remains sensitive to local real estate market conditions. The company deals primarily with strategic properties possessing significant development potential through innovative planning, rezoning, servicing, environmental remediation, and attention to community and government sensitivities.

In disposing of its properties, CLC ensures broad market exposure and competitive bidding whenever possible. It also maintains a commitment to environmental sustainability in its projects and respects heritage considerations.

2.2 Corporate Profile

In carrying out its mandate in a self-financing manner, CLC purchases properties at fair market value from government departments and agencies, then implements innovative property solutions while enhancing the quality of life in communities where it operates. It works regularly with federal, provincial and municipal stakeholders. As a non-agent Crown corporation, it pays all applicable taxes and is subject to all provincial and municipal development legislation, regulations and processes.

CLC's three operating divisions are:

- Western Region, Real Estate British Columbia, Alberta, Saskatchewan, Manitoba;
- Eastern Region, Real Estate Ontario, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador; and
- Canada's National Tower located in Toronto, Ontario.
(CN Tower)



The company's land portfolio totals 2,356 acres (953 hectares) as of September 30th, 2006, located in 22 municipalities across Canada. This is a decline of 784 acres (317 hectares) from last year's corporate plan, due primarily to sales at the company's projects in Calgary, Edmonton, Chilliwack and the Seaway properties in Ontario, as well as the land exchange at the Shearwater property in Halifax. Property transfers to the company have only partially offset this decline in inventory. The company presently has no operations or properties in the Yukon, Northwest Territories, Nunavut or Saskatchewan.

CLC employs approximately 305 full-time employees across the country, which includes approximately 215 employees at the CN Tower in Toronto. The CN Tower additionally employs approximately 150 regular part-time employees year round. Due to the fact that the hospitality industry is of a seasonal nature, the number of employees at the CN Tower fluctuates from these numbers throughout the year.

Compared to one year ago, the number of full-time employees at the CN Tower is down by 25 and the number of part-time employees is down by 10. This is due to adjusting the number of employees to the volume of CN Tower visitors as explained more fully in sections 2.3 and 2.4.2 of this corporate plan.

CLC's head office and two of its operating divisions (Eastern Region Real Estate and CN Tower) are based out of Toronto; its Western Region Real Estate operating division is based out of Vancouver. CLC also maintains a corporate office in the National Capital Region, along with ten project offices located across Canada.

Central to the company's operating philosophy is its commitment to the principle of corporate social responsibility. This commitment acknowledges the company's pursuit of financial value optimization, but also ensures its activities are carried out in a way that benefits its major stakeholders, including the local community. The company uses a balanced scorecard measurement tool to document, measure, manage and report on performance in the following five key result areas:

- shareholder/board of directors;
- business/financial;
- community/legacy;
- human resources; and
- municipal/provincial.

Appendices C and D are the company's balanced scorecard for the fiscal years 2007-2008 and 2006-2007 respectively. The former sets out the company's objectives for the coming year, while the latter highlights the company's performance with respect to the objectives set for the prior fiscal year.



2.3 Analysis of External Business Environment

World Economic Outlook

Four world scale issues have the potential to impact the Canadian economy and CLC's business environment as outlined below.

Climate Change – Experts in climatology worldwide generally find evidence that the planet has been warming in the last several decades and this trend is accelerating. Significantly increased violent weather patterns and glacial melting can be expected to continue and worsen. Coastal areas are especially at risk of more violent weather and rising sea levels. Pressure for innovation in green building, housing technologies and energy efficiency will continue. Certain buildings in CLC's Benny Farm project provide examples of the integration of energy saving measures, water treatment procedures and geothermal radiant heating and cooling systems.

Oil – Although prices have moderated since the records set in the summer of 2006, volatile oil prices are expected to define the nature of economic growth in Canada throughout the planning period. Higher energy costs generally will make their way through the economy, and manufacturers, shippers and airlines will see their costs rise. Consequential inflationary and interest rate impacts should be noticeable over the rest of the decade. Nevertheless, the larger picture is good for Canada as a net exporter of oil and gas. CLC's Alberta and Newfoundland projects in particular benefit from these strong, oil-based local economies.

Terrorism – Attacks by militants on innocent civilian populations are a major security concern for western countries. Military response and security counter measure capabilities are being beefed-up in the United States and in other locations around the world. As a result, security measures at airports and ports of entry are impacting travel, trade and the movement of goods. The threat of terrorism has affected tourist volumes at CLC's CN Tower project in the past, and the company furthermore monitors security needs at many of its higher profile projects.

Growth in Asia – India and especially China's recent economic growth has caused them to shop the world to secure supplies in major commodities such as metals and energy. As these economies modernize and urbanize, continued increasing pressure on prices and supplies will be sustained. This will benefit Canadian exporters of commodities and result in higher prices for the average Canadian consumer. CLC is affected by these trends along with most other Canadian companies.

Canadian Economic Outlook

Canada's economic performance is being affected by concurrent booms in the resource and construction sectors. Much of this strength reflects the persistently strong demand, and sky-high prices, for commodities that has been triggered by the rapid economic advances in many of the developing nations whose low costs have turned them into manufacturing powerhouses.



Across the country, an investment surge is underway to find, produce and deliver the energy and metals required to fuel an expanding global economy. Domestic activity is also benefiting from the ramping up of non-residential construction. This performance goes beyond the building requirements associated with the expansion of resource supplies, to include the multi-year surge in public and private sector infrastructure spending that is being underwritten by buoyant corporate and government revenues.

From a regional perspective, Canada's growth performance will continue to be driven by the resource-rich provinces in both the west and the east. The best performances will be in Alberta, where the massive expansion of the Athabasca tar sands is advancing, in British Columbia where the province's varied energy and mining resources are being tapped alongside construction for the 2010 Olympics, as well as in Newfoundland and Labrador, where land and sea-based commodity ventures are building momentum. In between, the Prairie and Atlantic regions will benefit from the economic spillover from their respective western and eastern counterparts, in addition to increasingly diversified provincial economies.

Central Canada, however, should remain relatively slower in growth. While Ontario's advance will be paced by its larger and stronger service-related activities, and Quebec's by ramped up energy-related investments, the large manufacturing sectors of both provinces face ongoing competitive challenges from lower-cost jurisdictions overseas and a strong Canadian dollar.

Canadian Real Estate Industry

The economic outlook for the real estate industry does not indicate any extraordinary risks that would lead CLC to adjust market strategies for any ongoing or potential new development projects. Considering the general slowing trend expected in GDP and housing starts, timelines for residential build-outs and market shares targeted locally may need revision, but certainly no major changes in direction are warranted. Globally, investor interest is increasing in income-producing properties with high-grade tenancies and cash flow. CLC will be reviewing its existing and potential property portfolio with a view to taking better advantage of opportunities in this area.

Greater Toronto Area Tourism and Hospitality Industry

Initial industry indicators for the 2006-2007 planning process were overly optimistic about the recovery potential for the US market through 2006. Instead of continuing in a recovery mode, the market actually lost significant ground by the end of 2006, with US visitation to Ontario down 9.7%, and to Toronto itself down 5.4%. The current position is that compounded annual declines of 1.4% are expected over the five years to 2010, with the largest decline expected in 2008 when the implication of new passport regulations will be felt.

