


CANADA LANDS COMPANY LIMITED

QUARTERLY FINANCIAL STATEMENTS

Q2 2012-2013 – JULY 1, 2012 to SEPTEMBER 30, 2012



CANADA LANDS COMPANY LIMITED
SOCIÉTÉ IMMOBILIÈRE DU CANADA LIMITÉE

September 2012 Quarterly Financial Statements

Review of the September 2012 Quarterly Financial Statements

Management's Discussion and Analysis of Financial Results

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") for the three and six months ended September 30, 2012, includes material information up to November 15, 2012. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar references, unless otherwise stated, are in millions of Canadian dollars, except attendance and per visitor figures.

Discussion of financial results in this section of the quarterly report will occur from the perspective of CLC, even though the results are identical to those of CLCL for the 2012—2013 fiscal period.

CLCL holds the shares of Parc Downsview Park (PDP) and the Old Port of Montréal Corporation Inc. (OPMC) in trust for Her Majesty in right of Canada. PDP and OPMC are excluded from consolidation as CLC does not have continuing power to determine their strategic operating, investing and financing policies and both PDP and OPMC have been directed by the government to report as parent Crown corporations.

The following MD&A for Canada Lands Company Limited (CLCL) should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months (quarter) and six months (year to date) ended September 30, 2012 and the audited consolidated financial statements and the MD&A for the fiscal years ended March 31, 2012 and 2011, as set out in CLCL's 2011-2012 Annual Report.

NATURE OF THE BUSINESS

CLCL, through its sole real estate subsidiary, Canada Lands Company CLC Limited (CLC or the Company) 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, it works to purchase properties 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 Company's sole shareholder, the Government of Canada. As part of its property portfolio, CLC owns and operates Canada's National Tower (the CN Tower).

The Company holds real estate across the country in various provinces and in various stages of development, with significant holdings in Chilliwack, BC, Calgary and Edmonton, AB, Ottawa, ON, Montreal, QC, and St. John's, NL.

On September 14, 2011, CLC sold the Metro Toronto Convention Centre Complex (MTCCC) properties that included the InterContinental Hotel, Metro Toronto Convention Centre (MTCC), the office tower at 277 Front Street West, and a 1,200 stall parking garage. The InterContinental Hotel was considered discontinued operations, and the remaining MTCCC properties were included in continuing operations. On the sale of the InterContinental Hotel, CLC booked a sale of $121.2, and realized a gain of $34.3 before incomes taxes. On the sale of the remainder of the MTCCC, CLC booked a sale of $116.2, and realized a gain of $61.4 before income taxes. For the purposes of comparability between the current period and prior period results, where applicable, the MTCCC operations and any resulting gains from the sale have been excluded from the results.

OBJECTIVES AND STRATEGIES

The Company 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. The Company's goal in all transactions is to produce the best possible benefit for both local communities and the Government.

The Company purchases surplus strategic government property and follows a rigorous process to create strong, vibrant communities that add lasting value for future generations of Canadians. In all the work the Company undertakes, it is always mindful of its organizational motto of Innovation, Value and Legacy.

RESOURCES, RISKS AND RELATIONSHIPS

ASSETS

At September 30, 2012 and March 31, 2012 the total carrying value of assets were $494.4 and $491.3, respectively. The following is a summary of the Company's assets:

	September 30, 2012	March 31, 2012
Inventories	$238.0	$232.0
Investment properties	5.9	2.5
Property, plant and equipment	92.2	96.2
Cash and cash equivalents	53.8	57.4
Short-term investments	70.6	70.8
Trade and other assets	33.9	32.4
Total	**$494.4**	**$491.3**

Inventory

The Company's inventory is comprised of properties held for development or sale of $32.1 (March 31, 2012 - $30.4), properties under development of $170.0 (March 31, 2012 - $165.1) and completed properties held for sale of $35.9 (March 31, 2012 - $36.5). Inventory is recorded at the lower of cost and net realizable value. During the quarter, the Company spent $12.6 on these properties, and year to date expenditures totaled $19.0 compared with $8.4 and $13.6 during the corresponding periods in the prior year. Fluctuations in the spending on inventories vary period over period based on required and planned expenditures on those properties.

Investment properties

Investment properties are comprised largely of land on which the Rogers Centre is built and surrounding the CN Tower Base.

Property, plant and equipment

Property, plant and equipment consist principally of the CN Tower, Plaza Garage and the John Street Parkette. Capital expenditures are made to property, plant and equipment to maintain and enhance the high quality of the infrastructure. During the quarter, capital additions were $1.8 and year to date were $3.4 compared with $7.4 and $9.4 during the corresponding periods in the prior year. There were non-cash depreciation charges against property, plant and equipment of $1.9 during the quarter and $3.9 year to date compared with $2.4 and $4.6 during the corresponding periods in the prior year. These expenditures exclude repairs and maintenance costs. Fluctuations in capital expenditures vary period over period based on required and planned expenditures on the property, plant and equipment.

Cash and cash equivalents

The Company continues to maintain high levels of liquidity which will allow it to react to future potential opportunities which may require significant amounts of cash. At September 30, 2012, cash and cash equivalents balances held in a major Canadian chartered bank were $53.8, compared to $57.4 at March 31, 2012.

