



Canada Lands Company Limited
Société immobilière du Canada limitée

Management Discussion & Analysis



Canada Lands Company Limited

Q3 (October 1, 2017 – December 31, 2017)



Management's Discussion and Analysis of Financial Results

For the period ended December 31, 2017

This Management Discussion & Analysis (“MD&A”) provides important information about Canada Lands Company Limited’s (“CLCL” or the “corporation”) business, its financial performance for the period ended December 31, 2017, and its assessment of factors that may affect future results. The MD&A should be read in conjunction with the corporation’s unaudited condensed consolidated interim financial statements and notes (collectively the consolidated financial statements) and the corporation’s audit consolidated financial statements included in the CLCL 2016/17 Annual Report. The MD&A and consolidated financial have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The following MD&A is the responsibility of management and is as current as at February 22, 2018. The Board of Directors of CLCL has approved this disclosure.

All dollar amounts, unless otherwise stated, are in millions of Canadian dollars.

CLCL’s financial reporting, including the 2017/18 MD&A and consolidated financial statements and interim quarterly reports are available on CLCL’s website, www.clcl.ca.

ABOUT CLCL

CLCL is the parent company of Canada Lands Company CLC Limited (“CLC”), Parc Downsview Park Inc. (“PDP”) and the Old Port of Montréal Corporation Inc. (“OPMC”).

CLCL operates within two principal segments: 1) Real Estate, through CLC and PDP’s development lands (the “Downsview Lands”), and 2) Attractions, through Canada’s National Tower (“CN Tower”), the park owned by PDP (“Downsview Park”) and the OPMC which includes the Montreal Science Centre (“MSC”).

CLCL, through CLC, carries out CLCL’s core real estate business in all regions of Canada. 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. CLCL optimizes the financial and community value of strategic properties no longer required for program purposes by the Government. Through CLC



Lands, it works to purchase properties from the federal government at fair market value, then holds and manages or improves and sells them, in order to produce the best possible benefit for both local communities and the corporation's sole shareholder, the Government.

CLC holds real estate across the country in various provinces and in various stages of development, with significant holdings in Vancouver, British Columbia; Calgary and Edmonton, Alberta; Ottawa and Toronto, Ontario; Montréal, Quebec; Halifax, Nova Scotia; and St. John's, Newfoundland and Labrador.

PDP is comprised of 231 hectares (572 acres) of land at the former Canadian Forces Base Toronto. The holdings at PDP are composed of active recreation, parkland and development real estate assets. PDP will be developed with a full range of uses in accordance with the approved City of Toronto Downsview Area secondary plan, which includes an area of 291 acres permanently set aside as parkland. CLCL conducts its attractions operations through the CN Tower, the parkland and active recreation areas of PDP and the OPMC which includes the MSC.

The CN Tower is an iconic national landmark and tourist attraction located in downtown Toronto. The core business is managing the country's highest observation tower, restaurant operations and the unique EdgeWalk attraction.

OPMC is located in the heart of historic Montréal along the St. Lawrence River. Its core business covers two main areas: Old Port of Montreal ("OPM") manages and hosts activities on the 2.5 kilometre long urban recreational, tourist, and cultural site along the St. Lawrence River; the MSC, along with operating, maintaining and promoting of the Montréal Science Centre, operates the IMAX theatre.

GOVERNANCE

CLCL continues to provide bare certification of the consolidated financial statements (the financial statements) by its President and Chief Executive Officer and its Vice President Finance and Chief Financial Officer. Due to the additional expense and resources involved, CLCL has not proceeded further with certification. CLCL will monitor developments in this area and assess how it can proceed. CLCL's Board of Directors is composed of the Chairman and six directors. For more details on CLCL's governance, see the "Corporate Governance" section included within the CLCL 2016/17 Annual Report.

The Board's total expenses for the period ended December 31, 2017 including meetings, travel expenses, conferences and seminars, liability insurance and annual retainers and per diems, totalled \$0.5 (December 31, 2016 - \$0.3).

The Board and senior management expenses are posted on Canada Lands website, www.clc.ca.

OBJECTIVES AND STRATEGIES

The corporation's goal in all transactions is to produce the best possible benefit for its stakeholders, local communities, itself and by extension its sole shareholder.

Real Estate

The corporation optimizes the financial and community value from strategic properties that are no longer required by the Government. It purchases these properties at fair market value, then holds and manages them or improves and sells them.

In its development properties, the corporation follows a rigorous process to create strong, vibrant communities that add lasting value for future generations of Canadians. In all the work the corporation undertakes it strives to achieve its organizational goals to create value, legacy and innovation.

Attractions

Through the CN Tower, PDP and the OPMC, the corporation provides world-class entertainment and a wide range of unique attractions, exhibits and food and beverage offerings. The corporation also manages and hosts activities and events on urban recreational, tourism and cultural assets, and maintains the lands, buildings, equipment and facilities on those assets, including the MSC.

RESOURCES, RISKS AND RELATIONSHIPS

Results

A summary of the various components of the corporation's Consolidated Statement of Comprehensive Income follows. Discussion of the significant changes in each of these components for the period ended December 31, 2017 compared to prior year's comparative period are provided on the following pages.

December 31	For Three Months ended		For Nine Months ended	
	2017	2016	2017	2016
Real estate sales	\$ 47.1	\$ 15.9	\$ 92.7	\$ 25.8
Attractions, food, beverage and other hospitality	20.5	18.7	96.6	84.7
Rental operations	10.2	9.9	35.4	34.9
Interest and other	2.7	2.2	8.9	7.7
Total Revenues	\$ 80.5	\$ 46.7	\$ 233.6	\$ 153.1
General and administrative expenses	7.0	7.6	21.0	18.8
Income before taxes	13.2	8.3	57.8	35.4
Net income and comprehensive income (after tax)	9.2	5.9	42.2	25.6

*By entity:

	Three months ended December 31, 2017				Nine months ended December 31, 2017			
	Old Port	Downsview Park	Canada Lands	Total	Old Port	Downsview Park	Canada Lands	Total
Real estate sales	\$ -	\$ -	\$ 47.1	\$ 47.1	\$ -	\$ -	\$ 92.7	\$ 92.7
Attractions, food, beverage and other hospitality	1.4	0.2	18.9	20.5	7.1	0.9	88.6	96.6
Rental operations	1.1	3.2	5.9	10.2	6.8	9.5	19.1	35.4
Interest and other	0.7	-	2.0	2.7	2.5	-	6.4	8.9
Total Revenues	\$ 3.2	\$ 3.4	\$ 73.9	\$ 80.5	\$ 16.3	\$ 10.4	\$ 206.8	\$ 233.6
General and administrative expenses	1.4	0.1	5.5	7.0	3.3	0.6	17.1	21.0
Income (loss) before taxes	(9.3)	(0.3)	22.8	13.2	(16.6)	(1.6)	76.0	57.8
Comprehensive income (loss) after taxes	(7.0)	(0.2)	16.4	9.2	(11.4)	(1.1)	54.7	42.2

	Three months ended December 31, 2016				Nine months ended December 31, 2016			
	Old Port	Downsview Park	Canada Lands	Total	Old Port	Downsview Park	Canada Lands	Total
Real estate sales	\$ -	\$ -	\$ 15.9	\$ 15.9	\$ -	\$ -	\$ 25.8	\$ 25.8
Attractions, food, beverage and other	1.0	0.1	17.6	18.7	3.8	0.9	80.0	84.7
Rental operations	1.0	3.0	5.9	9.9	6.4	9.3	19.2	34.9
Interest and other	1.0	0.1	1.1	2.2	2.3	1.4	4.0	7.7
Total Revenues	\$ 3.0	\$ 3.2	\$ 40.5	\$ 46.7	\$ 12.5	\$ 11.6	\$ 129.0	\$ 153.1
General and administrative expenses	2.6	0.1	4.9	7.6	3.1	0.2	15.5	18.8
Income (loss) before taxes	(4.1)	(0.5)	12.9	8.3	(8.1)	1.0	42.5	35.4
Comprehensive income (loss) after taxes	(2.8)	(0.4)	9.1	5.9	(5.3)	0.8	30.1	25.6

REVENUE

Revenue of \$80.5 and \$233.6 for the three months ended and nine months ended December 31, 2017 were \$33.8 and \$80.5 favourable, respectively, to the comparable prior year periods.

Revenues comprised four principal sources:

1) Real estate sales

Real estate sales of \$47.1 and \$92.7 for the three month and nine month periods ended December 31, 2017, respectively, comprise sales of property developed as building lots and sold to builders of single family homes, and developed land blocks. The nature of the corporation's business does not necessarily allow for a consistent year over year volume of sales. Revenue comprises sales in specific projects across Canada as the individual marketplaces dictate.

Real estate sales by region were as follows:

	For Three Months ended		For Nine Months ended	
December 31	2017	2016	2017	2016
West	\$ 5.9	\$ 15.8	\$ 12.9	\$ 18.1
Ontario	16.2	0.1	50.8	7.2
Quebec	25.0	-	29.0	-
Atlantic	-	-	-	0.5
Total	47.1	\$ 15.9	92.7	\$ 25.8

Real estate sales for the three-month period generated a gross profit, excluding general and administrative expenses and income tax, of \$21.7 (or 46%). CLCL's year to date sales of \$92.7 have generated gross profit of \$40.4 (or 44%), compared to \$12.7 (or 49%) in the comparable prior year period. As margins vary widely from project to project and are influenced by many factors, including market demand in the project's location, the proximity of competing developments, the mix of product within the project, the cost of land, and the length of time for a project to be sold, it is difficult to compare year over year results.

2) Attractions, food, beverage and other hospitality

Attractions, food, beverage and other hospitality represent revenue from the CN Tower operations including admissions, restaurants and related attractions, and Old Port and Downsview Park operations including sports facilities, parking, concessions, programming, events, corporate rentals, and other hospitality revenues.

CN Tower

CN Tower revenue (excluding interest and other) of \$18.9 for the quarter and \$88.6 year to date is \$1.3 and \$8.6 higher than the comparable prior year periods, respectively. Gross profit of \$11.4 for the quarter and \$48.7 year to date is \$5.2 and \$7.1 higher than the comparable prior year periods, respectively.

The current year to date improvement was principally a result of increased attendance, cost efficiencies and higher margins on food and beverage operations. Attendance during the quarter was 339,000 and year to date was 1,740,000 visitors, respectively, which are 10% and 8% higher, respectively, than the comparable prior year periods. The average guest spending for the year to date remained consistent with the comparable prior year period at \$50 per guest.

OPMC

During the quarter and year to date, OPMC generated revenue of \$1.4 and \$7.1, respectively, from the MSC and its parking, concessions, programs and events operations. The revenues were \$0.4 and \$3.3 higher than the comparable prior year periods, respectively. The higher revenue than the comparable prior year periods is principally the result of the MSC closure in the prior year from late May to early November due to a labour disruption.

PDP

During the quarter and year to date, PDP revenue of \$0.1 and \$0.9, respectively, from its sports facilities and programs and events was consistent with the comparable prior year periods, respectively.

3) Rental operations

Rental operations comprises revenue from commercial, industrial and residential properties held as investments as well as properties located on lands under development and held for future development across the country. Rental revenue of \$10.2 for the quarter and \$35.4 year to date was generated by investment properties, properties in inventory at various stages of development, and other properties across CLC, OPMC and PDP. The rental revenue is consistent with the comparable prior year periods.

Rental revenues by region were as follows:

	For Three Months ended		For Nine Months ended	
December 31	2017	2016	2017	2016
West	\$ 3.2	\$ 3.5	\$ 9.9	\$ 10.7
Ontario	5.6	5.1	18.1	17.2
Quebec	1.4	1.3	7.4	7.0
Total	\$ 10.2	\$ 9.9	\$ 35.4	\$ 34.9

Rental gross profits of \$nil for the quarter and \$6.3 (or 17.8%) year to date, respectively, were \$2.2 and \$2.5 lower than the comparable prior year periods due to \$6.8 of accounting impairments as a result of upgrades and renovations on King Edward parking structure at Montreal Science Centre.

4) Interest and other revenues

Interest and other revenue of \$2.7 for the period and \$8.9 year to date is comprised principally of interest on short term investments, cash and cash equivalents, long-term receivables and mortgages, and donation and sponsorship revenues at OPMC.

Other

General and administrative expenses

General and administrative (G&A) expenses of \$7.0 for the quarter and \$21.0 year to date are favourable to the comparable prior year quarter by \$0.6, but unfavourable year to date by \$2.3, respectively, primarily due to lower costs in the prior year at the OPMC as a result of the labour disruption.

Taxes

The effective tax rate for the year of 26.9% is consistent with the statutory rates.

FINANCIAL POSITION

ASSETS

At December 31, 2017 and March 31, 2017, the total carrying value of assets was \$1,215.3 and \$1,187.2, respectively. The following is a summary of the corporation's assets:

	December 31, 2017		March 31, 2017	
Inventories	\$	400.0	\$	398.7
Investment properties		29.7		30.4
Property, plant and equipment		129.6		129.6
Cash and cash equivalents		464.9		439.2
Deferred tax asset recoverable		106.8		95.7
Long-term receivables		57.8		56.6
Trade and other assets		26.5		37.0
Total	\$	1,215.3	\$	1,187.2

Inventories

The corporation's inventories comprise properties held for future development of \$169.1 (March 31, 2017 - \$157.2), properties under development of \$228.8 (March 31, 2017 - \$231.5) and properties held for sale of \$2.1 (March 31, 2017 - \$10.0).