The focus for growth in 2007-2008 will be international markets (e.g. Asia Pacific, Europe and Mexico), which are expected to comprise 6.8% for travel to Ontario – tempered



somewhat by the fact that the Approved Destination Status is not yet in place for Mainland China.

The U.S. inbound market to Ontario is significantly down from original expectations as previously stated, and is expected to decline further in 2007, based on Western Hemisphere Travel Initiative (WHTI)'s passport regulations, other ongoing border-crossing issues, fuel costs, and the rising Canadian dollar.

Modest growth of 2.6% is expected for the domestic market. A threat for this market is the strong Canadian dollar, making international travel, especially to the US, attractive. It should be noted that any negative impact on CN Tower attendance created by a strong Canadian dollar will also be reflected in foreign exchange revenues and potentially some loss to existing resale products (e.g. souvenirs, photographs), all of which are traditionally directly affected by attendance.

The corporate hospitality business likely represents the best opportunity for revenue growth at the CN Tower in the coming fiscal period, due to the enhancement of venue offerings put in place in 2006-2007 (e.g. meeting rooms, refurbishments to 360 Restaurant and Horizons Café). Continued outbound sales efforts will be a key success factor.

As referred to in section 2.4.2 of this plan, a number of issues are contributing to current market trends. Factors outlined in Exhibit 3 are divided into both opportunities and contradicting issues. Expected results are also included.



Exhibit 3: Factors Anticipated to Affect Toronto Tourism and Hospitality in 2006-2007

| OPPORTUNITIES | ISSUES | EXPECTED RESULT |
|---|---|---|
| <p>Market Growth* Domestic: 2.8% International: 6.8%</p> <p>* visitors to Ontario</p> | <p>Weaker CN Tower Market U.S. visitor growth will be negative Border crossing issues remain New passport regulations pending may inhibit travel</p> | <p>The CN Tower will outpace the market, and increase share of visitors to Ontario and Toronto</p> |
| <p>Corporate Sales (through the eight planned 2007-2008 city-wide conventions)</p> | <p>Fewer Conventions While conventions are always great sales opportunities for the CN Tower, there are 42% less city-wide conventions planned in 2007 than in the previous year</p> | <p>There will be more opportunity for leisure visitors staying in the downtown core due to more available rooms; a greater need for outbound local sales efforts are required to bridge the gap between 2006-2007 volumes</p> |
| <p>Partnerships Local Market Development</p> | <p>Possible Need for Discounting Continues Time and effort costs are high; will explore discount opportunities at selected times/months to increase volume</p> | <p>Partnerships with CityPass and other key customers will continue Slow local market growth is expected in 2007-2008, but will improve with time</p> |
| <p>New City Product</p> | <p>Current Lack of New City Product The Rochester Ferry has ceased operations Lord of the Rings musical closed early Olympic Spirit Toronto tourist facility has ceased operations World Expo 2015 bid is not proceeding Art Gallery of Ontario renovations not complete Royal Ontario Museum addition not expected to open until 2007</p> | <p>Loss of any city product in Toronto has a negative impact on tourism overall; less reasons for travelers to visit</p> |
| <p>New Branding Efforts Canadian Tourism Commission Ontario Tourism Marketing Partnership Tourism Toronto</p> | <p>Weak Branding New branding efforts have generally not been embraced by the industry</p> | <p>Little positive impact is expected on these efforts for CN Tower, the city, or the province</p> |



As Exhibit 3 shows, many challenges face the Greater Toronto Area (GTA) tourism and hospitality industry for the coming year. It was forecasted that one million less visitors will visit Toronto in 2006 than in 2005, with no additional growth expected in 2007.

The CN Tower will need to continue with local market development and partnering strategies and will have to optimize its corporate hospitality business, while taking what it can from the U.S. market.

Despite a weakening overall Toronto tourism market, Exhibit 4 shows that the CN Tower expects to be able to improve its market share.

Exhibit 4: Projected GTA and CN Tower Share of Visitors

| | 2005 (Actual) | 2006 (Forecasted) | 2007 (Estimated) |
|----------------------------|--------------------------|------------------------------|-----------------------------|
| Visitors to Toronto (000s) | 19000 | 18000 | 17500 |
| CN Tower Attendance (000s) | 1569 | 1530 | 1530 |
| Market Share | 8.2% | 8.5% | 8.7% |

Exhibits 4 and 5 both show that the CN Tower's projected visitor volume growth through to the end of the 2007-2008 fiscal year will be approximately flat while projected GTA visitor growth over this time period is negative.

Exhibit 5: Projected CN Tower and GTA Visitor Market Share Growth

| Market | CN Tower 2005-2006* Visitor Percentage Breakdown <small>(based on customer research from June 2005 to March 2006)</small> | CN Tower Projected Visitor Volume Growth 2007-2008 | GTA 2005- 2006* Visitor Percentage Breakdown <small>(based on total reported visitors of 19 million, including some commuter traffic)</small> | GTA Projected Visitor Volume Growth 2007-2008 |
|----------------------|---|---|---|--|
| Domestic | 41 | 1.5% | 76.5 | 2% |
| USA | 26 | (15%) | 15 | (15%) |
| International | 33 | 10% | 8.5 | 5% |
| Total: | 100 | 0%** | 100 | (3%** |

* Based on current trends and indicators from Canadian Tourism Commission, Ontario Tourism Marketing Partnership, and Tourism Toronto

** Calculated using weighted data

Exhibit 5 further illustrates that business from U.S. visitors will continue to decline while that from international visitors will grow. It indicates that international visitors only represent roughly 8.5% of all GTA visitors and so are a small base from which to draw. The CN Tower therefore anticipates outperforming its weaker market.



2.4 Strategic Priorities for the Plan Period

2.4.1 Address Issues Regarding Land Transfers Including Aboriginal Rights and Claims

There are a number of issues that impact the timing of property transfers to CLC and these can be broadly categorized as outlined below.

Changing Government Program/Operational Requirements

A number of government projects have been changed, put on hold, or withdrawn due to changing program needs and this may lead to the delay or reduction of future properties being identified as surplus.

Policy and Legal Issues

Environment, heritage and legal documentation issues continue to emerge late in the property transfer process.

Aboriginal Rights and Title Claims Issues

The most significant concern to CLC at this time continues to be the significant delay in the property transfer process that typically occurs when there are outstanding Aboriginal issues varying from legal considerations such as proven or asserted rights and title, to treaty rights, land claims negotiations and Indian Affairs program considerations.

Progress has been made in addressing and accommodating the interests of Aboriginal groups through the existing federal strategic disposal process. It is important to note that this activity was outside the claims settlement process. Specifically, in early 2005, CLC made a breakthrough related to the 136.5-acre (55.2-hectare) Department of Fisheries and Oceans (DFO) Garden City property in Richmond, British Columbia, whereby CLC was successful in reaching a compromise with the City of Richmond and the Musqueam First Nation. Through the mediation process, CLC was successful in reaching a compromise whereby after transfer to CLC, 50% of the site will be conveyed to the City of Richmond at market value, and the remaining 50% will be dealt with by way of a joint venture between CLC and the Musqueam First Nation.

CLC continues to be hopeful that this type of approach will be the model and lead to the future transfer of the several surplus strategic properties which are currently in the pipeline and faced with Aboriginal interests.