Short-term investments

Short-term investments include a $50.0 term deposit (March 31, 2012 - $50.0) that is maturing in March 2013 which is held at a major Canadian chartered bank. The Company's short-term investments also include cash on deposit as collateral for letters of credit of $20.6 (March 31, 2012 - $20.8).

Trade and other assets

Trade and other assets include rent and other receivables, prepaid assets, a long-term receivable, CN Tower inventory, and income tax recoverable.

LIABILITIES AND SHAREHOLDER'S EQUITY

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

	September 30, 2012	March 31, 2012
Mortgage bond payable	$8.7	$11.4
Notes payable	53.2	54.5
Trade and other payables	10.3	12.5
Prepaid rents, deposits and others	8.4	6.5
Other liabilities	12.3	14.7
Total liabilities	**$92.9**	**$99.6**
Contributed Surplus	145.1	145.1
Retained Earnings	256.4	246.6
	401.5	**391.7**
Total liabilities and shareholder's equity	**$494.4**	**$491.3**

Mortgage payable

The mortgage payable is secured by the CN Tower. The mortgage has semi-annual principal and interest payments at a fixed rate of 5.37%, and matures in January 2014. The mortgage has an annual effective interest rate of 5.89%. During the period and year to date, $2.7 of principal was repaid compared with $2.6 during the corresponding periods in the prior year.

Notes payable

Notes payable are issued in consideration for the acquisition of real estate properties and are due to the Government of Canada. These notes are repayable on the earlier of their due dates from 2012 to 2024 or the dates which net proceeds become available from the sale by the Company of the properties in respect of which the notes were issued. All notes are non-interest bearing. During the period and year to date, there have been no new notes issued. Year to date, $2.3 of notes have been repaid from net proceeds from properties. 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	2013 (Remainder of year)	$ -
	2014	8.1
	2015	2.1
	2016	0.3
	2017	4.3
Subsequent years		56.4
Subtotal		$ 71.2
Less: amounts representing imputed interest		18.0
		$ 53.2

Other liabilities

The decrease in other liabilities is primarily due to the payments applied during the year to date against the restructuring provision.

CAPITAL RESOURCES AND LIQUIDITY

The Company's principal liquidity needs over the next twelve months are to:

- fund recurring expenses;
- meet mortgage payable requirements;
- 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; and
  - discretionary capital expenditures; and
- make distributions to its sole shareholder.

The Company believes that its liquidity needs will be satisfied using cash and cash equivalents on hand, maturing short-term investments, and cash flows generated from operating and financing activities.

Beyond twelve months, the Company's principal liquidity needs are scheduled debt maturities, recurring and non-recurring capital expenditures, development costs, and potential property acquisitions. The Company 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 September 30, 2012, CLC had approximately $4.8 of cash on hand, $49.0 of cash equivalents maturing within 1 month, and short-term investments of $50.0 maturing in March 2013. Currently, the Company does not have a line of credit.

RISKS

The Company'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, regulatory requirements and initiatives, and litigation and claims that arise in the normal course of business.

The following is a review of the material factors and the potential impact these factors may have on the Company's business operations.

General macroeconomic risks

The Canadian economy is expected to grow by 2.0%, and 2.8% in 2012 and 2013, respectively according to a forecast by the Bank of Canada. This economic recovery is proceeding more slowly than previously projected. Within Canada, growth is uneven with the resource based provincial economies outperforming the manufacturing and service sector provincial economies in central Canada. Presently, nearly three quarters of Canada's exports are to the United States (US). As the Canadian dollar is presently on par with the US dollar, the level of exports continues to be adversely affected. The Bank of Canada is anticipated to hold interest rates at 1% for the remainder of 2012, increasing to 2% by the end of 2013 according to forecasts by several major Canadian Financial Institutions.

Real Estate sector related risks

Real estate is generally subject to risk give 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 are. During the second quarter, an impairment of $1.8 was recorded on a Chilliwack project based on the current market conditions and management's current assumptions. The Canadian housing market has shown continued strength, but increasing concern about overheated markets in Toronto and Vancouver coupled with projected interest rate increases during 2013 point to a slowdown in demand.

Hospitality and Tourism sector related risks

The CN Tower's operations have been directly linked to the performance of the tourism sector in Toronto. The number of visitors to the CN Tower is also related to both the seasons and daily weather conditions. Recognizing and acting upon the potential of both attracting a higher percentage of Toronto's tourists and focusing less on seasonal corporate business will further enhance the performance of the CN Tower's business development initiatives. CN Tower's newest attraction Edge Walk opened to overwhelming enthusiasm from the public and has exceeded attendance and revenue expectations and should add to Tower's future business performance.

Interest rate and Financing risks

The Company believes it has effectively managed its interest rate risk. The mortgage payable has a fixed rate of interest at 5.37%. The Company's notes payable are non-interesting bearing, and repayable on the earlier of their due dates between 2012 to 2024 or the dates which net proceeds become available from the sale by the Company of the properties in respect of which the notes were issued. The Company believes that these financing instruments adequately mitigate its exposure to interest rate fluctuations. The Company 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 at a minimum.