Inventory is recorded at the lower of cost and net realizable value.

The corporation incurred cash expenditures of \$25.3 and \$44.1 on these properties during the period and year to date, respectively, compared with \$34.1 and \$72.0 during the comparable prior year periods. Spending on inventories varies year over year based on required and planned expenditures on those properties to prepare them for sale.

Investment properties

Investment properties are principally comprised of land located in Toronto on which the Rogers Centre is built and surrounding the CN Tower Base, along with certain properties at PDP.

Property, plant and equipment

Property, plant and equipment consist principally of the CN Tower, the Downsview Park, the Plaza Garage, the John Street Parkette, the MSC, quays, bridges, the OPMC office building and land, vehicles, exhibitions, and computers and office equipment. Capital expenditures are made to property, plant and equipment to maintain and enhance the high quality of the infrastructure. There were capital additions of \$9.9 and \$20.0 for the period and year to date, respectively, compared with \$2.0 and \$4.6 during the comparable prior year periods. Capital expenditures vary period over period based on required and planned expenditures on the property, plant and equipment. There were non-cash depreciation charges against property, plant and equipment of \$3.7 and \$11.0 for



the period and year to date, respectively, compared to \$3.6 and \$10.7 during the comparable prior year periods. These expenditures exclude repairs and maintenance costs. During the quarter and year to date, OPMC's property, plant and equipment was impaired as the fair value was \$5.2 and \$10.1, respectively, lower than the carrying value.

Cash and cash equivalents

The corporation continues to maintain high levels of liquidity which will allow it to react to future potential opportunities that may require significant amounts of cash. At December 31, 2017, cash and cash equivalents balances held in major Canadian chartered banks and financial institutions were \$464.9, compared to \$439.2 at March 31, 2017.

Under the terms of its agreements with certain former custodians, the corporation has current notes payable liabilities of \$169.9 and sales proceeds sharing liabilities of \$78.2 due on demand to former property custodians. The former property custodians have the ability to defer these payments at their discretion.

Deferred and current tax assets

The deferred and current tax assets amount of \$106.8 principally relates to the temporary differences between the carrying values of assets and liabilities for financial reporting purposes which are lower than the amounts used for taxation purposes at PDP. The majority of the deferred tax asset is expected to be realized upon the sale of Downsview lands in future years. The increase of \$11.1 since March 31, 2017 is primarily due to accounting impairments at OPMC that are expensed as incurred for accounting, but deducted over time for income tax purposes, and the prepayment of current income taxes.

Long-term receivables

Long-term receivables of \$57.8 include amounts receivable from partners from joint venture cash flows and are consistent with the March 31, 2017 balance.

Trade and other assets

Trade and other assets include rent and other receivables, prepaid assets, and CN Tower inventory.

LIABILITIES AND SHAREHOLDER'S EQUITY

The corporation's assets are financed with a combination of debt and equity. The components of liabilities and equity are as follows:

	December 31, 2017	March 31, 2017
Credit facilities	\$ 39.8	\$ 33.0
Notes payable	426.3	409.4
Trade and other payables	21.3	43.1
Sales proceed sharing liabilities	78.2	70.1
Provisions	26.9	28.3
Prepaid rents, deposits and others	6.7	6.6
Deferred revenue	4.7	4.3
Tax liabilities and other	13.5	36.7
Total liabilities	\$ 617.4	\$ 631.5
Contributed surplus	181.2	181.2
Retained earnings	416.7	374.5
	597.9	555.7
Total liabilities and shareholder's equity	\$ 1,215.3	\$ 1,187.2

Credit facilities

The corporation has two credit facilities.

PDP has an unsecured demand revolving credit facility for \$100.0. The credit facility can be used by way of loans, bankers' acceptances and letters of credit. PDP has utilized \$50.5 at December 31, 2017 (March 31, 2017 - \$43.9) of which \$10.7 (March 31, 2017 - \$10.9) has been used as collateral for letters of credit outstanding. The other proceeds from the credit facility have been used to finance the construction and development of Downsview lands and the repayment of notes payable.

CLC has a senior, unsecured revolving credit facility in the amount of \$100.0. The credit facility can be used to secure outstanding letters of credit. CLC has utilized \$41.4 at December 31, 2017 (March 31, 2016 - \$54.4) as collateral for letters of credit outstanding.

Notes payable

Notes payable are issued in consideration for the acquisition of real estate properties and are due to the Government. These notes are repayable on the earlier of their due dates from 2018 to 2050 or the dates on which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued, except in a limited number of instances where the terms of the note state when the issuer can demand payment and are not dependent on property cash flows. For all notes, the Government can elect to defer amounts that are due and repayable. All notes are non-interest bearing.

Based on the anticipated timing of the sale of the real estate properties and the specific repayment requirements within the notes, principal repayments are estimated to be as follows:

Years ending March 31 (remainder of year)	2018	\$	-
	2019		169.9
	2020		29.9
	2021		9.3
	2022		6.0
	Subsequent years		252.4
Subtotal			467.5
Less: amounts representing imputed interest			41.2
		\$	426.3

Trade and other payables

Trade and other payables are lower than at March 31, 2017 due to timing and the real estate development activity taking place across the country. All trade and other payables are trade payables and accrued liabilities incurred in the normal course of operations.

Sales proceeds sharing liabilities

Under the terms of three of the corporation's acquisition agreements of purchase and sale for the property with the previous federal custodians, the corporation and former custodian's share in the sales proceeds. These amounts are due on demand.

Provisions

Provisions represent obligations of the corporation where the amount or timing of payment is uncertain and are comprised largely of costs to complete sold real estate projects and payment in lieu of taxes being contested by the corporation.

Prepaid rents, deposits and others

Prepaid rents, deposits and others are largely comprised of real estate sales deposits by purchasers and builder deposits, which are part of the normal course of operations.

Deferred revenue

Deferred revenue represents revenue from rental/leasing, programs and events, and development and other income which has not yet been earned by the corporation.

Tax liabilities and other

Tax liabilities represent the current taxes payable and the future tax liabilities of the corporation resulting from the temporary differences between the carrying values of assets and liabilities for financial reporting purposes which are higher than the amounts used for taxation purposes. As a result of higher than expected profits during the prior year, the corporation's had a large current income tax payable at year end. In May 2017, the corporation remitted its current income taxes owing which reduced the current income tax payable balance significantly.



CAPITAL RESOURCES AND LIQUIDITY

The corporation's principal liquidity needs, which include those of its subsidiaries, over the next twelve months are to:

- fund recurring expenses;
- manage current credit facilities;
- fund the continuing development of its inventory and investment properties;
- fund capital requirements to maintain and enhance its property, plant and equipment;
- fund investing activities, which may include:
 - property acquisitions;
 - note repayments;
 - discretionary capital expenditures;
 - completing the federal infrastructure spending at OPMC;
- fund the operating deficit of the OPMC;
- fund the profit sharing payments to former property custodians; and
- make distributions to its sole shareholder.

The corporation believes that its liquidity needs will be satisfied using cash and cash equivalents on hand, available unused credit facilities, and cash flows generated from operating and financing activities.

Beyond twelve months, the corporation's principal liquidity needs, including those of its subsidiaries, are credit facility repayments, note repayments, recurring and non-recurring capital expenditures, development costs, and potential property acquisitions. The corporation plans to meet these needs through one or more of the following:

- cash flow from operations;
- proceeds from sale of assets; and
- credit facilities and refinancing opportunities.

At December 31, 2017, the corporation had approximately \$69.9 of cash on hand, and \$395.0 of cash equivalents consisting of term deposits maturing in 16 days.

RISK MANAGEMENT

The objective of the corporation's risk management approach is not to completely eliminate risk but rather to optimize the balance between risk and best possible benefit to the corporation, its shareholder and its local communities.



The Board of Director's has overall responsibility for risk governance and oversees management in identifying the key risks the corporation faces and implementing appropriate risk assessment processes to manage these risks. Senior management are accountable for identifying and assessing key risks, defining controls and actions to mitigate risks, while continuing to focus on the operational objectives of the corporation.

The corporation updates its enterprise risk assessment regularly to review, prioritize and mitigate against the key risks identified. The assessment includes reviewing risk reports, Internal Audit reports, and industry information, and interviewing senior management across the corporation. The corporation's Internal Audit evaluates the design and operating effectiveness of internal controls and risk management. Through the annual Internal Audit plan, the risks and controls identified are considered and incorporated for review.

The corporation's financial results are affected by the performance of its operations and various external factors influencing the specific sectors and geographic locations in which it operates, as well as macroeconomic factors such as economic growth, inflation, interest rates, foreign exchange, regulatory requirements and initiatives, and litigation and claims that arise in the normal course of business.

RISKS AND UNCERTAINTIES

The following section describes factors that the corporation believes are material and that could adversely affect the corporation's business, financial condition and result of operations. The risks below are not the only risks that may impact the corporation. Additional risks not currently known or considered immaterial by the corporation may also have a material adverse effect on the corporation's future business and operations.

General Macroeconomic Risks

The corporation's business segments, real estate and attractions, are affected by general economic conditions, including economic activity and economic uncertainty, along with employment rates and foreign exchange rates. According to the Bank of Canada's (BoC) January 2018 Monetary Policy Report (MPR), Canada's real gross domestic product (GDP) growth for 2017 is 3.0%. The BoC expects GDP growth in 2018 and 2019 to moderate to 2.2% and 1.6%, respectively, which are slightly higher estimates than the October 2017 MPR.

In the same report, the BoC expects the Consumer Price Index (CPI) inflation to fluctuate narrowly around two per cent over the next two years, forecasting 2.0% in 2018 and 2.1% in 2019. CPI inflation for 2017 was 1.6% (a slight increase from the 1.5% forecast in the October 2017 MPR).

Statistics Canada reported that the national unemployment level in December 2017 was 5.7%, which is its lowest mark since comparable data became available in 1976. According to a number of forecasts, Canada's unemployment rate is expected to creep up slightly higher in 2018 to 6.5%.



The BoC bank rate, officially known as the target for the overnight rate, has a large impact on the rates that retail banks offer consumers on savings accounts and loans. The BoC bank rate has increased 0.75% since July 1, 2017, with the last increase a 0.25% increase on January 17, 2018. Some economists are suggesting that further, more cautious bank rate increases will happen by the BoC in 2018. Despite the forecasted increases, mortgage rates are expected to remain at relatively low levels for the foreseeable future.

Real Estate Sector Related Risks

Real estate is generally subject to risk given its nature, with each property being subject to risks depending on its specific nature and location. Certain significant expenditures, including property taxes, maintenance costs, insurance costs, and related charges, must be made regardless of what the economic conditions surrounding the property, but the timing of other significant expenditures is discretionary and can be deferred.

The outlook for the Canadian housing sector is one of variability across the country, and there are significant risks and uncertainties, particularly in certain local markets. Benchmark oil prices, currently trading around US\$64 per barrel (November 2017 – US\$56 per barrel), remain the most significant risk and uncertainty limiting growth. These lower oil prices have negatively impacted Newfoundland, Saskatchewan and particularly Alberta's economy, including its housing demand, through adverse effects on employment and household income.

In its Q1 2018 Housing Market Assessment (HMA), the Canadian Mortgage and Housing Corporation (CMHC) continued to issue its 'red' warning indicating strong evidence of problematic conditions in the Canada market driven by moderate price acceleration and overvaluation. CMHC, along with other sources, caution that there continues to be significant disparities across the country. The corporation has significant real estate holdings in Toronto, Calgary, Vancouver, Edmonton, Montreal and Ottawa and continues to monitor the housing market in all its real estate holdings cities, but particularly those markets.

The Toronto and Vancouver housing markets continue to be identified as having strong evidence of problematic conditions by CMHC.

In Toronto, the assessment continues to be driven by strong evidence of overvaluation and moderate evidence of price acceleration and overheating. In April, the Province of Ontario announced a package of housing measures to cool the housing market and to make the process of finding a place to live easier. The housing measures included a 15% non-resident speculation tax (to be imposed on buyers in the Greater Golden Horseshoe area who are not citizens, permanent residents or Canadian corporations), expanding rent control, and allowing Toronto to impose a tax on vacant homes. In January 2018, new guidelines by Canada's federal financial regulator will require lenders to vet even applicants with down payments of 20 per cent or more using rates that are considerably higher than their contractual mortgage rate. The Toronto Real Estate Board reported that January 2018 sales volume was 22% lower from a year earlier, and the average sales price of a home in Toronto was 4.1% lower than January 2017. It is believed that the impacts of the provincial policies



and federal guidelines, along with the aforementioned interest rate increases were the primary driver to the decreases.

In Vancouver, the assessment is driven by the combination of moderate evidence over price acceleration and strong evidence of overvaluation. In August 2016, the province of British Columbia's introduced an additional 15% foreign property transfer tax on real estate transactions in Metro Vancouver. Furthermore, in January 2017, the city launched a 1% tax on houses that stand vacant for more than six months of the year. It will take some time before the effect of the new foreign transfer tax on sales and prices can be fully observed and understood, but it appears that the policy-induced cooling period has dissipated as activity has rebounding in 2017.