It is anticipated that assertions of Aboriginal rights, title and treaty rights will remain a major challenge to development for many of the strategic, surplus federal properties.



CLC has and is currently undertaking several steps and initiatives to deal with the issues it faces in this area as outlined below:

- CLC will continue its practice of keeping abreast of Court decisions and current events regarding the Crown and aboriginal rights and title and maintain its policy of being open and communicative with Aboriginal groups interested in and/or affected by its activities;
- CLC continues its close relations with custodial departments and has received assurances that it will be brought into pre-transfer discussions with Aboriginal groups at the earliest appropriate time; and
- CLC will obtain the services of an expert or experts in Aboriginal groups issues to act as an advisor on how CLC can contribute to the discussion more constructively.

While the majority of these issues relate to due diligence requirements that custodians must address prior to transfer, CLC is committed to working with departments and interdepartmental committees (up to the Assistant Deputy Minister level) to monitor developments and proactively identify opportunities where it may be able to assist in a resolution. Examples could include sharing best practices and lessons learned from past projects, researching and offering innovative approaches to accommodating Aboriginal interests.

2.4.2 Improve CN Tower Market Share in a Weaker Tourism Market

There appear to be many challenges facing the GTA tourism and hospitality industry for the coming year. As outlined in section 2.3 of this corporate plan, it is forecasted that 1 million less visitors will visit Toronto in 2006 than in 2005, with no additional growth expected in 2007.

That said, the CN Tower's projected attendance for the 2007-2008 fiscal year will be approximately flat as compared to the 2006-2007 fiscal year. The CN Tower anticipates continuing to be able to outperform competitors by growing its market share in a shrinking market as illustrated in Exhibits 3 and 4 in section 2.3 in this corporate plan.

It is important to recognize the challenges currently facing the tourism industry. As outlined in section 2.3 of this corporate plan, key issues during the five-year plan period include:

- a shrinking U.S. travel market through 2009;
- the strong performance of the Canadian dollar;
- Toronto's reduced position as a destination;
- reduced convention business; and
- ongoing geo-political issues, including restrictive passport regulations for travel in and out of the U.S.



With overall flat tourism performance expected through the plan period, the CN Tower will focus on the local and broader Canadian market for business growth, as well as targeted international markets. At the same time, it will work to maintain its share of U.S. visitors. The marketing and sales efforts will support the tourism industry efforts in terms of markets and business channels. Strategic prioritization of the CN Tower's current domestic and international markets through all business channels will take place for the immediate fiscal period of 2007-2008. The CN Tower will aim to exploit all tourism and hospitality opportunities within these segments.

Throughout the plan period, the CN Tower will aim to increase 'off-season' attendance in the months of November through April, and become less dependent on inbound tourism. This will be achieved through effective partnerships and the creation of new relevant products and programs, leveraging all opportunities.

It will be fundamentally important to consider new product offerings and enhancements for the CN Tower itself, given that it is a mature business and has an ongoing need for relevance in order to maintain or grow market share in its industry. A project of re-lighting the exterior of the CN Tower on an ongoing basis will be one such strategy. This project will not only improve the CN Tower's presence in the nighttime skyline, but it will also act as an opportunity to improve public perception and appreciation overall.

As one of the most recognized tourist attractions worldwide, the CN Tower defines the Toronto skyline and is a prominent symbol of both Toronto and Canada. The CN Tower celebrated a milestone 30th anniversary in 2006 to rave reviews, continuing to hold its title of world's tallest free-standing structure, and wonder of the modern world.

CLC will continue to promote and market the status of the CN Tower, and will continue to build its role in the municipal, provincial, and federal tourism economies.

Over the five-year planning period, the company will continue to implement five operational priorities regarding the CN Tower that were identified three years previous. These will continue to increase business opportunities for the CN Tower, while at the same time increasing the presence and visibility of the government with residents and visitors, both in Toronto and internationally.

The five operational priorities are as follows:

- carry out an aggressive program in outbound sales and marketing;
- continue to develop expanded human resource programs and policies striving to keep the CN Tower a leading-edge employer;
- use the CN Tower's role in tourism to expand its voice and influence;
- continue to maintain and upgrade the facility; and
- reassess existing and develop new streams of revenue.

The CN Tower has been a viable source of net income for CLC and its shareholder on an ongoing basis. The issues currently facing the tourism and hospitality sector could



jeopardize this income if strategic marketing and business building programs are not thoroughly considered and executed. As such, a full marketing and business-building program will be undertaken to ensure continued success.

2.4.3 Align Operations with Emerging Government Priorities

A number of the government's priorities must be considered by the company in its operations during the five year plan period.

As mentioned in section 1.4.1 of this plan, CLCL and its core subsidiary, CLC, have already made enhancing their corporate governance a priority over the past few years. Two notable examples of work conducted in this area are the current board evaluation, which includes input from all board members, the entire senior management team and senior officials in the minister's office; and a "Policy Approval Policy" adopted by the board which, as a leading practice, clarifies the roles and responsibilities of the board vis-à-vis the senior management team in the area of corporate policy production.

The direct results of the Federal Accountability Act are more transparent government operations, stronger governance and increased scrutiny of all transactions conducted by the government and its Crown corporations. CLC welcomes this and has already been moving in these directions through the establishment of its annual Stakeholder Outreach Luncheon in 2006 and its history of extensive project-specific community consultation processes. The company will continue to highlight to elected officials the value of its role as a vehicle for the economic enhancement of federal lands in the numerous Canadian communities where it holds property.

The company allows strategic surplus lands to be reintegrated into local communities through consensus-building and the creation of legacy projects featuring high environmental planning and architectural standards. The use of CLC by the government allows surplus strategic federal properties to be successfully reintegrated into the community in an orderly manner, and furthermore allows profits from these activities to be returned to the government through the Consolidated Revenue Fund. It also avoids direct sales of sensitive properties by the government to third parties, thereby enhancing accountability through avoiding the perception of preferred treatment of any specific interest group.

Another priority of the government is environmental protection, whereby measures to improve air quality through the Clean Air Act as well as stricter environmental standards and proper enforcement are being put in place. CLC has long been committed to integrating high environmental standards into its redevelopment projects wherever feasible, and has been recognized nationally and internationally for its work in brownfield remediation and sustainable development. Elements of the company's Benny Farm project in Montreal and the Village at Griesbach in Edmonton have been particularly noted as success stories in the areas of sustainable development and energy efficiency, and the lessons learned from these and other projects will be used in developing innovative and sustainable land use plans for future redevelopment sites such as the former Rockcliffe lands in Ottawa. The creation of



these kinds of new communities provides the government with a significant head start in its objective to enhance the competitiveness and economic/social strength of Canadian cities.

The government has furthermore made a point of focusing on strong economic management, and here again is an area in which CLC has excelled. The company has always been and continues to be recognized by numerous elected and non-elected government officials as a profitable, well-run enterprise. Its CN Tower operating division, for example, outperforms almost all other tourist facilities in the Greater Toronto Area and, as illustrated in section 2.3 of this plan, is poised to maintain its current level of visitors for the 2006-2007 fiscal year in a weakening local tourism market.