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 Company 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.

The Company's trade receivables are comprised almost exclusively of current balances owing. The Company continues to monitor receivables frequently, and where necessary, establish an appropriate provision for doubtful accounts. At September 31, 2012, the balance of receivables was $8.1 (March 31, 2012 - $7.1).

The Company has long-term receivables of $13.9 (March 31, 2012 - $13.4) arising from the sale of properties. $13.8 (March 31, 2012 - $13.3) of these are covered by collateral mortgages. The Company also has an assignment of rents with a balance of $1.3 (March 31, 2012 - $1.3), guaranteed by the lessee.

Environmental Risks

As the owner of real property, the Company 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 Company's ability to sell such real estate. The Company is not aware of any material non-compliance with environmental laws at any of its properties, nor is it aware of any pending or threatening investigations or actions by environmental regulatory authorities in connection with any of its properties or any pending or threatening claims related to environmental conditions at its properties.

The Company will continue to make the necessary capital and operating expenditures to ensure that it is compliant with environmental laws and regulations.

Guarantees and contingent liabilities

The Company may be contingently liable with respect to litigation and claims that arrive in the normal course of business. The Company's holdings and potential acquisition of properties from the Government are impacted by aboriginal land claims. The Company continues to work with various Government agencies and organizations to assist in establishing a process whereby such surplus lands could be transferred to the Company. Disclosure of commitments and contingencies can be found in Note 14 and 15 of the condensed consolidated interim financial statements for the three months and six months unaudited ended September 30, 2012.

RESULTS

Set out below is a summary of the various components of the Company's income statement results. Discussion of each of these components is provided on the following pages.

	Three months ended September 30			Six months ended September 30		
	FY13	Budget	FY12*	FY13	Budget	FY12*
Real estate sales	$10.1	$8.6	$16.7	$14.2	$17.5	$18.3
Attractions, food, beverage and other	25.7	25.3	23.8	41.6	40.5	37.8
Rental	5.7	5.1	7.9	11.1	10.2	16.2
Interest and other	1.4	1.1	1.0	2.2	2.8	1.7
Total revenues	**$42.9**	**$40.5**	**$49.4**	**$69.1**	**$71.1**	**$74.0**
General and administrative expenses	5.3	6.1	6.0	9.8	11.3	10.6
Income before taxes	9.7	10.5	51.2	12.5	13.5	74.3
Income from continuing operations	7.4	7.1	-	9.8	9.4	52.5
Income from discontinued operations (net of tax)	-	-	23.9	-	-	23.9
Comprehensive income	7.4	7.1	75.3	9.8	9.4	76.5

* Gain on sale of the investment property of $60.5 for the quarter and year to date was excluded from the Total revenues. The cash flow from the sale and discontinued operations has also been excluded, where appropriate.

REVENUE

Revenue of $42.9 for the quarter was $2.4 above budget, however $6.5 behind last year. Revenue of $69.1 year to date was $2.0 below budget and $4.9 below last year.

Revenues comprised four principal sources:

1) Real Estate sales

Real estate sales of $10.1 for the quarter and $14.2 year to date is comprised principally sales of property developed as building lots and sold to builders of single family homes, apartments and condominiums, undeveloped land sales and buildings held in inventory that were sold. In the quarter the Company had higher than budgeted sales. Year to date, the Company is behind budget, but it anticipates achieving its annual budgeted real estate sales by the end of the fiscal year.

During the quarter and year to date the real estate sales by province follows:

	Three months ended September 30		Six months ended September 30	
	FY13	FY12	FY13	FY12
Atlantic	$1.9	$ -	$1.9	$0.8
Ontario	0.3	-	0.3	-
Quebec	-	-	-	-
West	7.9	16.7	12.0	17.5
Total	**$10.1**	**$16.7**	**$14.2**	**$18.3**

Real estate sales for the second quarter of fiscal 2013 generated gross profit, excluding general and administrative expenses and income tax, of $2.0, and year to date gross profit of $3.1 compared with $4.3 and 4.8 from the comparative prior year periods. The lower gross margins compared to the prior year are largely a result of lower real estate sales volume.

2) Attractions, food, beverage and other

Attractions, food, beverage and other represent revenue from the CN Tower operations including admissions, restaurants and related attractions.

CN Tower revenue of $25.7 for the quarter, and $41.6 year to date are ahead of the corresponding prior year periods by $1.9 and $3.8, respectively. Gross profit of $13.5 and $19.0 are also ahead of the corresponding prior year periods by $1.3 and $2.5, respectively.

The major driver for the increased revenues and gross margin is attendance. Attendance during the quarter was 668,000 visitors and year to date was 1,065,000 visitors. Year to date, the Company is 2.7% ahead of the corresponding period for the prior year and 1.1% ahead of the current year's budget. The success in year to date was partially a result of favourable weather conditions and the successful launch of the Edge Walk attraction during August 2011 which has generated renewed interest in the CN Tower. The average guest spending of $38.05 per visitor was $2.68 per visitor or 7.6% higher than the corresponding period in the prior year reflecting the success of the Edge Walk attraction.