In its Q1 2018 HMA, CMHC continued to indicate that there was moderate evidence of problematic conditions in Calgary citing overbuilding concerns due to higher rental apartment vacancies and an increase in completed and unsold units. Similar to Calgary, CMHC indicated also continued to indicate moderate evidence of problematic conditions in Edmonton citing overbuilding concerns due to imbalances in both the ownership and rental markets and the level of completed and unsold units rising. Ottawa's evidence of problematic conditions remains characterized as weak as unsold inventory levels continue to reduce and pricing remains stable.

The corporation mitigates its real estate sector risk through constant assessment and monitoring of local market conditions. The corporation may adjust the amount and/or timing of expenditures on properties or sales as a response to the market conditions.

Attractions Sector Related Risks

The CN Tower's and OPMC's operations have been directly linked to the performance of the tourism sector in Toronto and Montréal, respectively. The number of visitors to the CN Tower is also related to both the seasons and daily weather conditions. Visitors from outside of the local market comprise a significant portion of CN Tower visitors. A significant number of visitors to the OPMC and the CN Tower travel from the United States (US). The current US administration's uncertainty regarding trade policies and the potential renegotiation of the North American Free Trade Agreement (NAFTA) poses a potential risk to Canada tourism.

Overall, a devalued Canadian dollar against other currencies, particularly the US dollar, does impact CN Tower and OPMC revenues favourably due to stronger consumer buying power. A devalued Canadian dollar may deter local visitors to traveling abroad, opting for "staycations" instead. Conversely, a strong Canadian dollar has the opposite impact on the CN Tower and OPMC results. The rate at January 1, 2016 was US\$1.00 = \$1.385 and has strengthened at February 6, 2018 to US\$1.00 = \$1.253.

Labour disruptions, particularly at the corporation's key attractions, are a financial and reputational risk. The corporation mitigates these risks through its labour relations strategies, which include active management and planning. During the prior year, the corporation negotiated and settled its



collective bargaining agreements at the CN Tower and OPMC. The terms of the agreements are three years and five years, respectively.

At OPMC the number of visitors is a significant factor in its results. To continue to draw visitors, the OPMC, including the MSC, needs to continue invest in its current attractions and exhibits, and partner with various organizations, while developing new exhibits and attractions, to refresh its offerings to visitors. OPMC mitigates these risks by actively managing and adjusting its advertising spend, and by hosting new attractions and events, while also focusing on existing major events, to increase the total number of visitors.

Interest Rate and Financing Risks

The corporation believes it has effectively managed its interest rate risk. The corporation's notes payable are non-interest bearing, and repayable on the earlier of their due dates between 2018 to 2050 or the dates which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued, except in a limited number of instances where the terms of the note state when the issuer can demand payment and are not dependent on property cash flows.

The corporation is exposed to interest rate risk on its two credit facilities and cash and cash equivalents. Cash and cash equivalents earn interest at the prevailing market interest rates and have limited exposure to interest rate risk due to their short-term nature. Credit facility borrowings bear interest at fixed and variable interest rates. Variable interest borrowings are exposed to interest rate risk. The impact of a change in interest rate of +/- 0.5% would not be significant to the corporation's earnings or cash flow.

The corporation believes that these financing instruments adequately mitigate its exposure to interest rate fluctuations. The corporation believes that the repayment terms of its notes, in conjunction with management's estimated cash flows from projects, will adequately provide it with proceeds to discharge the notes on their due dates and repay outstanding credit facilities.

If the corporation were not able to renew existing credit facilities at reasonable rates, then acquisition or development activities could be curtailed or asset sales accelerated. However, the corporation anticipates renewing existing credit facilities at reasonable rates based on the quality of its assets and strength of its financial position.

Credit Risk

Credit risk arises from the possibility that tenants and purchasers may experience financial difficulty and be unable to pay the amounts owing under their commitments.

The corporation has attempted to reduce the risk of credit loss by limiting its exposure to any one tenant or industry and doing credit assessments in respect of new leases and credit transactions. Also, this risk is further mitigated by signing long-term leases with varying lease expirations. Credit risk on land sale transactions is mitigated by strong minimum deposit requirements, cash land sales, and recourse to the underlying property until the purchaser has satisfied all financial conditions of the sale agreement.



The corporation's trade receivables are comprised almost exclusively of current balances owing. The corporation continues to monitor receivables frequently, and where necessary, establish an appropriate provision for doubtful accounts. At December 31, 2017, the balance of rent and other receivables was \$23.4 (March 31, 2017 - \$32.6).

The corporation has long-term receivables of \$57.8 (March 31, 2017 - \$56.6) due from its partners in Vancouver land acquisitions. The long-term receivables are non-interest bearing and payable out of cash flows from the joint ventures. The projected cash flows from the joint ventures are significantly higher than the amount of the long-term receivables at December 31, 2017.

Environmental Risks

As the owner of real property, the corporation is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that the company could be liable for the costs of removing certain hazardous substances and remediating certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the corporation's ability to sell such real estate. The corporation is not aware of any material non-compliance with environmental laws at any of its properties, nor is it aware of any investigations or actions pending or anticipated by environmental regulatory authorities in connection with any of its properties or any pending or anticipated claims related to environmental conditions at its properties. The corporation will continue to make the capital and operating expenditures necessary to ensure that it is compliant with environmental laws and regulations.

Guarantees and Contingent Liabilities

The corporation may be contingently liable with respect to litigation and claims that arise in the normal course of business. The corporation's holdings and potential acquisition of properties from the Government are impacted by land claims. The corporation continues to work with various Government agencies and organizations to assist in establishing a process whereby such surplus lands could be transferred to the corporation. Disclosure of commitments and contingencies can be found in Note 12 and 13 of consolidated financial statements for the period ended December 31, 2017.

RELATED PARTIES

The corporation is wholly owned by the Government and is under common control with other governmental agencies and departments, and Crown corporations. The corporation enters into transactions with these entities in the normal course of business.

Significant transactions with related parties during the period were as follows:

December 31	For Three Months ended		For Nine Months ended	
	2017	2016	2017	2016
Rental, leasing and other revenues	\$ 0.5	\$ 0.5	\$ 1.6	\$ 1.3
Repayment of notes payable	-	-	-	28.6
Acquisition of property through non-interest bearing notes (principal amount)	12.0	-	12.0	1.4
Payment of dividend to shareholder	-	-	-	6.5

The consolidated balance sheet include the following balances with related parties:

As at	December 31, 2017	March 31, 2017
Net trade receivable and other from federal agencies and departments, excluding Government funding payable	\$ -	\$ 0.2
Accounts payable on profit sharing	78.2	70.1
Notes payable	426.3	409.4

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of the financial condition and financial performance of the corporation is based on the consolidated financial statements, which are prepared in accordance with IFRS. The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses for the periods of the consolidated financial statements. Judgments, estimates and assumptions are evaluated on an ongoing basis. Estimates are based on independent third party opinion, historical experience and other assumptions that management believes are reasonable and appropriate in the circumstances. Actual results could differ materially from those assumptions and estimates.

Management believes the most critical accounting estimates are as follows:

I. Inventories and real estate cost of sales

In determining estimates of net realizable values for its properties, the corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Due to the assumptions made in arriving at estimates of net realizable value, such estimates, by nature, are subjective and do not necessarily result in an accurate 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 statutory and other requirements. Also, estimates of future development costs are used to allocate current development costs across project phases. 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.

The corporation produces a yearly corporate plan that includes a proforma analysis of the projects, including expected revenues and projected costs. This analysis is used to determine the cost of sales recorded and net realizable value. This proforma analysis is reviewed periodically, and when events or circumstances change, and is then updated to reflect current information.

II. Measurement of Fair Values

Where the fair values of financial assets, investment properties and financial liabilities as disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value. The corporation's assessments of fair values of investment properties are regularly reviewed by management with the use of independent property appraisals and internal management information.

The fair value of all financial instruments and investment properties must be classified in fair value hierarchy levels, which are as follows:

Level 1 (L1) – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.

Level 2 (L2) – Financial instruments are considered Level 2 when valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.

Level 3 (L3) – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.



The critical estimate and assumptions underlying the valuation of financial assets, investment properties and financial liabilities are set out in the financial statements in notes 5 and 22 of the financial statements.

III. Significant Components and Useful Lives

The useful lives and residual values of the corporation's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The useful lives are based on historical experience with similar assets, as well as anticipation of future events. Management also makes judgments in determining significant components. A component or part of an item of property, plant and equipment or an investment property is considered significant if its allocated cost is material in relation to the total cost of the item. Also, in determining the parts of an item, the corporation identifies parts that have varying useful lives or consumption patterns.

IV. Interest Rate on Notes Payable to the Government

Notes payable are issued in consideration of the acquisition of real estate properties and are due to the Government. These notes are repayable on the earlier of their due dates or the dates on which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued, except in a limited number of instances where the terms of the note state when the issuer can demand payment and are not dependent on property cash flows. For those notes that do not state when the issuer can demand payment, the repayment schedule is based on estimates of the time period and cash flows of the property. The notes are non-interest bearing. The non-interest bearing notes are discounted using an imputed fixed interest rate. The imputed interest is accrued and capitalized to properties or expensed, as appropriate.

V. Impairments and write-downs

Management reviews assets annually, as part of the corporate planning process, and when events or circumstances change.

For inventories, a write-down is recorded when the net realizable value of anticipated net sales revenue is less than the sum of the book value of the property and its anticipated costs to complete. The net realizable value is based on projections of future cash flows, which take into account the specific development plans for each project and management's best estimate supported by independent appraisal of the most probable set of economic conditions anticipated to prevail in the market.

For other assets, such as investment properties and property, plant and equipment, impairment estimates are made based on analysis of cash-generating units as described in



note 2f) of the consolidated financial statements and are recorded if the recoverable amount of the property is less than the book value. The recoverable amount is the higher of an asset's (or cash-generating units) fair value less costs of disposal and its value in use. The corporation estimates the fair value less costs of disposal using the best information available to estimate the amount it could obtain from disposing of the assets in an arm's-length transaction, less the estimated cost of disposal. The corporation estimates value in use by discounting estimated future cash flows to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the asset. The determination of the present value of estimated cash flows requires significant estimates, such as future cash flows and the discount rate applied

VI. Income Taxes

The corporation relies on estimates and assumptions when determining the amount of current and deferred tax, and takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due.

Cash Flows

The corporation's cash and cash equivalents at December 31, 2017 is \$464.9 (March 31, 2017 - \$439.2). Cash and cash equivalents provided by operating and investing activities totaled \$18.8 for the period. During the year to date, the corporation has invested \$44.1 in inventory and \$20.8 in property, plant and equipment and investment properties, and paid \$22.8 its current income taxes owing. The corporation funded these investments and expenditures through net income from operations, cash credit facility borrowings of \$6.8, and working capital.

ACQUISITIONS AND PROSPECTS

On September 30, 2014, the corporation entered in to three joint venture agreements with the same third party partner for three separate land parcels in Vancouver (collectively the Vancouver lands) totaling approximately 32 hectares (80 acres). Each of the parcels in the Vancouver lands are jointly controlled by the corporation and its partner with each having a 50% interest in the property. The fair value of the Vancouver lands is approximately \$307 which was funded through non-interest bearing notes payable with principal amounts totaling \$221 and contributed capital by the partner. The corporation is obligated to repay the entire notes payable balance, of which a portion will be partially funded by long-term receivables from the partner. The long-term receivables from the partners will be repaid from cash flows from the joint ventures. The Vancouver lands are accounted for using joint operations accounting and as a result the corporation has consolidated their share of the assets, liabilities, revenues and expenses.

In February 2017, as part of the acquisition of the Lebreton lands, the corporation entered in to a joint venture agreement with the AOO for the Lebreton land. The structure of the joint venture is similar to that described for the Vancouver lands above. The joint venture is jointly controlled by the corporation and the third party partner based on the terms of the joint venture agreement. The



property interest is shared two-thirds by the corporation and one-third by the third party partner. The fair value of the property is approximately \$9.3 which was funded through a non-interest bearing notes payable for the entire amount. The corporation is obligated to repay the entire notes payable balance, of which \$3.1 (one-third) will be funded by long-term receivables from the partner. Similar to the Vancouver lands, the Lebreton land is accounted for using joint operations accounting and as a result the corporation has consolidated their share of the assets, liabilities, revenues and expenses.

The corporation has a land bank of approximately 488 hectares (1,207 acres) at December 31, 2017.

The corporation is currently in negotiations with government departments and agencies regarding a further acquisition of 2,180 hectares (5,138 acres). As many of the properties and portfolio's potentially available for acquisition are substantial in size, planning, development and reintegration of these properties into local communities will take place over a number of years. Although the corporation is vulnerable to adverse changes in local real estate market conditions which can affect demand, the corporation's geographic diversity mitigates the risk of an adverse impact of a downturn in a single market.

The corporation's major residential developments are in St. John's, Newfoundland and Labrador, Halifax, Nova Scotia, Montreal, Quebec, Toronto and Ottawa, Ontario, Edmonton and Calgary, Alberta and Vancouver and Chilliwack, British Columbia. In most of these projects, the corporation has interim rental operations which between them generate revenue in excess of any holding costs.

The corporation'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.

The corporation has estimated income before tax of \$319.6 for the five years ending March 31, 2022 based on the approved Annual Corporate Plan. The corporation expects to continue to be financially self-sufficient, while providing both financial benefits, in the form of a reliable dividend stream, and non-financial benefits to the Government.