The aftermath of the Gomery Inquiry was more scrutiny and questions relating to the value-added of Canada's state-owned companies. CLC continues to be highly sensitive to this new reality, but at the same time welcomes it since its success in carrying out its mandate over the past decade has been well documented by media and numerous industry organizations. The company's long-time commitment to good governance, strong economic performance and environmental stewardship position it well to align with the current government's core objectives. As such, CLC believes that an enhanced communication process to bring the company's achievements and potential to the attention of a greater number of government officials, will permit it to play an increasingly important role in assisting its shareholder achieve its own economic, social and environmental objectives.

2.4.4 Proceed with CN Tower Base Project

CLCL's 2006-2007 to 2010-2011 corporate plan was approved on the condition that the company return to the government to seek approval prior to proceeding with the implementation of any development at the base of the CN Tower.

CLC has carried out extensive work towards a business plan which would envision the development of a commercial/retail/entertainment project encompassing approximately 270,000 ft² (25,084 m²) of buildable area on CLC lands located at the base of the CN Tower. As outlined in section 2.1 of this corporate plan, it is within the mandate of CLC to improve, manage, and or sell assets in order to produce the best possible benefit for both local communities and the government as the company's shareholder. CLC is seeking the necessary approvals to proceed with the CN Tower base project in accordance with sound business rationale.

The CN Tower site consists of approximately five acres of land. The CN Tower structure itself occupies a little over one acre, leaving four acres, or 80%, of undeveloped land at the base of the CN Tower.

The CN Tower was constructed in 1976 by the Canadian National Railway Company. Originally conceived as a telecommunications facility, the asset is considered Toronto's leading tourist attraction, with 90% of gross revenue generated from the observation levels, food, beverage and retail sales.



Since the original assessment of the development potential of the lands in 1994-1995, the neighbourhood has changed dramatically. Immediately to the west, the SkyDome – now called the Rogers Centre – has undergone a change of ownership and is expending significant capital for improvements. To the east, the Air Canada Centre has proven itself as a major sport and entertainment destination, and more than 10,000 condominium units are being built on the formerly vacant railway lands to the west and adjacent lands to the north and south.

The CN Tower's undeveloped lands are currently zoned to permit 270,000 ft² (25,084 m²) of retail, restaurant, and entertainment uses, and 500 parking stalls in two levels of underground parking.

Given these existing conditions, CLC set five specific goals to guide potential development of the site:

- to convert the site into an appreciating real estate asset;
- to address an array of physical constraints which impact the development of the site and access to the Tower through the consideration of a second attraction;
- to further establish the site as a destination place within Toronto;
- to reinforce the performance of the CN Tower (extending seasonal attendance; providing new facilities; enhancing the visitor experience); and
- to competitively position the project to support its long-term success and stability.

The development strategy is to create a *Destination Development* on the site. A *Destination Development* can be defined as one drawing demand from broad geographic areas across a wide market spectrum through a unique and compelling mix of offerings.

This strategy was based on several factors identified from an independent evaluation of the site. The factors are listed below.

- The physical separation of the site from local sources of demand, for example downtown office workers, requires destination-based offerings to drive site visits – there has to be a compelling reason to go to the site.
- Competitive offerings currently in the marketplace require any development of the site to clearly differentiate it from competitors.
- Current visit patterns are clearly destination based.
- Developing new sources of demand (other than tourists who predominately visit the CN Tower) will require a distinctive offering mix not otherwise available in the market.

The development could build on the powerful identity of the CN Tower by providing a “second image”, scaled to be engaging where the CN Tower is always going to be physically remote. From this concept of a “second image”, the concept for a “second attraction” at the base of the CN Tower was developed. The thinking behind the second attraction recommendation was:



- to develop a second attraction distinct but complementary to the CN Tower;
- to act as a draw for both Toronto residents and visitors as a destination development;
- to add balance to the pronounced seasonality of visits to the CN Tower;
- to support repeat visitation – particularly among Toronto residents;
- to add to the “gathering place” and “centerpoint” identity of the project; and
- to increase attendance at the CN Tower.

As the lead developer of the project, CLC was to finance the base building construction and the tenants were to be responsible for financing the fit-up of the building and any operational costs. With the exception of construction of the base building, CLC did not intend to provide any capital to project’s operations or assume any of the operational responsibility.

With CLC’s typical land development projects, land servicing costs are incurred up-front or phased and then these costs are recovered relatively quickly through the land sale program. With the proposed CN Tower base project however, up-front capital costs were to be incurred by CLC in the construction of the base building and this necessitated long-term financing.

This contemplated project was to be undertaken in a similar fashion to other projects within the company’s inventory. It must enhance the overall asset value, provide an acceptable business return and be fully funded by the company.

As identified by CLC management in Exhibit 3 of section 2.3 of this corporate plan, a lack of new city product and capital investment in Toronto tourist attractions is one of the fundamental reasons for the decline in the city’s tourism market. The CN Tower Base Project was to be extremely beneficial in supporting the city’s economic development strategy as it relates to the tourism sector.

Through its originally approved full 2007-2008 to 2011-2012 corporate plan, the company initially sought and obtained approval in principle to proceed with its CN Tower base development project as outlined in this corporate plan. Since receiving approval in principle to proceed with this project through acceptance of that corporate plan however, a number of events have unfolded.

In the process of working diligently on refining the design of the development, and negotiating a business agreement with the preferred proponent, an impasse was reached with respect to key business terms, primarily in the areas of financial return, level of investment and financial security. Due to this, CLC’s board of directors did not renew the letter of intent with the preferred proponent in December 2007 which committed both parties to develop the site.

Next steps for the development of the base lands are currently being considered. Consistent with its mandate of optimizing the value of its properties and in line with the government approval in principle received for this initiative, CLC is still committed to moving forward at



some point in the future with a project that is commercially viable and economically sustainable.

2.4.5 Metro Toronto Convention Centre Complex

The Metro Toronto Convention Centre Complex (MTCCC) includes a hotel, convention centre, office tower and structured parking facility and sits on 7.4 acres of land south of Front Street West between John and Simcoe Streets in the City of Toronto. CLC acquired Canadian National Railway's (CNR's) interest in it in 1995, upon CNR's privatization and the re-activation of CLC. The following is a chronology of events relating to this asset.

Chronology of Events

- Pre – 1980** The former shunting yards (the lands upon which the MTCCC is located) are no longer required by CN Rail for railway purposes and are transferred to CN Real Estate (CNRE) for redevelopment.
- Oct. 1980** Agreement to Construct and Lease between CNRE and MTCCC is signed.
- Oct. 1981** Metro Toronto Convention Centre plan is approved by Toronto City Council.
- Nov. 1981** Construction of the MTCCC begins.
- June 1983** Agreement signed to Construct Lease and Operate, whereby CNRE leases the lands to Pensionfund Realty Limited (PRL) for a term ending Sept 30, 2083 for a prepaid land rent.
- CNRE acts as construction manager for PRL and builds the hotel and office tower.
- Property Management Agreement (PMA) is signed. CNRE agrees to manage the property for an initial term of 25 years ending Sept 30, 2009 with three 25-year options to extend the term until Sept 30, 2083. The first renewal period starts on Oct 1, 2009.
- Under the terms of the PMA, CNRE guaranteed a certain return to PRL during the first 15 years. The next ten years provides PRL with a preferred return. CNRE cannot terminate the agreement until the first renewal date (September 30th, 2009).
- Sept. 1995** CNRE transfers its rights to CLC as part of CN privatization.
- Dec. 2007** PRL delivers notice of impending sale of asset, thus activating CLC's Right of First Refusal.