3) Rental

Rental comprises revenue from commercial, industrial and residential properties held as investments as well as properties located on lands held for future development across the country. Rental revenue was $5.7 during the quarter, and year to date $11.1, which was generated by properties in inventory in various stages of development. Rental revenue decreased by $2.2 for the quarter and $5.1 million year to date compared to the corresponding periods in the previous year attributable principally to the sale of the office tower located at 277 Front Street West and the adjoining MTCCC properties during September of 2011. These properties generated rental revenue of $2.9 during the quarter and 6.2 million year to date during the same periods last year.

During the quarter and year to date the rental revenue by province follows:

	Three months ended September 30		Six months ended September 30	
	FY13	FY12	FY13	FY12
Atlantic	$0.5	$0.5	$1.0	$1.0
Ontario	1.3	-	-	7.2
Quebec	-	-	0.1	0.1
West	3.9	3.8	7.7	7.9
Total	**$5.7**	**$7.9**	**$11.1**	**$16.2**

Rental gross profit for the quarter of $0.2 and year to date of $0.5 was $0.9 and $2.2 lower than the corresponding prior year periods reflecting the sale of the office tower at 277 Front Street and the MTCCC during the previous fiscal year.

4) Interest and other revenues

Interest and other revenue of $1.4 for the quarter and $2.2 comprised principally interest on short term investments and cash and cash equivalents. Lower interest rates this year were more than offset by higher investment balances.

OTHER

General and administrative expenses

General and administrative expenses of $5.3 for the quarter and $9.8 year to date were $0.7 and $0.8, respectively, lower than the corresponding periods from the prior year.

The Company undertook a strategic and operational review during fiscal 2012. Recommendations were implemented in November 2011 resulting in reduction of staff, principally in Senior Management positions. Creation of shared services within the Finance, IT and Human Resources departments of Real Estate and CN Tower resulted in staff reduction and improved efficiencies. The results of these implemented costs savings measures will be realized over the next two fiscal years.

Cash Flows

Cash provided by operating and investing activities totaled $2.8 for the quarter, and $2.5 year to date. Year to date, the Company has been able to fund all operating and capital requirements from its cash reserves, including repayment of $2.3 of outstanding notes to the Federal Government.

PROSPECTS

During the current year, no new properties were acquired. The Company has a land bank of approximately 1,500 acres (607 hectares) at September 30, 2012.

The Company is currently in negotiations with government departments and agencies regarding a further acquisition of 2,121 acres (858 hectares). As many of the individual properties potentially available for acquisition are substantial in size, of up to 1,620 acres (656 hectares), planning, development and reintegration of these properties into local communities will take place over a number of years. Although the Company is vulnerable to adverse changes in local real estate market conditions which can affect demand, it also allows it to wait for improvement in local real estate markets as it has other properties for sale across Canada.

The Company's major residential developments are in Alberta and British Columbia, where it is redeveloping the former CFB Calgary, CFB Griesbach and CFB Chilliwack where the residential markets continue to show strength. In two of these projects, the Company has interim rental operations which between them generate revenue in excess of any holding costs. In St. John's, Newfoundland and Labrador, the Company is in the midst of development of Pleasantville on the site of a former military base.

The Company'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 Company expects that for the remainder of the year, revenues will be approximately $150.0, with total revenues for the year to be close to $220.0. These revenues are expected to generate a gross profit before income taxes of approximately $50.0.

The Company has projected income before tax of $225.9 million for the five years ending March 31, 2017 and are expected to continue to be financially self supporting and provide a reliable dividend stream for the Government of Canada.

Declaration

We, Mark Laroche, President and Chief Executive Officer, and Jurgen Dirks, Chief Financial Officer and Vice President Administration, certify that:

We have reviewed the condensed consolidated interim financial statements of Canada Lands Company Limited for the period ended September 30, 2012.

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.

Mark Laroche
President and
Chief Executive Officer

Jurgen Dirks
Chief Financial Officer and Vice President
Administration

Toronto, Canada
November 27, 2012

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, specifically International Accounting Standard 34, *Interim Financial Reporting*.

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 September 30, 2012 and March 31, 2012 and its financial performance and cash flows for the periods ended September 30, 2012 and 2011.

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 seven directors, none of whom are employees of the corporation. The Board of Directors has the responsibility to review the condensed consolidated interim 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 condensed consolidated interim financial statements with management, and has reported to the Board of Directors. These condensed consolidated interim financial statements have not been reviewed or audited by our external auditors.