DECLARATION

We, John McBain, President and Chief Executive Officer, and Matthew Tapscott, Vice President Finance and Chief Financial Officer, certify that:

We have reviewed the condensed consolidated interim financial statements of Canada Lands Company Limited for the period ended December 31, 2017.

Based on our knowledge, the condensed consolidated interim 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 period covered by this report; and

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

Handwritten signature of John McBain in black ink.

John McBain
President and Chief Executive Officer

Handwritten signature of Matthew Tapscott in black ink.

Matthew Tapscott
Vice President Finance and Chief Financial Officer

Toronto, Canada
February 22, 2018



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The condensed consolidated interim financial statements of Canada Lands Company Limited (the corporation) have been prepared by management of the corporation in accordance with International Financial Reporting Standards.

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.

Based on our knowledge, these condensed consolidated interim financial statements present fairly, in all material respects, the corporation's financial position as at December 31, 2017 and March 31, 2017 and its financial performance and cash flows for the periods ended December 31, 2017 and 2016.

Where necessary, management uses judgment 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 six directors, none of whom are employees of the corporation. The Board of Directors has the responsibility to review 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 consolidated financial statements with management, and has reported to the Board of Directors. The Board of Directors has approved the condensed consolidated interim financial statements.

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

Handwritten signature of John McBain in black ink.

John McBain
President and Chief Executive Officer

Handwritten signature of Matthew Tapscott in black ink.

Matthew Tapscott
Vice President Finance and Chief Financial Officer

CANADA LANDS COMPANY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Expressed in thousands of Canadian Dollars	Note	Three Months ended December 31		Nine Months ended December 31	
		2017	2016	2017	2016
REVENUES					
Real estate sales		\$ 47,132	\$ 15,920	\$ 92,685	\$ 25,758
Attractions, food, beverage and other hospitality		20,535	18,650	96,608	84,763
Rental operations		10,194	9,920	35,361	34,890
Interest and other		2,677	2,200	8,926	7,659
		<u>80,538</u>	<u>46,690</u>	<u>233,580</u>	<u>153,070</u>
EXPENSES					
Real estate development costs		25,475	5,276	52,279	13,037
Attractions, food, beverage and other hospitality costs		16,764	15,034	56,695	52,027
Rental operating costs		10,221	7,752	29,069	26,123
General and administrative		7,040	7,594	21,044	18,773
Impairment, pre-acquisition costs and write-offs	4,6	6,305	1,395	12,296	3,389
Interest and other		1,505	1,368	4,419	4,294
	14	<u>67,310</u>	<u>38,419</u>	<u>175,802</u>	<u>117,643</u>
INCOME BEFORE INCOME TAXES		<u>\$ 13,228</u>	<u>\$ 8,271</u>	<u>\$ 57,778</u>	<u>\$ 35,427</u>
Deferred income recovery	17	(2,281)	(1,426)	(5,300)	(2,597)
Current income tax expense	17	6,343	3,803	20,842	12,445
		<u>4,062</u>	<u>2,377</u>	<u>15,542</u>	<u>9,848</u>
INCOME FROM CONTINUING OPERATIONS		<u>9,166</u>	<u>3,580</u>	<u>42,236</u>	<u>25,579</u>
NET INCOME AND COMPREHENSIVE INCOME		<u>\$ 9,166</u>	<u>\$ 5,894</u>	<u>\$ 42,236</u>	<u>\$ 25,579</u>

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

CANADA LANDS COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at				
Expressed in thousands of Canadian Dollars		Note	December 31, 2017	March 31, 2017
ASSETS				
Non-Current				
Investment properties	5	\$	29,696	\$ 30,422
Inventories	6		169,098	157,236
Property, plant & equipment	4		129,577	129,588
Trade receivables and other	9		11,384	10,671
Long-term receivables	7		56,138	56,570
Deferred taxes	17		100,297	95,395
			<u>496,190</u>	<u>479,882</u>
Current				
Inventories	6		230,921	241,477
Cash and cash equivalents	8		464,862	439,249
Trade receivables and other	9		15,187	26,300
Current portion of long-term receivables	7		1,656	-
Current income tax recoverable and other tax assets			6,488	310
			<u>719,114</u>	<u>707,336</u>
		\$	<u>1,215,304</u>	\$ <u>1,187,218</u>

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES

Non-Current

Notes payable	11	\$	256,386	\$	256,552
Deferred revenue			3,336		3,017
Provisions	13		5,116		8,970
Prepaid rent, deposits and others			1,939		2,089
Deferred taxes			13,531		13,928
			<u>280,308</u>		<u>284,556</u>

Current

Credit facilities	10		39,800		33,000
Current portion of notes payable	11		169,866		152,886
Trade and other payables	12		99,514		113,182
Provisions	13		21,771		19,332
Deferred revenue			1,330		1,317
Income taxes payable			-		22,735
Prepaid rent, deposits and others			4,785		4,516
			<u>337,066</u>		<u>346,968</u>

Shareholder's Equity

Contributed surplus	15		181,170		181,170
Retained earnings	15		416,760		374,524
			<u>597,930</u>		<u>555,694</u>

		\$	1,215,304	\$	1,187,218
			<u>1,215,304</u>		<u>1,187,218</u>

Contingencies and Commitments	12,13
Operating Leases	16

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

On behalf of the Board



Grant B. Walsh
Chairman of the Board of Directors



Toby Jenkins
Chair of the Audit Committee



CANADA LANDS COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

For the period ended December 31
Expressed in thousands of Canadian Dollars

	Contributed Surplus	Retained Earnings	Total Shareholder's Equity
Beginning balance, April 1, 2016	\$ 181,170	\$ 292,706	\$ 473,876
Change during the year			
Net income for the year	-	88,318	88,318
Dividend paid	-	(6,500)	(6,500)
Ending balance, March 31, 2017	\$ 181,170	\$ 374,524	\$ 555,694
Change during the period			
Net income for the period	-	42,236	42,236
Ending balance, December 31, 2017	\$ 181,170	\$ 416,760	\$ 597,930

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

CANADA LANDS COMPANY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

Expressed in thousands of Canadian Dollars	Note	Three months ended December 31		Nine months ended December 31	
		2017	2016	2017	2016
OPERATING ACTIVITIES					
Net income		\$ 9,166	\$ 5,894	\$ 42,236	\$ 25,579
Loss on disposal of property, plant & equipment		328	-	328	-
Interest expense		1,466	1,312	4,343	4,122
Interest paid		(175)	(91)	(467)	(465)
Interest income		(1,815)	(916)	(5,364)	(3,921)
Income tax paid		(18,966)	(1,288)	(49,754)	(9,324)
Recovery of costs on sales of real estate		25,475	5,276	52,279	13,037
Expenditures on inventory		(25,272)	(34,078)	(44,110)	(72,012)
Impairment, pre-acquisition costs and write-offs		6,305	525	12,296	3,389
Provisions		(1,764)	(2,229)	(4,749)	(5,087)
Income tax expense		4,062	2,377	15,542	9,848
Depreciation and amortization		3,739	3,552	11,034	10,702
		<u>2,549</u>	<u>(19,666)</u>	<u>33,615</u>	<u>(24,132)</u>
Net change in non-cash working capital and other	18	<u>12,543</u>	<u>28,890</u>	<u>1,923</u>	<u>32,125</u>
CASH PROVIDED BY OPERATING ACTIVITIES		\$ 15,091	\$ 9,224	\$ 35,538	\$ 7,993
FINANCING ACTIVITIES					
Repayment of notes payable		-	-	-	(28,585)
Dividend paid		-	-	-	(6,500)
Proceeds from credit facilities		1,800	600	7,700	11,700
Repayment of credit facilities		-	(23,400)	(900)	(29,400)
		<u>1,800</u>	<u>(22,800)</u>	<u>6,800</u>	<u>(52,785)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		\$ 1,800	\$ (22,800)	\$ 6,800	\$ (52,785)
INVESTING ACTIVITIES					
Interest received		1,461	1,044	4,048	1,807
Expenditures on investment properties		(555)	(1,029)	(798)	(1,464)
Expenditures on property, plant & equipment		(9,878)	(1,982)	(19,975)	(4,579)
		<u>(8,971)</u>	<u>(1,967)</u>	<u>(16,724)</u>	<u>(4,236)</u>
CASH USED IN INVESTING ACTIVITIES		\$ (8,971)	\$ (1,967)	\$ (16,724)	\$ (4,236)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		7,920	(15,543)	25,613	(49,028)
Cash and cash equivalents, beginning of period		<u>456,942</u>	<u>151,318</u>	<u>439,249</u>	<u>184,803</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 464,862	\$ 135,775	\$ 464,862	\$ 135,775

Supplemental cash flows information 18

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

For the period ended December 31, 2017

1. AUTHORITY AND ACTIVITIES OF CLCL

Canada Lands Company Limited (“CLCL” or the “corporation”) is an agent Crown corporation and its sole shareholder is the Government of Canada. Originally named Public Works Lands Company Limited, CLCL 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* (FAA).

CLCL is the parent company of Canada Lands Company CLC Limited (“CLC”), Parc Downsview Park Inc. (“PDP”), and the Old Port of Montréal Corporation Inc. (“OPMC”), collectively referred to as the CLCL subsidiaries.

CLCL conducts its real estate business operations through CLC and PDP’s development lands (“Downsview lands”), two of its wholly-owned subsidiaries. CLCL’s objective is to carry out a commercially oriented and orderly disposal program of certain former real properties of the Government of Canada (“Government”) and the management of certain select properties. CLCL’s hospitality and tourism operations include Canada’s National Tower (“CN Tower”), the Montreal Science Centre (“MSC”), the park owned by PDP (“Downsview Park”) and the OPMC.

The registered office of the corporation is 1 University Avenue, Suite 1200, Toronto, Ontario, M5J 2P1.

The condensed consolidated interim financial statements (“the consolidated financial statements”) were approved by the Board of Directors of the corporation on February 22, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

The consolidated financial statements of the corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

B) BASIS OF PRESENTATION

CLCL's consolidated financial statements have been prepared on a historical cost basis, except where otherwise indicated. The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars, the corporation's functional currency, rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects to all years presented in these consolidated financial statements, unless otherwise stated.

C) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the corporation and its subsidiaries, which are the entities over which the corporation has control. Control exists if the investor possesses power over the investee, has exposure to the variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The accounts of CLC, PDP and OPMC, wholly-owned subsidiaries of CLCL, are consolidated with CLCL's accounts.

The Downsview Park Foundation ("DPF") and Montréal Science Centre Foundation ("MSCF") are two structured entities that are consolidated as the corporation has concluded that it controls them. The DPF was created to assist with the development of PDP by generating financial support and gifts from corporations and the public. The DPF is inactive. The MSCF is a not-for-profit organization founded in 2000. It manages the funds and fund-raising activities for the sole benefit of the MSC. The MSCF must remit all funds to OPMC to be used for activities of the MSC.

When the corporation has less than a majority of the voting or similar rights of an investee, the corporation considers all relevant facts and circumstances in assessing whether it controls the investee.

The corporation re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements that constitutes control. Consolidation of a subsidiary begins when the corporation obtains control over the subsidiary and ceases when the corporation loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date the corporation gains control until the date the corporation ceases to control the subsidiary.

When necessary, adjustments are made to subsidiaries to bring their accounting policies in line with the corporation's accounting policies.

All inter-company transactions, balances, unrealized losses and unrealized gains on transactions between CLCL, its subsidiaries and the two foundations noted above have been eliminated.

D) REVENUE RECOGNITION

The corporation recognizes revenue as follows:

I. Real estate sales

Sales revenues are recognized at the time that the risks and rewards of ownership have been transferred, possession or title of the property passes to the purchaser, and all material conditions of the sales contract have been met, with receipt of at least 15% of the total proceeds.

II. Rental

The corporation has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. The corporation also leases certain property classified as property, plant and equipment to tenants. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the corporation is required to make additions to the property in the form of tenant improvements which enhance the value of the property, upon substantial completion of those improvements. Tenant improvements provided in connection with a lease are recognized as an asset and expensed on a straight-line basis over the term of the lease. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the non-cancellable portion of the leases and any further terms, at the lessee's option, that are reasonably certain to be exercised, for leases in place; a straight-line rent receivable, which is included in trade receivables and other, is recorded for the difference between the rental revenue recorded and the contractual amount received.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including property taxes. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

III. Rental from interim activities

In addition to earning rental revenues from leases associated with investment properties, the corporation also earns rental revenues from lease arrangements with tenants on certain commercial and residential development properties in inventory. These lease arrangements are generally short term and renewable on an annual basis and considered incidental to the related land development activities. As described in note 2n)i), the corporation has applied judgment in determining that the commercial and residential development properties from which rental from interim activities is derived are classified and carried as inventory instead of investment property. The revenue recognition policy for the related lease arrangements is consistent with the policy applied in lease arrangements of investment properties, as described in note 2d)ii).



IV. Attractions, food, beverage and other hospitality

Revenues from programming and parking, ticket sales, food and beverage sales, event and concessions sales, hospitality revenues, sports facilities, retail store sales and other revenues are recognized at point of sale or when services are provided, as appropriate.