The Components of the Asset

The Metro Toronto Convention Centre (the north building), containing approximately 575,000 ft² of gross floor area, including an exhibition hall, a ballroom, a theatre, meeting rooms and extensive additional support facilities, was designed to make the convention centre a competitive international facility.

A four-star hotel, containing 586 rooms on 23 upper floors plus a restaurant, 19,000 ft² of meetings rooms, a Spa and a retail area located at the eastern end of the project. In September 2003 the hotel was re-launched as an InterContinental.

A 15-storey office building containing approximately 265,000 ft² of net leasable area is located at the western end of the project. Major tenants include Public Works and Government Services Canada, Canadian National, Royal Bank and Baton Rouge. 277 Front has been fully leased since it opened in 1984.

The parking facilities contain approximately 1,200 car parking spaces to service the Convention Centre, the hotel and office tower and are operated by the Convention Centre.

The central systems and common facilities for the entire project are located within the Convention Centre structure and are owned and operated by CLC.

Description of Existing Ownership Structure

CLC leases the office tower and the hotel to PRL pursuant to a prepaid lease dated as of June 8, 1983. The term of the Office and Hotel Lease is for 99 years.

PRL has appointed CLC the manager of the hotel and office pursuant to a property management agreement dated June 8, 1983. The initial 25-year term of CLC's Property Management Agreement (PMA) with PRL expires September 2009. If CLC wishes to renew the initial term under the PMA, it must do so by delivering written notice one year prior to the expiry of the initial term of the PMA, CLC will be required to purchase the PRL interest at a price determined by a pre-set formula. CLC has appointed Intercontinental Hotel Group (Canada) Inc. the sub-manager of the hotel.

CLC leases the convention centre and the related parking facilities to Metropolitan Toronto Convention Centre Corporation pursuant to a prepaid lease dated October 1, 1984. The term of the lease is for 99 years.

The Current Issue

PRL sent a notice to CLC in December 2007 requesting CLC's consent to a sale of PRL's interest to a third party. Under the terms of the lease, CLC has the option to either consent to the sale, or act on a right of first refusal and acquire the entire PRL interest at the price set out in the notice. This decision had to be made by February 8, 2008.



CLC determined that the prudent financial decision was to act upon its contractual right and exercise its right of first refusal to acquire the fee simple ownership of the office building and the hotel and thus extinguish the current PRL interest.

After a thorough exploration of the various options available to CLC, this authority was granted by the government through approval of the company's 2007-2008 to 2011-2012 corporate plan on February 7, 2008. The company thereafter served notice of its intention to exercise its right of first refusal to acquire PRL's interest in the MTCCC asset. For planning purposes, this corporate plan assumes disposition of this asset by CLC during the 2009-2010 fiscal year, however CLC's management and board will be reviewing the strategy for this asset.

2.5 CLC 2007-2008 Objectives and Performance Targets

CLC's 2007-2008 objectives and performance targets are outlined in Appendix C. The objectives and performance targets in this appendix are set for the budget year, but many flow through to the subsequent strategic plan years.

2.6 Assessment of Corporate Resources

2.6.1 Human Resources

CLC continues to benefit from the expertise of a strong team of highly qualified and dedicated professionals. With an established record of success over the past 10 years, CLC must now turn its attention to building for the future. Like many organizations, CLC is faced with the challenge of responding to the combined issues of an aging employee population coupled with a shrinking labour pool.

The company has undertaken a more rigorous/disciplined approach to talent management through a revitalized and integrated human resources strategy designed to enhance existing performance management, professional development and succession planning practices. The challenge will be to explore new and innovative ways to retain the skills and knowledge of the company's workforce that are compatible with a diverse set of employee lifestyles.

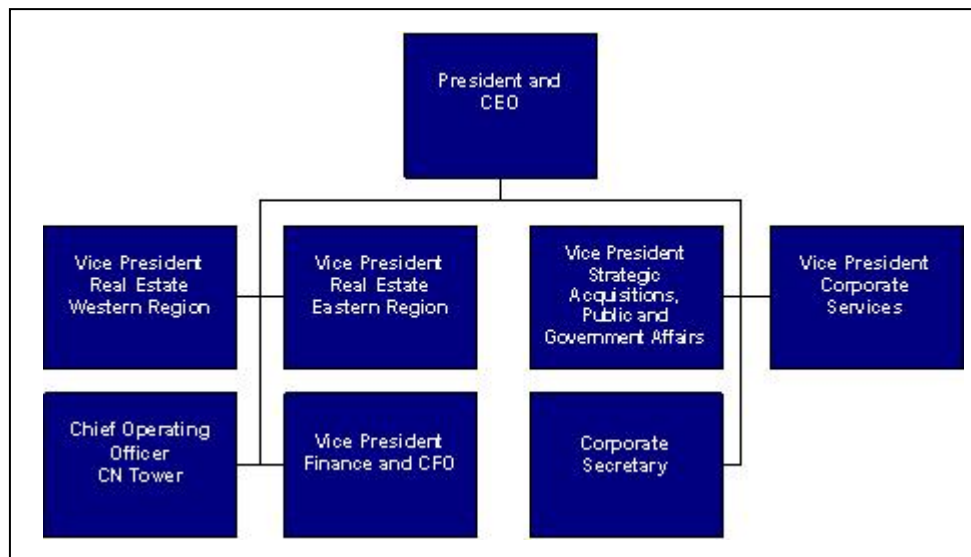
Faced with the possibility of an increased countrywide growth, additional resources may be needed at the regional levels, although corporate staff requirements are expected to remain unchanged. Proceeding with the CN Tower base development project would have a negligible impact on staffing.

Ongoing reviews of CLC HR policies and programs will also support the company's commitment to good governance and performance while remaining competitive and transparent in the marketplace.

CLC's senior management team structure is illustrated in Exhibit 6.



Exhibit 6: CLC Senior Management Team Organizational Structure



As explained more fully in section 1.4.1 of this corporate plan, the company is dealing with the realities of having a number of board positions in a hold over situation and the position of President and CEO filled only on an acting basis.

CLC continues to promote a safe and healthy work environment for employees. Continuing education and training will ensure that the company is able to maintain this environment on an ongoing basis. The company also meets its commitments under the Official Languages Act and is reaffirming this commitment in all possible areas of CLC's work environment.

2.6.2 Information Technology Resources

Following the recommendations of an external audit conducted in 2006 on CLC's Information Technology (IT) systems, the company's IT department will continue to implement best practices and procedures intended to achieve both quality and value for money in IT operations. It will focus on clarity, adaptability, quality and satisfaction for integrating lines of business, employees and project offices.

A primary focus of CLC's IT department during the 2007-2008 fiscal year will be migrating the company's current e-mail environment from Lotus Notes to a Microsoft Exchange platform. This will bring CLC in line with the majority of other businesses, which use Microsoft Exchange Server for e-mail based collaboration.

Another focus of CLC's IT department will be to target employee productivity on CLC systems by implementing an online training environment for Microsoft products. It will also implement an Intrusion Protection System to mitigate external network attacks.