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

Mark Laroche
President and
Chief Executive Officer

Jurgen Dirks
Chief Financial Officer and Vice President
Administration

Toronto, Canada
November 27, 2012

UNAUDITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Expressed in thousands of Canadian Dollars	Note	Three months ended September 30 2012	Three months ended September 30 2011	Six months ended September 30 2012	Six months ended September 30 2011
REVENUES					
Real estate sales		**$ 10,109**	$ 16,683	**$ 14,226**	$ 18,262
Attractions, food, beverage and other		**25,724**	23,839	**41,577**	37,792
Rental		**5,694**	7,873	**11,129**	16,237
Gain on sale of investment property		**-**	60,514	**-**	60,514
Interest and other		**1,383**	955	**2,180**	1,685
		42,910	109,864	**69,112**	134,490
EXPENSES					
Real estate cost of sales		**8,115**	12,381	**11,139**	13,526
Attractions, food, beverage and other		**12,219**	11,629	**22,620**	21,316
Rental operating costs		**5,499**	6,771	**10,581**	13,483
General and administrative		**5,300**	5,960	**9,818**	10,589
Impairment and pre-acquisition costs		**1,872**	40	**1,897**	49
Other expenses		**234**	579	**512**	1,248
		33,239	37,360	**56,567**	60,211
INCOME BEFORE INCOME TAXES		**9,671**	72,504	**12,545**	74,279
Deferred income tax expense (recovery)	18	**(228)**	-	**(439)**	-
Current income tax expense	18	**2,521**	21,264	**3,173**	21,732
		2,293	21,264	**2,734**	21,732
INCOME FROM CONTINUING OPERATIONS		**7,378**	51,240	**9,811**	52,547
INCOME FROM DISCONTINUED OPERATIONS	3	**-**	23,927	**-**	23,943
NET INCOME		**$ 7,378**	$ 75,167	**$ 9,811**	$ 76,490
Other comprehensive loss					
Gain on cash flow hedge		**-**	175	**-**	-
COMPREHENSIVE INCOME		**$ 7,378**	$ 75,342	**$ 9,811**	$ 76,490

UNAUDITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian Dollars	Note		*September 30, 2012*		*March 31, 2012*
ASSETS					
Non-Current					
Investment properties	5	$	**5,870**	$	2,452
Inventories	6		**32,138**		30,410
Property, plant & equipment	4		**92,238**		96,166
Trade and other receivables	10		**234**		877
Long-term receivable	7		**11,060**		10,964
Deferred income tax recoverable			**4,630**		4,675
			146,170		145,544
Current					
Inventories	6		**205,890**		201,602
Cash and cash equivalents	8		**53,847**		57,428
Short-term investments	9		**70,579**		70,772
Trade and other receivables	10		**10,715**		8,353
Current portion of long-term receivable	7		**4,120**		4,442
Current income tax recoverable			**3,117**		3,117
			348,268		345,714
		$	**494,438**	$	491,258

Condensed Consolidated Statements of Financial Position continue on PG 18 →

UNAUDITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in thousands of Canadian Dollars	Note	September 30, 2012	March 31, 2012
LIABILITIES AND SHAREHOLDER'S EQUITY			
LIABILITIES			
Non-current			
Mortgage bond payable	11	$ **2,917**	$ 5,826
Notes payable	13	**53,190**	50,013
Trade and other payables	14	**18**	25
Deferred taxes		**5,831**	6,270
		61,956	62,134
Current			
Current portion of mortgage bond payable	11	**5,743**	5,593
Current portion of notes payable	13	**-**	4,500
Trade and other payables	14	**10,244**	12,493
Provisions	15	**5,785**	7,036
Income taxes payable		**813**	1,336
Prepaid rent, deposits and others		**8,433**	6,513
		31,018	37,471
Shareholder's Equity			
Capital stock		**-**	-
Contributed surplus	16	**145,081**	145,081
Retained earnings	16	**256,383**	246,572
		401,464	391,653
		$ **494,438**	$ 491,258
Contingencies and Commitments	14,15		
Operating Leases	17		

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

On behalf of the board

Grant B. Walsh

Wayne MacIntosh

UNAUDITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of Canadian Dollars	Note	Three months ended September 30 **2012**	Three months ended September 30 2011	Six months ended September 30 **2012**	Six months ended September 30 2011
OPERATING ACTIVITIES					
Net income		**$ 7,378**	$ 75,166	**$ 9,811**	$ 76,489
Gain on sale of investment property		**-**	(60,514)	**-**	(60,514)
Gain on sale of property, plant & equipment		**-**	(34,855)	**-**	(34,855)
Interest paid		**(128)**	-	**(300)**	-
Income tax recovered (paid)		**(3,653)**	-	**(3,651)**	-
Recovery of costs on sale of properties held for development or sale		**8,115**	12,381	**11,139**	12,887
Expenditures on properties held for development or sale		**(12,575)**	(8,406)	**(18,972)**	(13,549)
Impairment and pre-acquisition costs		**1,800**	49	**1,800**	49
Deferred income taxes recovery		**-**	-	**-**	-
Depreciation		**1,945**	4,060	**3,879**	8,703
		2,882	(12,119)	**3,706**	(10,790)
Net change in non-cash working capital		**2,119**	31,545	**205**	28,136
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		**5,001**	19,426	**3,911**	17,346
FINANCING ACTIVITIES					
Repayment of notes payable		**-**	-	**(2,270)**	(17,000)
Repayment of bonds payable		**(2,759)**	(2,617)	**(2,759)**	(2,617)
Dividend paid		**-**	-	**-**	(8,700)
Issuance of term loans		**-**	(102,451)	**-**	(94,372)
CASH USED IN FINANCING ACTIVITIES		**(2,759)**	(105,068)	**(5,029)**	(122,689)