V. Donations and sponsorships

The corporation, through its subsidiaries, has signed agreements with a number of sponsors that provide cash, products, advertising and other services in exchange for various benefits, including exclusive marketing rights and visibility. Donations and sponsorships are recognized in the period to which they relate in interest and other revenues in the Consolidated Statement of Comprehensive Income. Non-monetary transactions are recorded at fair value.

Donations and sponsorships restricted by the donor or sponsor for specific uses are initially recorded under deferred revenues and recognized as revenue when the conditions have been met.

E) PRE-ACQUISITION COSTS

Costs incurred on properties that the corporation has no title to or early use agreement for are expensed to the Consolidated Statement of Comprehensive Income.

F) PROPERTIES

I. Property, Plant and Equipment

Property, plant and equipment (PPE) includes properties held for use in the supply of goods and services or administrative purposes. All PPE is stated at historical cost less depreciation and any impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying PPE are capitalized. A qualifying PPE is an asset that necessarily takes a substantial period of time to get ready for its intended use. Borrowing costs are capitalized while acquisition, construction or production is actively underway. The amount of borrowing costs capitalized during the period was immaterial.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized. All other repairs and



maintenance are charged to the Consolidated Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives, or lesser of the useful life of the asset and the term of the lease as follows:

Assets	Term
Buildings	
- Bridges, quays and building fixtures	5 to 25 years
- Foundations and structural components	34 to 55 years
Equipment	
- Systems and fixtures	3 to 25 years
- Exhibits	4 year
- Vehicles	5 year
Land improvements	
- Park fixtures	4 to 10 years
- Roadways and driveways	25 years
- Park structural components	49 to 75 years
Tenant Improvements	lesser of the useful life of the asset and the term of lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, on an annual basis.

The corporation holds some buildings for dual purposes, where a portion is leased to tenants and the remainder is used by the corporation for administrative purposes. When a significant portion is owner-occupied, the corporation classifies the property as PPE.

II. Investment Properties

Investment properties are properties held by the corporation for the purpose of obtaining rental income or capital appreciation, or both, but not for the ordinary course of business. Investment properties also include properties that are being constructed or developed for future use as investment properties.

The corporation applies the cost model in which investment properties are valued under the same basis as property, plant and equipment (note 2f)i), except where the asset meets the criteria to be classified as held for sale; then the asset is measured in accordance with IFRS 5, "Non-current assets held for sale and discontinued operations".



Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives, or lesser of the useful life of the asset and the term of the lease as follows:

Assets	Term
Buildings	
- Building fixtures	5 to 25 years
- Foundations and structural components	34 to 55 years
Land improvements and other development costs	
- Roadways and driveways	25 years
- Structural components	49 to 75 years
Equipment	
- Systems and fixtures	3 to 25 years
Tenant Improvements	lesser of the useful life of the asset and the term of lease

Other development costs include direct expenditures on investment properties. These could include amounts paid to contractors for construction, borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property taxes, construction overheads and other related costs.

From commencement of commercial development until the date of completion, the corporation capitalizes direct development costs, realty taxes and borrowing costs that are directly attributable to the project. Also, initial direct leasing costs incurred by the corporation in negotiating and arranging tenant leases are added to the carrying amount of investment property. In management's view, completion occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Depreciation commences upon completion of commercial development.

III. Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value. Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue or current average cost per acre. Inventories are written down to their net realizable value (NRV) whenever events or changes in circumstances indicate that their carrying value exceeds their NRV. Write-downs are recognized in the Consolidated Statement of Comprehensive Income. NRV is based on projections of future cash flows, which take into account the specific development plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.



The corporation capitalizes all direct expenditures incurred in connection with the acquisition, development and construction of inventory. These include: freehold and leasehold rights for land, amounts paid to contractors for construction, borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, property taxes, construction overheads and other related costs. Selling costs such as commissions and marketing programs are expensed when incurred.

The development period commences when expenditures are being incurred and activities necessary to prepare the asset for its intended use are in progress. Capitalization ceases when the asset is ready for its intended use. During the development phase, any rental revenues and associated expenses related to the project are recognized in the Consolidated Statement of Comprehensive Income (note 2d)iii)) during the period. Costs incurred on properties that the corporation has no title to or early use agreement for are expensed to the Consolidated Statement of Comprehensive Income.

Inventories are considered current assets when active development begins or when property has been serviced. Properties undergoing active development are classified as “properties under development”, whereas properties that have been serviced and are ready for sale, or that the corporation intends to sell in their current state without any further significant costs to be incurred, are classified as “properties held for sale”. Properties classified as “properties held for future development” are considered non-current. Cost incurred on properties classified as “properties held for future development” and “properties held for sale” are expensed to the Consolidated Statements of Comprehensive Income.

Non-property (i.e. operating) inventories are entirely held by the CN Tower and Old Port, and are included in trade receivables and other in the Consolidated Statement of Financial Position.

G) INTEREST IN JOINT ARRANGEMENTS

Investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement, whereas a joint venture is a joint arrangement whereby the parties that have joint control only have rights to the net assets of the arrangement. When making this assessment, the corporation considers the structure of the arrangement, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances. The corporation evaluates its involvement in each of its joint arrangements individually to determine whether each should be accounted for using joint operation accounting or the equity method, depending on whether the investment is defined as a joint operation or a joint venture (see note 21).



H) IMPAIRMENT OF FINANCIAL AND NON-FINANCIAL ASSETS

I. Impairment of financial assets

The corporation assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

II. Trade receivables and other

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the Consolidated Statement of Comprehensive Income. Trade receivables and other, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to financing costs in the Consolidated Statement of Comprehensive Income.

III. Impairment of non-financial assets

The corporation assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, the corporation estimates the asset's recoverable amount (note 2f)). An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. When it is not possible to estimate the recoverable amount of an individual asset the corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. When the



carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For non-financial assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the corporation estimates the recoverable amount of the asset (or cash-generating unit). A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Impairment, pre-acquisition costs and write-offs line item of the Consolidated Statement of Comprehensive Income.

I) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term, highly liquid investments, such as money market funds and term deposits, with original maturities at the date of purchase of three months or less, and deposit certificates which are redeemable at any time and mature less than 12 months from the transaction date.

J) INCOME TAXES

Income tax comprises current and deferred tax. Income tax is recognized in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the Consolidated Statement of Financial Position dates, and any adjustment to tax payable in respect of previous years.

Deferred tax is reported using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax reported is based on the expected manner of realization or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted or substantively enacted at the Consolidated Statement of Financial Position dates. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

K) FINANCIAL INSTRUMENTS

The following summarizes the corporation's classification and measurement of financial assets and liabilities:



	Classification	Measurement
Financial Assets		
Trade receivables and other	Loans and receivables	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial Liabilities		
Credit facilities	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost

I. Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. All financial assets are recognized initially at fair value. After initial recognition, financial instruments are measured at their fair values, except for held-to-maturity investments and loans and receivables, which are measured at amortized cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairments.

II. Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. All financial liabilities are recognized initially at fair value.

Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

L) PROVISIONS

A provision is a liability of uncertain timing or amount. Provisions are recognized when the corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably

estimated. If the effect of the time value of money is material, the provisions are measured at the present value. The provisions are determined by discounting the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in financing cost.

Decommissioning costs

A provision for decommissioning obligations in respect of buildings and land containing hazardous materials is recognized when the environment is disturbed; it is more likely than not that the corporation will be required to settle the obligation; an obligation is owed to another party; and a reasonable estimate of the future costs and discount rates can be made. These obligations are recognized in the period they are incurred at the present value of the best estimate of the expenditures required to settle the present obligation, discounted at a risk-free interest rate. Subsequently, at each reporting date, the obligation is adjusted through an unwinding of discount expense, and any changes in the estimated amounts required to settle the obligation and significant changes in the discount rate, inflation and risks. The associated costs are capitalized as part of the carrying value of the related assets.

The corporation assesses all of its activities and all of its sites and facilities involving risks to determine potential environmental risks. Sites and facilities considered to represent an environmental risk are examined in detail and corrective measures have been or will be taken, as necessary, to eliminate or mitigate these risks. The ongoing risk management process currently in place enables the corporation to examine its activities and property under normal operating conditions and to follow up on accidents that occur. Properties that may be contaminated, or any activities or property that may cause contamination, are taken charge of immediately as soon as contamination is noted, under an action plan developed to assess the nature and extent of the repercussions as well as the applicable requirements.

Payment in lieu of taxes and legal claims

A provision for payment in lieu of taxes (PILT) and legal claims is recognized when management believes there is a present obligation as a result of a past event; it is more likely than not that the corporation will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

M) CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the corporation's accounting policies, management has made the following critical judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:



I. Inventories

The corporation's policies related to property inventories are described in note 2f)iii). In applying these policies, the corporation makes judgments with respect to the classification of certain inventory properties.

The operating cycle for inventories frequently exceeds twelve months as a result of development lead times and market conditions. The corporation classifies inventories as current, regardless of the length of the development time, when active development begins or when the property has been serviced or sold as is.

II. Investment properties

The corporation's accounting policies are described in note 2f)ii). In applying these policies, judgment is made for investment properties under development in determining when the property has reached completion.

III. Leases

The corporation's policy on revenue recognition is stated in note 2d)ii). With regards to this policy, the corporation must consider whether a tenant improvement provided in connection with a lease enhances the value of the leased property in order to determine whether such amounts are treated as additions to investment property. Tenant improvements provided in connection with a lease are recognized as an asset and expensed on a straight-line basis over the term of the lease.

The corporation also makes judgments in determining whether certain leases, especially long-term leases in which the tenant occupies all or a major part of the property, are operating or finance leases.

IV. Provisions

The corporation's policies related to provisions are described in note 2I). In applying these policies, the corporation makes judgments with respect to the best estimates of probability, timing and measurement of expected value of its outcome.

V. Income taxes

The corporation is subject to income taxes in numerous Canadian jurisdictions and significant judgment is required in determining the provision for income taxes. The corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the



corporation's income tax expense and current and deferred income tax assets and liabilities in the period in which such determinations are made. See note 17 for additional information.

The corporation makes significant judgments on the recoverability of deferred tax assets based on expectations of future profitability and tax planning strategies. Changes in the expectations or the inability to implement the tax planning strategies could result in derecognition of the deferred tax assets in future periods.

VI. Control over structured entities

The corporation's policy for consolidation is described in note 2c).

The corporation assessed whether or not it controlled the DPF based on whether the corporation has the practical ability to direct the relevant activities of the DPF. In making its judgment, the corporation considered the strict limitations imposed on the DPF's Board by the DPF by-laws over the relevant activities. After assessment, the corporation concluded that, although it does not have direct control over the relevant activities of the DPF, it does have de facto control over those relevant activities as a result of the strict limitations imposed, and therefore the corporation does have control over DPF.

The corporation assessed whether or not it controlled the MSCF based on whether the corporation has the practical ability to direct the relevant activities of the MSCF. In making its judgment, the corporation considered the composition of the MSCF Board and the power held by the primary directors of the MSCF Board over the MSCF's relevant activities. After assessment, the corporation concluded that, based on the power held by the primary directors, who are officers or directors of CLCL, over the relevant activities of the MSCF, the corporation does have control over the MSCF.

VII. Joint arrangements

The corporation's policy for joint arrangements is described in note 2g). In applying this policy, the corporation makes judgments with respect to whether it has joint control and whether the arrangements are joint operations or joint ventures. In making its judgments, the corporation considered the legal structure and whether or not joint control for decisions over relevant activities existed based on the contractual arrangements. Specifically for the Jericho, West Vancouver, Fairmont and LeBreton joint arrangements, the corporation considered that its third party partners are only required to fund the projects operations and note repayments from cash flows from the projects, and therefore any cash shortfalls are funded by the corporation. After assessment, the corporation has determined that joint control exists, as all decisions over relevant activities require the unanimous consent of both parties, and that all of its joint arrangements are joint operations, as they were not structured through separate vehicle.

N) SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS 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 consolidated financial statements and the reported amounts of revenues and expenses during the period. The corporation includes in its liabilities future servicing costs to complete a project based on management's best estimates. Actual results could differ significantly from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

I. Inventories and real estate development costs

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

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 statutory and other requirements. Also, estimates of future development costs are used to allocate current development costs across project phases. 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.

The corporation produces a yearly corporate plan that includes a proforma analysis of the projects, including expected revenues and projected costs. This analysis is used to determine the cost of sales recorded and net realizable value. This proforma analysis is reviewed periodically, and when events or circumstances change, and is updated to reflect current information.

II. Measurement of Fair Values

Where the fair values of financial assets, investment properties and financial liabilities as disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility.



Changes in assumptions about these factors could affect the reported fair value. The corporation's assessments of fair values of investment properties are regularly reviewed by management with the use of independent property appraisals and internal management information.

The fair values of all financial instruments and investment properties must be classified in fair value hierarchy levels, which are as follows:

Level 1 (L1) – Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities.

Level 2 (L2) – Financial instruments are considered Level 2 when valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable.

Level 3 (L3) – Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable.

The critical estimates and assumptions underlying the valuation of financial assets, investment properties and financial liabilities are set out in notes 5 and 22.

III. Significant Components and Useful Lives

The useful lives and residual values of the corporation's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets, as well as anticipation of future events. Management also makes judgments in determining significant components. A component or part of an item of property, plant and equipment or an investment property is considered significant if its allocated cost is material in relation to the total cost of the item. Also, in determining the parts of an item, the corporation identifies parts that have varying useful lives or consumption patterns.