To consolidate licensing and support costs, and implement resource sharing between the CN Tower and the rest of CLC's operations, the company's current J.D. Edwards (JDE) financial software will be upgraded. It is anticipated that the system upgrades will be performed during 2007 to allow for appropriate IT application synergies. Planning will include JDE back-up systems at the company's disaster recovery site located at CLC's Rockcliffe office in Ottawa.

CLC's IT department will continue implementation of applications and technology to enhance productivity and empowerment of the business units.

2.6.3 Financial Resources

Excluding the repurchase of the CN Tower operating lease, CLC has thus far been able to fund capital requirements through internally generated funds rather than financing them from external sources. The company presently has an \$85 million line of credit with a major bank, currently used exclusively for letters of credit totaling \$20.0 million. Borrowings will be increased by \$105 million to accommodate the PRL acquisition.

This corporate plan shows acquisitions of \$232.1 million, of which notes will be issued for \$45.9 million, plus an increase in the company's operating borrowings of \$105 million, and capital expenditures of \$404.5 million during the plan period. More specifically, redevelopment projects such as the former CFB Chilliwack, CFB Calgary, and CFB Griesbach will require sizeable capital expenditures over the next few years.

By year two of the five-year plan period, the company is projecting that the value of its properties will reach \$516.9 million, which exceeds the company's asset base at inception in 1995. It is anticipated that bank borrowing, excluding letters of credit, will peak at \$159.9 million due to the PRL acquisition. Letters of credit (currently totaling \$20.0 million and which are expected to increase) will also be issued from the operating line of credit. In addition, \$35.4 million in bonds are outstanding regarding the CN Tower at March 31, 2007. These bonds are fully amortized, maturing in January 2014. During the plan period, CLC will make principal payments of \$23.9 million, resulting in an outstanding balance of \$11.5 million at the end of the plan.

By the end of year three of the plan, CLC's bank indebtedness will be paid off. The company is anticipating having a cash balance of \$50.7 million at the end of the plan period and debt of \$11.5 relating to the CN Tower bonds.

Exhibits 7 and 8 show CLC's capital budget and operating budget respectively for the 2007-2008 fiscal year.



**Exhibit 7: CLCL Capital Budget 2007-2008
(Expenditures on Properties)**

| | \$ Millions |
|---------------------------------|-------------|
| CLCL expenditures on properties | 86.5 |
| CLCL acquisitions | 192.7 |

Exhibit 8: CLCL Operating Budget 2007-2008

| | \$ Millions |
|--------------------------|--------------|
| CLCL revenues | 135.6 |
| CLCL expenses | <u>119.7</u> |
| CLCL income before taxes | 15.9 |

2.6.4 Enterprise Risk Management and Internal Controls

CLC continues to place emphasis on its risk management strategies and internal controls environment. As a result, programs have been initiated and others enhanced to meet the company's ongoing needs. The ERM is being embraced by both corporate and operational management, who have already seen tangible benefits and are better able to understand and assess the key risks of the company that could impede corporate and operational objectives.

The company's risk management efforts are ensuring that key business and operational risks are identified, assessed, mitigated, managed, monitored, and, where reasonable and cost-effective, insured, particularly for severe and catastrophic exposures to the company. In its May 2006 Special Examination report, the OAG recognized that CLC had recently implemented an enterprise risk management program in order to better identify, evaluate, manage and monitor risk at the corporate level. Managing and monitoring risk at the project level is currently being made more comprehensive, and will be an area of focus over the next few years.

For example, a risk control engineering survey was conducted at CLC's former CFB Calgary project in early 2006 to identify and review risk exposures and recommend measures/controls needed to mitigate them. Similar engineering risk surveys were undertaken at the CN Tower, Metro Toronto Convention Center, and Benny Farm. The plan is to conduct such surveys at CLC's major project sites every 18 months over the next two to three years.



Other risk management and internal control initiatives include:

- the development of a comprehensive and integrated business continuity plan and disaster recovery plan with a strong business needs focus for CLC's real estate and tourism and hospitality businesses by early 2007;
- the implementation of an alternative disaster recovery site for CLC's IT assets at Rockcliffe in Ottawa to be tested and ready in late 2006;
- annual evaluations conducted each January of CLC's property assets and vacant land for the company's insurance program (covering hazard & operational risks) to ensure it meets corporate needs and is adequate;
- a physical security assessment of CLC's principal downtown Toronto properties;
- the Audit Committee's approval of a two-year risk-based internal audit plan for the company on May 30, 2006 (based on risk assessments, high-risk areas as well as those areas of concern for senior management); and
- a contracting review audit underway for CLC's real estate operating divisions to ensure consistency and efficiency of practices as well as compliance with contracting policies/guidelines and delegations of authority levels.

2.7 CLC 2006-2007 Performance Assessment

CLC's 2006-2007 performance assessment is located in Appendix D. CLC assesses its performance on an ongoing basis and attempts to learn from its successes and failures alike. Where the company falls short of ambitious targets, it assesses why and acts appropriately to either meet these targets in the future, or adjust expectations to more reasonable levels.