Condensed Consolidated Statements of Cash Flows continue on PG 20 →

UNAUDITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of Canadian Dollars	Note	*Three months ended September 30* 2012	2011	*Six months ended September 30* 2012	2011
INVESTING ACTIVITIES					
Increase (decrease) in restricted cash		**$ (54)**	$ 1,178	**$ (54)**	$ 952
Interest received		**367**	-	**750**	-
Expenditures on (recoveries from) investment properties		**13**	(4,476)	**13**	(4,494)
Expenditures on property, plant & equipment		**(1,760)**	(7,418)	**(3,365)**	(9,421)
Proceeds from sale of property, plant & equipment		**-**	121,163	**-**	121,163
Proceeds from sale of investment properties		**-**	116,237	**-**	116,237
Decrease (increase) in short-term investments		**(726)**	-	**193**	-
CASH PROVIDED BY INVESTING ACTIVITIES		**(2,159)**	226,684	**(2,463)**	224,437
NET INCREASE (DECREASE) IN CASH		**82**	141,042	**(3,581)**	119,094
Cash and cash equivalents, beginning of period		**53,765**	6,951	**57,428**	28,899
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 53,847**	$ 147,993	**$ 53,847**	$ 147,993
Supplemental cash flows information	**19**				

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

UNAUDITED

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in thousands of Canadian Dollars	Three months ended September 30 **2012**	Three months ended September 30 2011	Six months ended September 30 **2012**	Six months ended September 30 2011
Capital stock				
Balance, beginning of period	**$ -**	$ -	**$ -**	$ -
Balance, end of period	**$ -**	$ -	**$ -**	$ -
Contributed surplus				
Balance, beginning of period	**$ 145,081**	$ 145,081	**$ 145,081**	$ 145,081
Balance, end of period	**$ 145,081**	$ 145,081	**$ 145,081**	$ 145,081
Accumulated other comprehensive loss				
Balance, beginning of period	**$ -**	$ (497)	**$ -**	$ (322)
Gain on cash flow hedge	**-**	175	**-**	322
Balance, end of period	**$ -**	$ (322)	**$ -**	$ -
Retained earnings				
Balance, beginning of period	**$ 249,005**	$ 180,260	**$ 246,572**	$ 187,637
Net income for the period	**7,378**	75,167	**9,811**	76,490
Gain (loss) on cash flow hedge	**-**	-	**-**	(322)
Dividends paid	**-**	-	**-**	(8,700)
Balance, end of period	**$ 256,383**	$ 255,427	**$ 256,383**	$ 255,105
Total Equity	**$ 401,464**	$ 400,186	**$ 401,464**	$ 400,186

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

Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the periods ended September 30, 2012 and 2011

1. Authority and Activities of CLCL

Canada Lands Company Limited (CLCL or the corporation) became an agent Crown corporation pursuant to Governor in Council approval (order-in-council number P.C. 2003-1306). The Government of Canada is CLCL's ultimate controlling parent. 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*.

CLCL conducts its real estate business operations through Canada Lands Company CLC Limited (CLC), its principal wholly-owned subsidiary. CLC's objective is to carry out a commercially oriented and orderly disposal program of certain real properties of the Government of Canada (the government) and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in its capacity as owner or on behalf of the government. The registered office of the company is 1 University Avenue, Suite 1200, Toronto, Ontario, M5J 2P1.

The condensed consolidated interim financial statements were approved by the Board of Directors on November 27, 2012.

2. Summary of Significant Accounting Policies

a) Statement of Compliance

The condensed consolidated interim financial statements (the "interim financial statements") of the corporation have been prepared in accordance with the requirements of Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations (the "Standard"). The accounting principles used by the corporation are International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) and Canadian generally accepted accounting principles; these interim financial statements comply with International Accounting Standard 34, Interim Financial Reporting.

b) Basis of Presentation

CLCL's interim financial statements have been prepared on a historical cost basis, except for inventories which are measured at the lower of cost or net realizable value and hedges which are measured at fair value. The interim financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently in all material respects as those used in the consolidated financial statements for the year ended March 31, 2012. These interim financial statements should be read in conjunction with CLCL's consolidated financial statements for the year ended March 31, 2012.

c) Basis of Consolidation

The interim financial statements include the accounts of the corporation and its consolidated subsidiary, which is the entity over which the corporation has control. Control exists when the corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The accounts of CLC, a wholly-owned subsidiary of CLCL, are consolidated with CLCL's accounts.

CLCL holds the shares of Old Port of Montréal Corporation Inc. (OPMC) and Parc Downsview Park (PDP) in trust for Her Majesty in right of Canada. OPMC and PDP are excluded from consolidation as CLCL does not have continuing power to determine their strategic operating, investing and financing policies and OPMC and PDP have been directed by the government to report as parent Crown corporations. CLCL has no recorded investment in OPMC and PDP, hence these entities are not consolidated with CLCL's accounts.

d) Revenue Recognition

CLC 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. 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. 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 in place; a straight-line rent receivable, which is included in the carrying amount of investment property, 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 and capital taxes. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

iii) **Rental from incidental 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 incidental 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) **CN Tower operating revenues**

Revenues from ticket sales, food and beverage sales, hospitality revenues and retail store sales are recognized at point of sale or when services are provided as appropriate.

e) Pre-Acquisition costs

Costs incurred on properties that CLC has no title to or early use agreement for are expensed to the Consolidated Statements 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 expenditure that is 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 and cease once the asset has reached completion, as intended by management, or suspended if the development of the asset is suspended.