IV. Interest Rate on Notes Payable to the Government

Notes payable are issued in consideration of the acquisition of real estate properties and are due to the Government. These notes are repayable on the earlier of their due dates or the dates on which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued, except in a limited number of instances where the terms of the note state when the issuer can demand payment and payment is not dependent on property cash flows. For those notes that do not state when the issuer can demand payment, the repayment schedule is based on estimated time period and cash flows



of the property. The notes are non-interest bearing. The non-interest bearing notes are discounted using an imputed fixed interest rate. The imputed interest is accrued and capitalized to properties or expensed, as appropriate.

V. Impairments and write-downs

Management reviews assets annually, as part of the corporate planning process, and when events or circumstances change.

For inventories, a write-down is recorded when the net realizable value of anticipated net sales revenue is less than the sum of the book value of the property and its anticipated costs to complete. The net realizable value is based on projections of future cash flows, which take into account the specific development plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

For other assets, such as investment properties and property, plant and equipment, impairment estimates are made based on an analysis of cash-generating units, as described in note 2f), and are recorded if the recoverable amount of the property is less than the book value. The recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs of disposal and its value in use. The corporation estimates the fair value less costs of disposal using the best information available to estimate the amount it could obtain from disposing of the assets in an arm's-length transaction, less the estimated cost of disposal. The corporation estimates value in use by discounting estimated future cash flows to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the asset. Determination of the present value cash flows requires significant estimates, such as future cash flows and the discount rate applied.

VI. Income taxes

The corporation relies on estimates and assumptions when determining the amount of current and deferred tax, and takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due.

The corporation makes judgments to evaluate whether it can recover deferred tax assets based on its assessment of estimates of future probability and tax legal amalgamation of its subsidiaries. The corporation's current corporate plan and future profit forecast are expected to generate sufficient taxable income to recover the deferred tax assets. Historically, the corporation has been profitable and consistently met its corporate plan profit objectives.



3. FUTURE ACCOUNTING PRONOUNCEMENTS

I. Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, Superseding IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue related interpretations which provides a comprehensive five-step revenue recognition model for all contracts with customers. IFRS 15 requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

II. Financial Instruments

In July 2014, the IASB issued a final version of IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and supersedes all previous versions of the standard. The standard introduces a new model for the classification and measurement of financial assets and liabilities, a single expected credit loss model for the measurement of the impairment of financial assets and a new model for hedge accounting that is aligned with a company's risk management activities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

III. Leases

In January 2016, the IASB issued IFRS 16 *Leases*, which supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC-15 *Operating Lease-Incentives*, and SIC-27 *Evaluating the Substance of Transactions involving the legal form of a lease*.

The standard sets out principles for the recognition, measurement, presentation and disclosure of leases. The standard will provide a single lease accounting model requiring recognition of assets for all leases except in specific circumstances. Minimal changes are expected for lessor accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early application permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers*.

The corporation is currently assessing the impact of adopting these new standards and amendments on the consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

The corporation's property, plant and equipment consist mainly of the CN Tower, Downsview Park, the Plaza Garage, the John Street Parkette, the MSC, the OPMC quays, bridges, office building and land, vehicles, exhibitions, and computers and office equipment.

The corporation has \$5.2 million (March 31, 2017 - \$4.9 million) of fully depreciated property, plant and equipment still in use.

The gross carrying amount of property, plant and equipment assets at December 31, 2017 includes \$5.4 million (March 31, 2017 - \$1.1 million) of property, plant and equipment under construction.

Cost or deemed cost

	Land	Building	Equipment	Land Improvements	Total
Balance, March 31, 2016	\$ 27,627	\$ 125,232	\$ 21,320	\$ 18,874	\$ 193,053
Additions	153	5,666	3,719	792	10,330
Disposals	-	-	(2,955)	(857)	(3,812)
Balance, March 31, 2017	27,780	130,898	22,084	18,809	199,571
Additions	275	13,933	4,007	1,760	19,975
Disposals	-	-	(1,321)	-	(1,321)
Transfers from Building to Equipment	-	(1,613)	1,613	-	-
Balance, December 31, 2017	\$28,055	\$143,218	\$ 26,383	\$ 20,569	\$218,225

Depreciation and impairment

	Land	Building	Equipment	Land Improvements	Total
Balance, March 31, 2016	\$ -	\$ 39,525	\$ 16,199	\$ 3,408	\$ 59,132
Depreciation	-	9,417	2,287	595	12,299
Disposals	-	-	(2,924)	(857)	(3,781)
Impairment	-	1,877	456	-	2,333
Balance, March 31, 2017	-	50,819	16,018	3,146	69,983
Depreciation	-	6,403	2,689	418	9,510
Disposals	-	-	(993)	-	(993)
Impairment	-	6,748	3,400	-	10,148
Transfers depreciation from Building to Equipment	-	(759)	759	-	-
Transfers impairment from Building to Equipment	-	(661)	661	-	-
Balance, December 31, 2017	\$ -	\$ 62,550	\$ 22,534	\$ 3,564	\$ 88,648

Carrying amounts

At March 31, 2017	\$ 27,780	\$ 80,079	\$ 6,066	\$ 15,663	\$ 129,588
At December 31, 2017	\$28,055	\$ 80,668	\$ 3,849	\$ 17,005	\$129,577

OPMC recognized an impairment of \$10.1 million during the period ended December 31, 2017 (March 31, 2017 - \$2.3 million) as its carrying amount exceeded its recoverable amount by \$10.1 million. The impairment was triggered by the government appropriations ceasing in 2014, and the continuing annual operating losses at the OPMC. The recoverable amount was determined by an external, accredited independent valuator (fair value hierarchy level 2) at March 31, 2017.

5. INVESTMENT PROPERTIES

The corporation's investment properties consist primarily of the land at the Rogers Centre and the CN Tower Base, and rental properties at PDP.

Included within the Consolidated Statement of Comprehensive Income are the following:

December 31	For three months ended		For nine months ended	
	2017	2016	2017	2016
Rental income	\$ 2,641	\$ 2,168	\$ 7,708	\$ 6,667
Direct operating expenses from investment property that generated rental income during the period	2,150	1,913	6,066	5,555

Cost or deemed cost

	Land	Building	Tenant Improvements	Land Improvements and Other Development Costs	Equipment	Total
Balance, March 31, 2016	\$ 4,945	\$ 15,291	\$ 6,616	\$ 12,420	\$ 3,220	\$ 42,492
Additions	-	442	455	720	-	1,617
Disposals	-	-	-	-	(179)	(179)
Transfers from inventory	468	-	-	-	-	468
Balance, March 31, 2017	5,413	15,733	7,071	13,140	3,041	44,398
Additions	-	31	342	425	-	798
Balance, December 31, 2017	\$ 5,413	\$ 15,764	\$ 7,413	\$ 13,565	\$ 3,041	\$ 45,196

Depreciation and Impairment

	Land	Building	Tenant Improvements	Land Improvements and Other Development Costs	Equipment	Total
Balance, March 31, 2016	\$ -	\$ 4,935	\$ 3,650	\$ 2,538	\$ 2,066	\$ 13,189
Depreciation	-	931	477	398	182	1,988
Disposals	-	-	-	-	(179)	(179)
Impairment	-	(160)	(531)	(331)	-	(1,022)
Balance, March 31, 2017	-	5,706	3,596	2,605	2,069	13,976
Depreciation	-	750	320	320	134	1,524
Balance, December 31, 2017	\$ -	\$ 6,456	\$ 3,916	\$ 2,925	\$ 2,203	\$ 15,500

Carrying amounts

At March 31, 2017	\$ 5,413	\$ 10,027	\$ 3,475	\$ 10,535	\$ 972	\$ 30,422
At December 31, 2017	\$ 5,413	\$ 9,308	\$ 3,497	\$ 10,640	\$ 838	\$ 29,696

During the period, there were no reversals of previously recognized impairment loss for investment properties (March 31, 2017 – \$1.0 million).

The fair values of investment properties are classified in fair value hierarchy levels (see note 2n)ii) as follows:

Investment properties	Carrying amount	Level 1	Level 2	Level 3
		Fair value		
December 31, 2017	\$29,696	\$ -	\$ -	\$123,814
March 31, 2017	\$30,422	\$ -	\$ -	\$123,012

The fair value of the investment properties was estimated using a combination of internal valuation techniques and external consultants at March 31, 2017. All material investment properties have been valued by independent valuers. The external consultants are accredited independent valuers with a recognized and relevant professional qualification and with recent experience in the location and category of the investment property being valued. On a quarterly basis, management reviews the assumptions to update the estimated fair value of the investment properties.

In determining fair value, the income and direct comparison approaches were used. The income approach capitalizes net annual revenues or discounts forecasted net revenues to their present value after considering future rental income streams and anticipated operating costs, as well as appropriate capitalization and discount rates. The direct comparison approach references market evidence derived from transactions involving similar properties.

Investment properties valued using the income approach are considered Level 3 given the significance of the unobservable inputs.

The key inputs in the valuation of investment properties using the income approach are:

- Capitalization rate, which is based on the market conditions where the property is located;
- Net operating income, which is normalized and assumes rental income and rental costs using current market conditions;
- Discount rate, reflecting the current market assessment of the uncertainty in the amount and timing of cash flows; and
- Discounted cash flows, which consider the location, type and quality of the property and the current market conditions for similar properties.

The direct comparison approach uses observable inputs, and investment properties valued using this approach are considered Level 2, unless there are significant unobservable inputs, in which case they are considered Level 3.

6. INVENTORIES

The corporation carries its inventories at the lower of cost and net realizable value, and they are classified as follows:

	December 31, 2017	March 31, 2017
Total Current		
Completed properties held for sale	\$ 2,135	\$ 10,019
Property under development	228,786	231,458
	230,921	241,477
Total Non-Current		
Properties held for future development or sale	169,098	157,236
Total Property Inventories	\$ 400,019	\$ 398,713

There were no write-downs recorded against inventories during the period ended December 31, 2017 (March 31, 2017 - \$1.1 million). There were no reversals of write-downs during the period ended December 31, 2017 (March 31, 2017 - \$nil).

Inventories charged to cost of sales totalled \$52.3 million (December 31, 2016 - \$13.0 million).

At December 31, 2017, the total inventories that are expected to be recovered from sale of the properties by March 31, 2018 are \$24.1 million; and the amounts expected to be recovered after March 31, 2018 are \$375.9 million.

7. LONG-TERM RECEIVABLES

Long-term receivables consist of the following:

	December 31, 2017	March 31, 2017
Receivables from partners (a)	57,002	55,806
Other long term receivables (b)	792	764
	\$ 57,794	\$ 56,570

(a) The long-term receivables from partners represent the partner's proportionate share of the notes payable which is payable to the corporation. The corporation is obligated for the full amounts of the notes payable for the West Vancouver, Jericho, Fairmont properties (collectively, the Vancouver lands) and the LeBreton property in Ottawa, of which a portion is receivable from its partners. The long-term receivables, similar to the notes payable they are related to, are non-interest bearing and have total principal amounts of \$67.0 million (March 31, 2017 - \$67.0 million), which have been discounted using a weighted average market interest rate of 2.85% (March 31, 2017 - 2.85%). The

long-term receivables do not have specific dates of repayment, but are based on the cash flows of the projects (see note 21).

(b) Other long-term receivable represents a non-interest bearing promissory note receivable for the remaining balance from a sale of a real estate property in the prior year.

	December 31, 2017	March 31, 2017
Current	\$ 1,656	\$ -
Non-current	56,138	56,570
	\$ 57,794	\$ 56,570

Years ending March 31 (remainder of year)	2018	\$ -
	2019	1,656
	2020	-
	2021	3,158
	2022	-
Subsequent years		63,180
Subtotal		\$ 67,994
Less: amounts representing imputed interest		10,200
		\$ 57,794

8. CASH AND CASH EQUIVALENTS

	December 31, 2017	March 31, 2017
Cash	\$ 69,862	\$ 29,249
Cash equivalents (a)	395,000	410,000
	\$ 464,862	\$ 439,249

(a) Cash equivalents include term deposits as follows:

	December 31, 2017
1.30% maturity date January 9, 2018	\$ 75,000
1.42% maturity date January 15, 2018	285,000
1.42% maturity date January 16, 2018	35,000
	\$ 395,000

The corporation has \$4.2 million (March 31, 2017 - \$4.1 million) of cash and cash equivalents that are restricted for the use of the MSC.

9. TRADE RECEIVABLES AND OTHER

Trade receivables and other are comprised of the following:

	December 31, 2017	March 31, 2017
Prepays and others	\$ 3,212	\$ 4,411
Rents and other receivables	23,359	32,560
Total	\$ 26,571	\$ 36,971
Current	\$ 15,187	\$ 26,300
Non-current	11,384	10,671
	\$ 26,571	\$ 36,971

10. CREDIT FACILITIES

	December 31, 2017	March 31, 2017
\$100 million, unsecured, demand revolving credit facility, bearing interest at rates between 50 basis points and variable banker's acceptance rates plus 45 basis points, maturing at March 31, 2024 (a)	\$ 39,800	\$ 33,000
\$100 million, senior, unsecured revolving credit facility, bearing interest at 40 basis points, maturing at March 31, 2018 (b)	-	-
Total Credit Facilities	\$ 39,800	\$ 33,000
Current	\$ 39,800	\$ 33,000
Non-current	-	-
	\$ 39,800	\$ 33,000

(a) The credit facility is available to finance the construction and development and secure letters of credit at PDP.