3. Financial Schedules

3.1 Canada Lands Company CLC Limited

3.1.1 Statement of Operations and Cash Flow for 2007-2008 to 2011-2012

| \$ Millions | Actual | YEO | | | | | | 5 Year |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Total |
| REVENUE | | | | | | | | |
| Property sales | 62.0 | 81.1 | 61.4 | 113.6 | 325.1 | 133.2 | 134.1 | 767.4 |
| Cost of properties sold | 44.7 | 50.0 | 45.6 | 82.9 | 247.6 | 103.0 | 96.6 | 575.7 |
| Net property sales revenue | 17.3 | 31.1 | 15.8 | 30.7 | 77.5 | 30.2 | 37.5 | 191.7 |
| Net attractions, food and beverage | 28.8 | 29.1 | 29.2 | 29.5 | 30.4 | 31.5 | 33.1 | 153.7 |
| Property rental | 19.3 | 18.8 | 19.5 | 32.0 | 32.9 | 24.0 | 25.2 | 133.6 |
| Net CN Tower store | 2.2 | 1.8 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 | 10.7 |
| Net Intercontinental Hotel revenue | 0.0 | 0.0 | 0.0 | 10.8 | 11.7 | 0.0 | 0.0 | 22.5 |
| Interest and other income | 3.6 | 3.6 | 2.6 | 1.5 | 3.8 | 3.4 | 3.6 | 14.9 |
| | 71.2 | 84.4 | 69.2 | 106.6 | 158.4 | 91.3 | 101.6 | 527.1 |
| EXPENSES | | | | | | | | |
| General and administrative | 20.6 | 22.3 | 20.7 | 22.5 | 23.2 | 23.9 | 24.6 | 114.9 |
| Interest | 2.3 | 2.0 | 1.8 | 11.0 | 10.8 | 1.3 | 1.0 | 25.9 |
| Costs of property rental | 14.6 | 14.3 | 14.8 | 20.7 | 20.4 | 15.7 | 16.3 | 87.9 |
| Other CN Tower expenses | 8.7 | 9.3 | 9.5 | 9.8 | 10.1 | 10.4 | 10.7 | 50.5 |
| Depreciation | 5.0 | 5.6 | 6.1 | 10.8 | 11.0 | 6.6 | 6.8 | 41.3 |
| Capital taxes | 0.8 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.0 |
| | 52.0 | 54.1 | 53.3 | 75.2 | 75.9 | 58.3 | 59.8 | 322.5 |
| INCOME BEFORE TAXES | 19.2 | 30.3 | 15.9 | 31.4 | 82.5 | 33.0 | 41.8 | 204.6 |
| Income taxes | 5.7 | 9.1 | 4.8 | 9.4 | 24.8 | 9.9 | 12.6 | 61.5 |
| NET INCOME | 13.5 | 21.2 | 11.1 | 22.0 | 57.7 | 23.1 | 29.2 | 143.1 |
| Recovery of cost of properties sold | 44.7 | 50.0 | 45.6 | 82.9 | 247.6 | 103.0 | 96.6 | 575.7 |
| Depreciation | 5.0 | 5.6 | 6.1 | 10.8 | 11.0 | 6.6 | 6.8 | 41.3 |
| Expenditures on properties | (40.6) | (56.5) | (86.5) | (98.9) | (104.3) | (71.3) | (43.5) | (404.5) |
| Acquisitions | (12.7) | (8.1) | (192.7) | (9.6) | (4.6) | (4.0) | (21.2) | (232.1) |
| Debt repayment | (3.9) | (4.1) | (4.3) | (4.5) | (4.8) | (5.0) | (5.3) | (23.9) |
| Vendor mortgages | 4.6 | 1.2 | (4.2) | (3.9) | 1.7 | 1.6 | (13.6) | (18.4) |
| Government notes issued | 7.2 | 6.6 | 14.6 | 7.1 | 4.6 | 3.4 | 16.2 | 45.9 |
| Long term financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in restricted cash | (0.4) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes in working capital | (4.5) | (4.1) | (0.8) | (1.0) | (0.7) | (0.7) | (0.7) | (3.9) |
| CASH FLOW BEFORE DISTRIBUTIONS | 12.9 | 11.8 | (211.1) | 4.9 | 208.2 | 56.7 | 64.5 | 123.2 |
| Government notes repayment | 0.5 | 0.4 | 11.9 | 2.3 | 8.4 | 7.2 | 13.8 | 43.6 |
| Dividends | 11.0 | 7.3 | 0.0 | 0.0 | 0.0 | 42.5 | 49.5 | 92.0 |
| DISTRIBUTIONS | 11.5 | 7.7 | 11.9 | 2.3 | 8.4 | 49.7 | 63.3 | 135.6 |
| Prior year's accumulated note repayments | 156.3 | 156.8 | 157.2 | 169.1 | 171.4 | 179.8 | 187.0 | 157.2 |
| Prior year's accumulated dividends | 134.7 | 145.7 | 153.0 | 153.0 | 153.0 | 153.0 | 195.5 | 153.0 |
| TOTAL ACCUMULATED DISTRIBUTIONS | 302.5 | 310.2 | 322.1 | 324.4 | 332.8 | 382.5 | 445.8 | 445.8 |

Note: Fiscal year 2009/10 includes disposal of PRL acquisition \$209.1 million.



Appendices

A CLCL 2007-2008 Objectives and Performance Targets

While the objective and performance measure in this appendix is set for the budget year (2007-2008), it is recognized that they may flow through to subsequent strategic plan years.

| 2007-2008 OBJECTIVE | PERFORMANCE TARGET |
|------------------------------|--|
| Enhance corporate governance | Implement action plan resulting from recommendations arising from the 2006 board evaluation. |



B CLCL 2006-2007 Performance Assessment

| 2006-2007 OBJECTIVES | PERFORMANCE TARGETS | PERFORMANCE ASSESSMENT |
|---|---|--|
| Maintain and enhance excellence in corporate governance | <p>Monitor developments with respect to the government's anticipated Federal Accountability Act and take appropriate action to implement any applicable measures</p> <p>Carry out a review of the company's policy suite to identify any measures required to ensure that Board directors and management have the necessary framework to exercise good governance</p> | <p>CLC obtained outside legal counsel to review the act and its implications to the company, which were discussed at a board meeting</p> <p>A "Policy Approval Policy" was adopted by the board which clarifies the roles and responsibilities of the board versus the senior management team in the area of company policy production</p> |



C CLC 2007-2008 Objectives and Performance Targets

While the objectives and performance measures in this appendix are all set for the budget year (2007-2008), it is recognized that many will flow through to the subsequent strategic plan years as indicated in the financial schedules and other areas of this plan.

| 2007-2008 OBJECTIVES | PERFORMANCE TARGETS |
|--|---|
| SHAREHOLDER / BOARD OF DIRECTORS | |
| Operations | |
| Provide financial benefits to the Government of Canada | Pay dividends to the government of \$92.0 million for 2007-2008 to 2011-2012 Make up-front payments and note repayments for properties to the government and Crown corporations of \$24.1 million for 2007-2008 and \$32.2 million for 2007-2008 to 2011-2012 Pay income taxes to the government of \$4.6 million for 2007-2008 and \$60.5 million for 2007-2008 to 2011-2012 |
| BUSINESS / FINANCIAL | |
| Financial Performance | |
| Optimize financial value and returns | Achieve net income before tax of \$15.9 million for 2007-2008 and \$204.6 million for 2007-2008 to 2011-2012 Achieve revenues of \$135.6 million for 2007-2008 and \$1.3 billion for 2007-2008 to 2011-2012 Projected CLC capital expenditures, including investments in environmental remediation of \$86.5 million for 2007-2008 and \$404.5 million for 2007-2008 to 2011-2012 |
| Business Development | |



| 2007-2008 OBJECTIVES | PERFORMANCE TARGETS |
|---|--|
| Achieve as many of the identified 2006-2007 federal and municipal CLC project milestones as possible (property transfer approvals, title acquisitions, development permits, engineering drawing approvals, re-zoning approvals, plan approvals, environmental approvals and development agreements) | Achieve at least 70% of the identified 2007-2008 federal and municipal CLC project milestones |
| Customer Relations | |
| Continue to improve customer satisfaction for tenants and CN Tower visitors | Minimum overall customer satisfaction score of 75% for operating divisions |
| COMMUNITY / LEGACY | |
| Legacy Creation | |
| Implement legacy initiatives | Commemorate the heritage of company projects |
| Corporate Philanthropy | |
| Evaluate and act upon potential areas of donations and sponsorships | Contribute up to 1% of net income before taxes (which equates to \$303,000) towards corporate philanthropy (donations and sponsorships) in line with the company's corporate philanthropy policy |
| HUMAN RESOURCES | |
| Work Environment | |