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 Statements of Comprehensive Income during the financial period in which they are incurred.

PPE also includes the cost of office, building equipment and furnishings.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives, as follows:

- Foundations, structure and walls	13 - 55 years
- Site works	10 years
- Mechanical	8 - 25 years
- Electrical	8 - 30 years
- Building equipment	12 - 26 years
- Heating and ventilation	8 - 12 years
- Elevators & escalators	11 - 26 years
- Specialty equipment	10 - 20 years
- Roof covering	20 - 25 years
- Building finishes	7 - 10 years
- In-place leasing costs	10 years
- Office equipment and computer software and hardware	3 - 5 years
- Catering, hospitality and entertaining equipment	3 - 15 years
- Leasehold improvements	Term of lease

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

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (note 2h).

ii) **Investment Properties**

Investment properties are properties held by the corporation for the purpose of obtaining rental income or capital appreciation. Investment property also includes 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" (see note 2g)).

The depreciation rates for property, plant and equipment are also applicable to investment properties.

From commencement of commercial development until the date of completion, CLC 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 and is based on a component approach discussed in detail in note 2f)i).

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 net realizable value (NRV) whenever events or changes in circumstances indicate the carrying value may exceed NRV. A write-down to NRV is recognized in net income when carrying value of the property exceeds its NRV. 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.

The corporation capitalizes all direct expenditures incurred in connection with the acquisition, development and construction. 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 paid.

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 net income during the period. Costs incurred on properties that CLC has no title to or early use agreement for are expensed to the Consolidated Statements 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 ready for sale are classified as "completed properties held for sale". Properties classified as "properties held for future development or sale" are considered non-current.

The operating inventories carried by the CN Tower are included in trade and other receivables in the Consolidated Statements of Financial Position.

g) Assets held for sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are categorized as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan.

Where an asset or disposal group is acquired with a view to resale, it is classified as a "non-current asset held for sale" if the disposal is expected to take place within one year of the acquisition, and it is highly likely that the other conditions referred to above will be met within a short period following the acquisition. The gain on sale of a disposal group will be recognized with discontinued operations.

h) Impairment of Financial and Non-Financial Assets

At the end of each reporting period, the corporation reviews its assets to determine whether there is an event or change in a circumstance that indicates a possible impairment loss. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is calculated as the discounted present value of estimated future cash flows expected to arise from the corporation's planned use of an asset and from its disposal at the end of its useful life. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date when changes in circumstances that led to the initial impairment provision indicate that such impairments have been reduced.

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.

j) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the Consolidated Statements 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 Statements 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 Statements 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 and other receivables	Loans and receivables	Amortized cost
Long-term receivables	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Financial Liabilities		
Mortgage bond payable	Other liabilities	Amortized cost
Term loans	Other liabilities	Amortized cost
Notes payable	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Interest rate swap	Fair value through Profit & Loss	Fair value

The corporation documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets and liabilities on the Consolidated Statements of Financial Position or to specific firm commitments or forecasted transactions. The corporation also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are designated as hedges are highly effective in offsetting changes in fair values or cash flows of hedged items.

In cash flow hedging relationships, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income (loss)(OCI) while the ineffective portion is recognized in net income. Hedging gains and losses recognized in accumulated other comprehensive income (loss) (AOCI) are reclassified to net income in the periods when the hedged item affects net income. Gains and losses on derivatives are immediately reclassified to net income when the hedged item is sold or terminated or when it is determined a forecasted hedged transaction is no longer probable.

On April 1, 2010, the corporation entered into an interest rate swap. This interest rate swap derivative is designated as a cash flow hedge with a notional amount of $50 million and a fixed rate of 2.47% plus stamping fee of 1.5% maturing on April 1, 2013. This interest rate swap was extinguished when the loan was paid off in September 2011.

l) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when CLC 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. Provisions are measured at the present value of 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 as finance cost.

m) Other Comprehensive Income (Loss) (OCI)

OCI represents changes in shareholder's equity arising from unrealized gains and losses on financial assets classified as available-for-sale, and changes in the fair value of the effective portion of cash flow hedging instruments.

n) Critical Judgments in Applying Accounting Policies

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

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

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

ii. **Investment properties**
CLC's accounting policies are described in note 2f)ii). In applying this policy, judgment is made for investment properties under development in determining when the property has reached completion.

iii. **Leases**
CLC'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.