The borrowings are primarily used to finance the purchase of a portion of the Downsview Lands from the Government and subsequent construction and development. In addition to the borrowings, the corporation has used credit facilities to secure outstanding letters of credit of \$10.7 million (March 31, 2017 - \$10.9 million). The remaining unused credit facility is \$49.5 million at December 31, 2017 (March 31, 2017 - \$56.1 million).

The borrowing authority is reviewed in conjunction with the corporate planning process and requires annual approval by the Minister of Finance (note 22 (a)). The facility was approved by the Minister of Finance for the year ending March 31, 2018.

(b) The credit facility is available to secure letters of credit at CLC.

The corporation has used this credit facility to secure outstanding letters of credit of \$41.4 million (March 31, 2017 - \$54.4 million). The remaining unused credit facility is \$58.6 million (March 31, 2017 - \$45.6 million). This facility was approved by the Minister of Finance for three years ending March 31, 2018.

11. NOTES PAYABLE

The notes payable were issued in consideration of the acquisition of real estate properties and are due to the government. These notes are repayable on the earlier of their due dates (2018 to 2050) or six months after the fiscal year end of the corporation in which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued. In a limited number of instances the terms of the note state when the issuer can demand payment and payment is not dependent on property cash flows. For all notes, the government may elect to defer repayment. The notes are non-interest bearing. For accounting purposes, the face values of the notes payable are discounted and recorded at their fair value considering the estimated timing of note repayments, which are not fixed, as well as an imputed fixed interest rate determined when the notes are issued, with the exception of one note discussed below. The imputed interest is then accrued and capitalized to inventories or expensed as appropriate, on a constant yield basis at a weighted average rate of 1.78% (March 31, 2017 - 1.77%).

During the period, the interest capitalized was \$1.2 million (December 31, 2016 - \$1.2 million) and the interest expensed was \$4.0 million (December 31, 2016 - \$3.9 million). Based on the anticipated timing of the sale of the real estate properties, principal repayments are estimated to be as follows:

Years ending March 31 (remainder of year)	2018	\$	-
	2019		169,866
	2020		29,900
	2021		9,300
	2022		6,000
Subsequent years			252,464
Subtotal		\$	467,530
Less: amounts representing imputed interest			41,278
		\$	426,252
Current	\$		169,866
Non-current			256,386
	\$		426,252

Included in the \$426.3 million from the table above is a note payable of \$19.0 million, which has not been discounted, given the corporation applied predecessor accounting values upon obtaining control of PDP. This note is due to the Government in 2050.

12. TRADE AND OTHER PAYABLES

The components of trade and other payables are as follows:

	December 31, 2017	March 31, 2017
Trade Payables	\$ 21,298	\$ 42,920
Sales proceeds sharing liabilities (a)	78,216	70,091
Leases payable	-	171
	\$ 99,514	\$ 113,182
Current	\$ 99,514	\$ 113,182
Non-current	-	-
	\$ 99,514	\$ 113,182

(a) These amounts are due to the Government as part of sales proceeds sharing arrangements related to sold real estate properties.

(b) Capital and operating commitments

- I. Commitments related to properties for land servicing requirements and other development costs at December 31, 2017 total \$48.9 million (March 31, 2017 - \$34.2 million).
- II. Capital commitments for property, plant and equipment at December 31, 2017 total \$14.2 million (March 31, 2017 - \$4.2 million).
- III. Operating commitments for maintaining capital assets at December 31, 2017 total \$3.5 million (March 31, 2017 - \$4.0 million).

13. PROVISIONS AND CONTINGENT LIABILITIES

	Cost to Complete (a)	PILT (b)	Others	Total
Balance, March 31, 2017	\$ 16,931	\$ 11,200	\$ 171	\$ 28,302
Provisions added during the period	1,311	2,030	-	3,341
Provisions applied during the period	(4,749)	-	-	(4,749)
Provisions reversed during the period			(7)	(7)
Balance, December 31, 2017	\$ 13,493	\$ 13,230	\$ 164	\$ 26,887
Current			\$	21,771
Non current				5,116
			\$	26,887

(a) Land servicing costs relating to sold properties in the amount of \$13.5 million (March 31, 2017 - \$16.9 million). The costs are estimated to be spent over the next five years. The corporation expects to be reimbursed \$4.9 million (March 31, 2017 - \$4.9 million) from local municipalities and regions. The amounts provided for are based on management's best estimate, taking into consideration the nature of the work to be performed, the time required to complete the work, past experience, and market development and construction risks.

(b) PILT assessments from January 2014 of \$13.2 million (March 31, 2017 - \$11.2 million) that are being contested by the corporation.

Contingencies

As at December 31, 2017, the corporation was involved in claims and proceedings that arise from time to time in the ordinary course of business, including actions with respect to contracts, construction liens, Aboriginal title claims, employment and environmental matters. Based on the information currently available to the corporation, management believes that the resolution of these matters and any liability arising therefrom will not have a significant adverse effect on these consolidated financial statements. However, these matters are subject to inherent uncertainties and their outcome is difficult to predict; therefore, management's view of these matters may change in the future.

The corporation's activities are governed by many federal, provincial and municipal laws and by-laws to ensure sound environmental practices, in particular for the management of emissions, sewage, hazardous materials, waste and soil contamination. Decisions relating to the ownership of real estate assets and any other activity carried on by the corporation have an inherent risk relating to environmental responsibility.

The corporation assesses all of its activities and all of its sites and facilities involving risks to determine potential environmental risks. For the properties and activities that may be significantly contaminated, the corporation has assessed the likelihood of settlement as remote. The corporation has no guarantee that material liabilities and costs relating to environmental issues will not be incurred in the future or that such liabilities and costs will not have significant negative impacts on the corporation's financial situation.

Decommissioning costs

The corporation operates certain structures under an operating lease. The agreement signed by the parties includes a clause which stipulates that upon expiry of the lease the owner will retake control of these structures without providing any compensation for any additions or modifications made by the corporation to the initial structures, provided that the owner considers them to be in satisfactory condition. According to the corporation, the changes made to the structures since it has had responsibility for management thereof satisfy the lessor's requirements. Accordingly, no liability

relating to the retirement of these assets has been recognized in the consolidated financial statements.

14. EXPENSES BY NATURE

The nature of expenses in real estate development costs, attractions, food, beverage and other hospitality expenses, rental operating costs, general and administrative, impairment, pre-acquisition costs and write-offs, and interest and other expenses consisted of the following:

December 31	For three months ended		For nine months ended	
	2017	2016	2017	2016
Cost of Inventory, raw material and consumables used	\$ 15,971	\$ 5,491	\$ 37,603	\$ 11,068
Payroll and benefits	11,855	10,286	37,042	31,200
Food and beverage costs	3,087	2,751	12,464	11,118
Depreciation and amortization	3,740	3,551	11,034	10,702
Property taxes including PILT	4,392	3,364	10,802	10,103
Leasing expenses	3,409	3,158	10,255	8,743
Impairment	5,223	616	10,148	1,295
Profit sharing	6,125	-	8,125	-
Professional fees	3,447	161	7,889	4,930
Utilities	2,447	2,217	6,523	6,298
Marketing and public relations	1,507	1,464	4,781	3,383
Interest	1,536	1,385	4,477	4,436
Building cost	1,652	1,563	4,475	4,153
Attraction costs	722	653	4,098	3,334
Office	657	673	2,074	1,940
IT costs	324	187	1,035	820
Commission	500	-	500	-
Other	716	899	2,477	4,120
	\$ 67,310	\$ 38,419	\$ 175,802	\$ 117,643

Certain immaterial amounts have been reclassified for the nine months ended December 31, 2017 that related to the second quarter of 2017-18.

15. SHAREHOLDER'S EQUITY

(a) 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 Public Services and Procurement. 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.

(b) Contributed Surplus

Contributed surplus is comprised of the net assets of \$249.6 million acquired from the Minister of Transport, plus the net assets of OPMC and PDP acquired on November 29, 2012 of \$36.1 million, 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.

16. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2017	March 31, 2017
Less than 1 year	\$ 236	\$ 654
Between 1 and 5 years	2,152	2,045
More than 5 years	2,210	2,265
	\$ 4,598	\$ 4,964

The corporation has operating lease obligations for various equipment and office space. The leases run for a period of 1 to 10 years.

During the period ended December 31, 2017, an amount of \$0.6 million was recognized as an expense in the Condensed Consolidated Interim Statement of Comprehensive Income in respect of operating leases (December 31, 2016 - \$0.5 million).

Leases as lessor

The corporation leases out its investment properties, certain inventories and property, plant and equipment under operating leases with initial lease terms between less than 1 year to 21 years. Some leases have renewal options, with one lease having nine 10-year renewal options. The renewal options of these leases have not been included in the table below.

The future minimum lease payments under non-cancellable leases are as follows:

	December 31, 2017		March 31, 2017	
Less than 1 year	\$	17,436	\$	18,535
Between 1 and 5 years		28,941		29,244
More than 5 years		13,893		14,863
	\$	60,270	\$	62,642

As part of purchase and sale agreements with a related party, the corporation is required to lease housing units at a discount compared to market rates. The lease units generated \$1.0 million of rental revenue during the period (December 31, 2016 - \$1.0 million). The individual leases are renewed monthly.

17. INCOME TAXES

December 31	For three months ended		For nine months ended	
	2017	2016	2017	2016
Income Tax Expense				
Deferred tax recovery	\$ (2,281)	\$ (1,426)	\$ (5,300)	\$ (2,597)
Current income tax expense	6,343	3,803	20,842	12,445
Total Tax Expense	4,062	2,377	15,542	9,848
Reconciliation of effective tax rate				
Profit excluding tax	13,228	8,271	57,778	35,427
Domestic tax rate	26.47%	27.55%	26.52%	27.00%
Tax using the domestic tax rate	\$ 3,501	\$ 2,279	\$ 15,323	\$ 9,566
Non-deductible expenses	20	14	54	42
Temporary difference	190	(327)	(870)	(551)
Other adjustments	351	411	1,035	791
Total Tax Expense	\$ 4,062	\$ 2,377	\$ 15,542	\$ 9,848

Management has recognized deferred tax assets for non-capital losses, tax credits and temporary differences to the extent that it is probable that future increase will be available to use the assets.

18. CONSOLIDATED STATEMENT OF CASH FLOWS – SUPPLEMENTAL INFORMATION

Non-cash increase in notes payable of \$5.2 million (December 31, 2016 – \$5.1 million) for interest, of which \$1.2 million was capitalized to inventory (December 31, 2016 – \$1.2 million), has been excluded from the financing and investing activities in the Condensed Consolidated Interim Statement of Cash Flows.

The components of the changes to non-cash working capital and other under operating activities include:

December 31	For Three Months ended		For Nine Months ended	
	2017	2016	2017	2016
Trade receivables and other	\$ 7,333	\$ 1,446	\$ 11,715	\$ (4,871)
Long-term receivables	(398)	30,398	(1,224)	53,716
Trade and other payables	5,233	(4,303)	(13,201)	(24,888)
Provisions	2,073	823	3,334	2,421
Notes payable	290	1,695	848	5,122
Deferred revenue	88	(404)	332	(290)
Prepaid rent, deposits and others	(2,076)	(765)	119	915
Total	\$ 12,543	\$ 28,890	\$ 1,923	\$ 32,125

19. RELATED PARTY TRANSACTIONS AND BALANCES

The corporation is wholly owned by the Government and is under common control with other governmental agencies and departments, and Crown corporations. The corporation enters into transactions with these entities in the normal course of business.

During the period, the corporation did not pay a dividend (December 31, 2016 - \$6.5 million) to its shareholder, the Government.

The following disclosures represent the significant transactions with related parties:

- I. The corporation enters in agreements of purchase and sale with related parties to acquire real estate properties in exchange for notes payable. During the period, the corporation acquired a real estate property from a related party of \$12.0 million (December 31, 2016 - \$1.4 million) in exchange for a note payable.



Notes payable to the Government are non-interest bearing (note 11) and are repayable on the earlier of their due dates or six months after the fiscal year end of the corporation in which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued, except in a limited number of instances where the terms of the notes state when the issuer can demand payment and payment is not dependent on property cash flows. The corporation made no payments on its notes payable to related parties in the current period (December 31, 2016 - \$28.6 million).

- II. In the prior year, the corporation entered into three agreements of purchase and sale with Public Services and Procurement Canada (PSPC). Under the terms of these agreements, the corporation would share a portion of the sales proceeds with the related party. During the period, as a result of the sale of two of the properties, the corporation recognized in its financial statements a \$8.1 million payable to PSPC. In addition, the corporation continues to have a profit sharing liability of \$70.1 million from a sale in the prior year.
- III. The corporation received various rental and other revenues from federal agencies and departments of \$1.6 million (December 31, 2016 - \$1.3 million), mainly from leases with the Department of National Defence, and PSPC.
- IV. Other than the aforementioned sales proceeds sharing liabilities of \$78.2 million to PSPC, the corporation has no receivable or payable from or to federal agencies and departments (March 31, 2017 - \$0.2 million).
- V. Key management personnel compensation, which includes the corporation's senior management team and the board of directors, are described in the following table:

For the period ended December 31	2017	2016
Short-term benefits (1)	\$ 2,448	\$ 2,416
Post-employment benefits (2)	73	85
	\$ 2,521	\$ 2,501

1) Short-term benefits include salaries, incentive compensation, health benefits, and other benefits for current employees.