| 2007-2008 OBJECTIVES | PERFORMANCE TARGETS |
|---|---|
| <p>Maintain positive and safe work environment and recognize and reward employees appropriately</p> <p>Continued focus on integration of programs of the CN Tower</p> | <p>Maintain voluntary employee turnover at below 5% for real estate divisions</p> <p>Maintain voluntary employee turnover at below 15% for CN Tower employees</p> <p>Expand Health and Safety program by evaluating compliance with provincial regulations across the country and addressing any deficiencies</p> <p>Maintain the succession plan for the real estate and CN Tower operating divisions with increased focus on development opportunities</p> <p>Increase communication and employee input for the real estate and CN Tower operating divisions through HR Round Tables and employee surveys</p> |
| <h2>MUNICIPAL / PROVINCIAL</h2> | |
| <h3>Economic Stimulation</h3> | |
| <p>Promote timely and appropriate development and construction of sites, and track activity in line with the company's guidelines on tracking benefits beyond dividends</p> | <p>Increase cumulative development expenditures stimulated by CLC and its project associates by \$84 million for 2007-2008 and \$1.05 billion for 2007-2008 to 2011-2012</p> <p>Increase cumulative person years of direct construction employment stimulated by CLC and its project associates by 700 for 2007-2008 and 8,750 for 2007-2008 to 2011-2012</p> |
| <h3>Social Policy Objectives</h3> | |
| <p>Contribute to subsidized housing and other social policy objectives where feasible, with each major project</p> | <p>Increase subsidized residential units stimulated by CLC and its project associates by 10 for 2007-2008 and 125 for 2007-2008 to 2011-2012</p> |
| <h3>Sustainable Development</h3> | |



| 2007-2008 OBJECTIVES | PERFORMANCE TARGETS |
|---|---|
| Incorporate sound principles of sustainable development for each development initiative | Demonstrate sustainable development approaches for company projects |
| Recycling and/or reusing demolition or construction wastes | Divert a minimum of 75% of demolished materials from landfills for company projects |



D CLC 2006-2007 Performance Assessment

| 2006-2007 OBJECTIVES | PERFORMANCE TARGETS | PERFORMANCE ASSESSMENT |
|--|--|--|
| SHAREHOLDER / BOARD OF DIRECTORS | | |
| Operations | | |
| Provide financial benefits to the Government of Canada | <p>Pay dividends to the government of \$19.9 million for 2006-2007 to 2010-2011</p> <p>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</p> <p>Pay federal income taxes to the government of \$6.3 million for 2006-2007 and \$48.9 million for 2006-2007 to 2010-2011</p> | <p>Paid \$7.25 million in dividends to the government in 2006-2007</p> <p>\$1.9 million in distributions (\$1.5 million in cash acquisitions and \$0.4 million in note repayments) will be paid to the government</p> <p>Paid \$8.6 million in total income taxes in 2006-2007</p> |
| BUSINESS / FINANCIAL | | |
| Financial Performance | | |



| 2006-2007 OBJECTIVES | PERFORMANCE TARGETS | PERFORMANCE ASSESSMENT |
|---|--|--|
| Optimize financial value and returns | <p>Achieve net income before tax of \$17.6 million for 2006-2007 and \$134.9 million for 2006-2007 to 2010-2011</p> <p>Achieve revenues of \$126.3 million for 2006-2007 and \$931.6 million for 2006-2007 to 2010-2011</p> <p>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</p> | <p>Net income before tax of \$30.3 million will be achieved</p> <p>Revenues of \$154.4 million will be achieved</p> <p>Capital expenditures of \$61.1 million will be incurred</p> |
| Business Development | | |
| <p>Work with the government to improve the property transfer process</p> <p>Assist in expediting property transfers</p> | <p>CLC concerns and input are reflected in the final outcome</p> <p>Increase starting book value of property inventory, with measures and targets to be developed in 2006-2007</p> | <p>CLC's concerns are being addressed in the interim solution</p> <p>A list of identified federal CLC project milestones is now maintained and progress on achieving them is tracked.</p> |
| Customer Relations | | |
| Continue to improve customer satisfaction for tenants and CN Tower visitors | Minimum overall customer satisfaction score of 75% for operating divisions | Based on the results of two waves of quarterly research, the CN Tower is on track to meet its 75% target and also exceed industry averages – in fact, the highest ratings ever were received in the second quarter research conducted in June 2006 |
| COMMUNITY / LEGACY | | |



| 2006-2007 OBJECTIVES | PERFORMANCE TARGETS | PERFORMANCE ASSESSMENT |
|---|--|---|
| Legacy Creation | | |
| Implement legacy initiatives | Commemorate the heritage of company projects | <p>Hosted grand opening of Garrison Crossing's "Legacy Walk" trail and dedicated "Sappers Way" roadway to honour the Royal Canadian Engineers in Chilliwack</p> <p>Dedicated a plaza and park at the Village at Griesbach in Edmonton to commemorate the 1st Canadian Parachute Battalion and the Canadian Airborne Regiment</p> |
| Corporate Philanthropy | | |
| Evaluate and act upon potential areas of donations and sponsorships | Contribute up to 1% of net income before taxes (which equates to \$192,140) towards corporate philanthropy (donations and sponsorships) in line with the company's corporate philanthropy policy | Contributed \$125,000 to corporate philanthropy initiatives, including \$60,000 to match employee contributions to the United Way |
| HUMAN RESOURCES | | |
| Work Environment | | |



| 2006-2007 OBJECTIVES | PERFORMANCE TARGETS | PERFORMANCE ASSESSMENT |
|---|---|---|
| <p>Maintain positive and safe work environment and recognize and reward employees appropriately</p> <p>Continued focus on integration of programs of the CN Tower</p> | <p>Maintain voluntary employee turnover at below 5% for real estate divisions</p> <p>Establish industry benchmark for voluntary turnover of non-seasonal CN Tower employees to be used in the future</p> <p>Expand health and safety program for each province</p> <p>Maintain the succession plan for real estate divisions and create one for the CN Tower with increased focus on development opportunities</p> <p>Increased communication and employee input at the CN Tower through introduction of HR Round Table and employee survey</p> | <p>Voluntary employee turnover rate is anticipated to be 4%</p> <p>The industry benchmark is 38% based on 2001 data obtained from Statistics Canada</p> <p>Health and safety programs are being revitalized to ensure congruency with business continuity planning processes</p> <p>The succession planning process has been revitalized for all operating divisions and implementation is now underway</p> <p>An HR Round Table was introduced in 2005 and employee survey participation rates doubled in 2005</p> |
| MUNICIPAL / PROVINCIAL | | |
| <p>Economic Stimulation</p> | | |



| 2006-2007 OBJECTIVES | PERFORMANCE TARGETS | PERFORMANCE ASSESSMENT |
|---|---|--|
| <p>Promote timely and appropriate development and construction of sites, and track activity in line with the company's guidelines on tracking benefits beyond dividends</p> | <p>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</p> <p>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</p> | <p>Increased by \$10 million through the construction of residential units and industrial and commercial facilities</p> <p>Increased by 500 person years for 2006-2007</p> |
| <p>Social Policy Objectives</p> | | |
| <p>Contribute to affordable housing and other social policy objectives where feasible, with each major project</p> | <p>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</p> | <p>The company has decided to track the number of subsidized housing units only instead of total housing units, and these have increased by 20 units for 2006-2007</p> |
| <p>Sustainable Development</p> | | |
| <p>Incorporate sound principles of sustainable development for each development initiative</p> <p>Recycling and/or reusing demolition or construction wastes</p> | <p>Demonstrate sustainable development approaches for company projects</p> <p>Divert minimum of 60% of demolished materials (by weight) from landfills for company projects</p> | <p>Elements of CLC's Benny Farm project in Montréal and CLC's Village at Griesbach in Edmonton project provide excellent examples of sustainable development and energy efficiency</p> <p>Steam line removal in Ottawa entailed over 98%, Chilliwack demolition entailed approximately 95%, Calgary demolition entailed approximately 80%, and Edmonton demolition entailed in excess of 75%</p> |