2) Post-employment benefits include contributions to pension plans.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, current trade receivables and other, current trade and other payables, deposits and others approximate their fair value due to the short-term maturities.

The corporation has valued its long-term receivables by discounting the cash flows using the current market rate of borrowing plus a credit risk factor for its customers and partners, except for the long-term receivable from its third party partners which, due to the nature of the joint arrangement, has been discounted at current yields on government bonds plus project risk.

The corporation has valued its financial liabilities by discounting the cash flows at current yields on government bonds plus a discount factor for the corporation's credit risk. There has not been any change in valuation technique for financial instruments during the period.

The carrying values and fair values of the corporation's financial instruments are summarized using the fair value hierarchy (note 2) in the following table:

As at December 31, 2017		Level 1	Level 2	Level 3
Classification	Carrying amount		Fair value	
Financial Assets				
Long-term receivables	\$ 57,794	-	\$ 56,908	-
Financial Liabilities				
Notes payable	426,252	-	414,432	-
Credit facilities	39,800	-	39,800	-

As at March 31, 2017		Level 1	Level 2	Level 3
Classification	Carrying amount		Fair value	
Financial Assets				
Long-term receivables	\$ 56,570	-	\$ 59,528	-
Financial Liabilities				
Notes payable	409,438	-	415,631	-
Credit facilities	33,000	-	33,000	-

21. JOINT ARRANGEMENTS

The corporation has entered into a number of joint arrangements for the land development of properties. The corporation has assessed each joint arrangement individually and concluded that based on the terms and structure of the contractual arrangements, each joint arrangement is a joint operation. The corporation recognizes its proportionate share of the assets, liabilities, revenues and expenses for these properties in the respective lines in the consolidated financial statements.

The following is a list of the corporation's joint arrangements:

Joint arrangement	Location	Nature of Property	Ownership Interest	
			December 31, 2017	March 31, 2017
CLC Bosa	Calgary, AB	Land development	50.0%	50.0%
West Vancouver	Vancouver, BC	Land development	50.0%	50.0%
Jericho	Vancouver, BC	Land development	50.0%	50.0%
Fairmont	Vancouver, BC	Land development	50.0%	50.0%
LeBreton	Ottawa, Ontario	Land development	66.7%	66.7%

In May 2013, the corporation entered into a land development agreement for property in Calgary which is jointly controlled. The corporation has determined that the joint arrangement is a joint operation based on the terms and structure of the contractual arrangement, which requires unanimous approval from the corporation and the third party with regards to relevant activities of the property.

In September 2014, the corporation entered into three separate land development agreements (West Vancouver, Jericho, and Fairmont, respectively) for properties in Vancouver, with the same third-party partners (the Musqueam, Squamish, and Tsleil-Waututh Nations). Each of the three separate land development agreements is jointly controlled by the corporation and the third-party partners. The corporation has determined that each of the joint arrangements is a joint operation based on the terms and structure of the contractual arrangements, which require unanimous approval from the corporation and the third party partner's regarding decisions over all relevant activities of the properties.

The purchase of the Vancouver lands was financed through non-interest bearing promissory notes issued by the corporation. The corporation is responsible for the full repayment of the promissory notes on the earlier of their due dates or six months after the fiscal year end of the corporation when net proceeds become available from the respective property. These promissory notes will be partially funded by the third party partner's proportionate share of the notes payable, which is reflected as a long-term receivable (see note 7). Under each land development agreement, the third-party partners portion of the adjusted gross revenues is first applied to their share of the promissory notes.

In February 2017, the corporation entered into a land development agreement for a property in Ottawa, with a third party partner named the Algonquins of Ontario Opportunities (AOO). The land development agreement is jointly controlled by the corporation and the third party partner. The corporation has determined that the joint arrangement is a joint operation based on the terms and structure of the contractual agreement, which requires unanimous approval from the corporation and the third party partner's regarding decisions over all relevant actions of the property. The purchase of the Ottawa land was financed through non-interest bearing promissory note issued by the corporation. The corporation is responsible for the full repayment of promissory note on the earlier of their due dates or six months after the fiscal year-end of the corporation when net proceeds become available from the property. This promissory note will be partially funded by the

third party partner's proportionate share of the notes payable, which is reflected as long term receivable (see note 7).

The following amounts included in these consolidated financial statements represent the corporation's proportionate share of the assets and liabilities of its joint arrangement interests as at December 31, 2017 and the results of operations and cash flows from April 1, 2017 to December 31, 2017:

	Jericho		Fairmont		Bosa		Other		Total	
	December 31, 2017	March 31, 2017	December 31, 2017	March 31, 2017	December 31, 2017	March 31, 2017	December 31, 2017	March 31, 2017	December 31, 2017	March 31, 2017
As at										
Assets	\$ 92,419	\$ 92,436	\$ 23,052	\$ 23,143	\$ 14,839	\$ 16,169	\$ 11,619	\$ 11,620	\$ 141,929	\$143,368
Liabilities*	97,852	95,764	22,003	21,421	-	46	9,954	9,937	129,809	127,168

For three months ended December 31										
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues	310	309	345	301	-	-	72	3	727	613
Expenses	283	292	394	527	-	-	22	19	699	838
Net income (loss)	27	17	(49)	(226)	-	-	50	(16)	28	(225)
Cash flow provided (used in) operating activities	(2)	452	135	(13)	(3)	(506)	55	(12)	185	(79)

For nine months ended December 31										
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues	925	918	1,008	770	-	-	213	7	2,146	1,695
Expenses	779	795	1,165	1,343	-	3	61	59	2,005	2,200
Net income (loss)	146	123	(157)	(573)	-	(3)	152	(52)	141	(505)
Cash flow provided (used in) operating activities	(2)	421	(244)	(451)	13	(1,430)	133	(75)	(100)	(1,535)

* Liabilities include the corporation's obligation for the notes payable to finance the acquisition of inventory, net of the long-term receivable from its partners for their proportionate share of the notes payable funded through future project cash flows (note 7).

The corporation is currently providing funding as the project manager to all joint arrangements. For Jericho, West Vancouver, Fairmont and LeBreton, repayment of the partner's share of project costs is from joint arrangement cash flows.

The corporation's proportionate share for commitments related to properties for land servicing requirements and other development costs for the joint arrangements at December 31, 2017 totalled \$2.8 million (March 31, 2017 - \$2.7 million) and are included in the commitments related to properties in note 12 b)i).

22. FINANCIAL RISK MANAGEMENT

a) Liquidity Risk:

Liquidity risk is the risk that the corporation will not be able to meet its financial obligations as they become due.

The table below summarizes the maturity profile of the corporation's financial liabilities based on contractual undiscounted payments:

As at December 31, 2017			
	Due by		
	March 31, 2018	Thereafter	Total
Credit facilities (note 10)	\$ 39,800	\$ -	\$ 39,800
Notes payable (note 11)	-	467,530	467,530
Trade and other payables (note 12)	99,514	-	99,514
	<u>\$139,314</u>	<u>\$467,530</u>	<u>\$606,844</u>

As at March 31, 2017			
	Due by		
	March 31, 2018	Thereafter	Total
Credit facilities (note 10)	\$ 33,000	-	33,000
Notes payable (note 11)	152,886	302,644	455,530
Trade and other payables (note 12)	113,182	-	113,182
	<u>\$299,068</u>	<u>\$302,644</u>	<u>\$601,712</u>

The corporation manages its liquidity risk by forecasting and managing cash flows from operations and anticipating capital expenditures and financing activities. The corporation also manages its cash flow by maintaining sufficient cash balances to meet current obligations and investing surplus cash in low-risk bank investments.

The corporation has notes payable which are owed to the shareholder and under the related agreements, the notes are not due until positive cash flows are achieved from the properties by which they are secured, except in a limited number of instances where the terms of the note state

when the issuer can demand payment and payment is not dependent on property cash flows (see note 11).

The corporation has borrowing authorities from the Minister of Finance of \$200 million (March 31, 2017 - \$200 million) which expires on March 31, 2018. The corporation's borrowing authorities are reviewed annually as part of the corporate planning process. The corporation has \$200 million of credit facilities available, of which \$108.1 million is unused (March 31, 2017 - \$101.7 million). The credit facilities for CLC and PDP mature on March 31, 2018 and March 31, 2024, respectively.

Accounts payable are primarily due within 90 days. The repayment terms for credit facilities and notes payable are disclosed in notes 10 and 11, respectively.

b) Market Risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices, and includes currency and interest rate risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The corporation has little exposure to currency risk.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The corporation is exposed to interest rate risk on its credit facilities and cash and cash equivalents, which are based on variable rates of interest. The credit facilities are used to finance the development of lands and guarantee the corporation's letters of credit. A change in interest rates would not have had a significant impact on net earnings or comprehensive income in the current year. Cash and cash equivalents have limited exposure to interest rate risk due to their short-term nature. The impact of a change in interest rate of +/- 0.5% would not be significant to the Consolidated Statement of Comprehensive Income.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The corporation measures these at amortized cost; therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments.

c) Credit Risk

The corporation's credit risk arises from the possibility that tenants may experience financial difficulty and be unable to pay the amounts owing under their commitments. For long-term receivables from partners, payments are made from the cash flows of the joint arrangements. The projected cash flows from the joint arrangements to the partners are significantly higher than the amount of the long-term receivables at December 31, 2017 owed to the corporation.

The corporation attempts to reduce the risk of credit loss by limiting its exposure to any one tenant or industry and performing credit assessments in respect of new leases or credit transactions. Also, this risk is further mitigated by signing long-term leases with varying lease expirations and obtaining security deposits from tenants.

The corporation's maximum exposure to credit risk is limited to the carrying value of trade receivables and other, long-term receivables and cash and cash equivalents.

The corporation's receivables of \$23.6 million (March 31, 2017 - \$32.6 million) are comprised primarily of current balances owing. The corporation performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts.

The corporation's long-term receivables of \$57.8 million (March 31, 2017 - \$56.6 million) are comprised of \$57.0 million (March 31, 2017 - \$55.8 million) of receivables from partners and \$0.8 million (March 31, 2017 - \$0.8 million) of long term receivables from a sale of real estate property in the prior year. The corporation reviews the receivables from partners and other long term receivable on a quarterly basis to determine if provisions are required.

The corporation's cash, including bank deposits and term deposits, of \$464.9 million (March 31, 2017 - \$439.2 million) is held with major financial institutions that are rated AA by a recognized credit agency. The corporation does not expect any related counterparties to fail to meet their obligations.

23. CAPITAL MANAGEMENT

The corporation's objective when managing capital is to maintain adequate levels of funding to support its activities.

	December 31, 2017	March 31, 2017
Shareholder's equity	\$ 597,930	\$ 555,694
Credit facilities	39,800	33,000
Notes payable	426,252	409,438
Cash and cash equivalents	464,862	439,249
Total	\$ 1,528,844	\$ 1,437,381

The corporation has notes payable which are owed to the shareholder and under the related agreements, the notes are not due until positive cash flows are achieved from the properties, except for, i) five promissory notes for which the issuer can demand payments of \$17.0 million by March 2019 and ii) \$19.0 million note which is due in 2050.

All short-term and long-term borrowings are approved by the Minister of Finance with respect to the amount, interest rate and term, and are included in the corporation's Corporate Plan which must receive Governor in Council approval.

In order to meet its objective, the corporation invests all capital that is surplus to its immediate operational needs in highly liquid financial instruments with original maturities of up to one year, such as bank deposits, deposit certificates and money market funds. All of these instruments are held with major financial institutions rated AA by a recognized credit agency.

On December 31, 2017, cash and cash equivalents total \$464.9 million. The cash equivalents are invested in term deposits with a Canadian chartered bank with maturities up to 16 days.

The corporation's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and cash flows provided by financing activities, as well as proceeds from asset sales. Rental revenue, recoveries from tenants, lot sales, attractions and hospitality revenue, interest and other income, available cash balances, draws on corporate credit facilities and refinancing of maturing indebtedness are the corporation's principal sources of capital used to pay operating expenses, dividends, fund Federal infrastructure projects, debt service and recurring capital and leasing costs in its commercial property, attractions and hospitality, and residential development businesses. The corporation plans to meet its short-term liquidity needs with revenue, along with proceeds from financing activities.

The principal liquidity needs for periods beyond the next twelve months are for scheduled debt maturities, recurring and non-recurring capital expenditures, development costs and potential property acquisitions. The corporation's strategy is to meet these needs with one or more of the following:

- cash flows from operations;
- proceeds from sales of assets;
- credit facilities and refinancing opportunities.

24. PENSION PLANS

The corporation has two defined contribution pension plans covering eligible CLC full-time and certain part-time employees. In accordance with the terms of the plans, employees are eligible to join either at the date of employment or after a year of employment. The amount of the current service cost charged to expense for these plans was \$1.1 million for the period ended December 31, 2017 (December 31, 2016 – \$1.0 million).