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. **Sale price allocation**
CLC has adopted the sale price allocation used by the purchaser in allocating the sales proceeds between property, plant and equipment and investment properties for the sale of the Metro Toronto Convention Centre (MTCC) Complex**.**

The hotel portion of the MTCC Complex was classified as Property, Plant and Equipment and is reported under Discontinued Operations in the Consolidated Statements of Comprehensive Income. The other properties sold were classified as investment properties and are reported under gain on sale of investment property.

v. **Provisions**
The corporation's policies related to provisions are described in note 2l). In applying this policy, CLC makes judgments with respect to the best estimates of expected value of its outcome.

o) Significant Accounting Estimates and Assumptions

The preparation of interim 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 interim 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. The estimates and assumptions that are critical to the determination of the amounts reported in the interim financial statements relate to the following:

i. **Inventories**
In determining estimates of net realizable values for its properties, CLC 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. This proforma analysis is reviewed periodically, and when events or circumstances change, and updated to reflect current information.

ii. **Investment Properties**
Management's internal assessments of fair values of investment properties are based upon internal financial information and are corroborated by capitalization rates obtained from independent sources. These estimates are subject to significant judgments and assumptions about market conditions in effect as at the reporting date.

iii. **Financial Instruments**
Where the fair values of financial assets and financial liabilities as disclosed in the notes to the interim 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.

iv. **Significant Components**
The useful lives and residual values of CLC'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 and 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, CLC identifies parts that have varying useful lives or consumption patterns.

v. **Property, Plant and Equipment**
The fair value of the CN Tower was used as the deemed cost on transition to IFRS to establish the significant components of the property.

vi. **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 of Canada. These notes are repayable on the earlier of their due dates or the dates on which net proceeds become available from the sale by CLC of the properties in respect of which the notes were issued. The repayment schedule is also based on estimated time period. 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.

vii. **Impairment**
Management reviews assets annually as part of the corporate planning process. For inventories, a write-down is recorded when the net present value of anticipated net sales revenue is less than the book value of the property. Impairment of investment properties and property, plant and equipment is recorded if the appraised value of the property is less than the book value.

3. Discontinued Operations

On August 18, 2011, CLC announced that it had entered into an agreement to sell the Metro Toronto Convention Centre Complex (MTCCC) properties that included the InterContinental Hotel, Metro Toronto Convention Centre, 277 Front Street Office Tower, and a 1,200 stall parking facility as part of the disposal group. On September 14, 2011, CLC sold the MTCCC to Oxford Properties Group, the real estate arm of OMERS Worldwide Group of Companies.

i. Discontinued operations

The hospitality operations of the InterContinental Hotel (classified as Property, Plant and Equipment in the Consolidated Statements of Financial Position) are considered discontinued operations. The following table summarizes the income and cash flows from discontinued operations:

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Revenues	$ -	$ 7,598	$ -	$ 18,613
Operating expenses	-	6,726	-	15,365
Interest expense	-	525	-	1,174
Amortization	-	1,383	-	3,088
Income (loss) from operating activities before income taxes	-	(1,036)	-	(1,014)
Income tax expense (recovery)	-	(303)	-	(297)
Net income (loss) from operating activities	-	(733)	-	(717)
Gain on disposal, net of income tax	-	24,660	-	24,660
Income from discontinued operations	$ -	$ 23,927	$ -	$ 23,943
Cash flows from operating activities	-	109,952	-	106,866
Cash flows from investing activities	-	(57,855)	-	(57,855)
Cash flows from financing activities	-	-	-	-
Net cash provided by discontinued operations	$ -	$ 52,097	$ -	$ 49,011

ii. Dispositions

Other properties that were part of the disposal of the MTCCC sold on September 14, 2011 not included in discontinued operations are the office tower at 277 Front Street West, the Metro Toronto Convention Centre and the adjoining 1,200 stall parking facility. The disposal of these properties are disclosed as gain on sale of investment property.

4. Property, Plant and Equipment

CLC's property, plant and equipment consist mainly of the CN Tower, the Plaza Garage, the John Street Parkette, and computers and office equipment.

	Land	Building	Equipment	Total
Balance, March 31, 2012	$ 7,000	$ 91,807	$ 17,759	$ 116,566
Additions for the period	-	1,339	266	1,605
Transfer to Investment Properties	2,333	-	-	2,333
Balance, June 30, 2012	$ 4,667	$ 93,146	$ 18,025	$ 115,838
Additions for the period	-	1,596	164	1,760
Transfer to Investment Properties	1,098	-	-	1,098
Balance, September 30, 2012	$ 3,569	$ 94,742	$ 18,189	$ 116,500

Depreciation and impairment

	Land	Building	Equipment	Total
Balance, March 31, 2012	$ -	$ 6,076	$ 14,324	$ 20,400
Additions for the period				
Depreciation	-	1,543	383	1,926
Balance, June 30, 2012	$ -	$ 7,619	$ 14,707	$ 22,326
Additions for the period				
Depreciation	-	1,547	389	1,936
Balance, September 30, 2012	$ -	$ 9,166	$ 15,096	$ 24,262
Carrying amounts				
At March 31, 2012	7,000	85,731	3,435	96,166
At June 30, 2012	4,667	85,527	3,318	93,512
At September 30, 2012	**3,569**	**85,576**	**3,093**	**92,238**

5. Investment Properties

CLC's investment properties consist primarily of the land at the Rogers Centre and the CN Tower Base. An office tower located at 277 Front Street West and the Metro Toronto Convention Centre were sold on September 14, 2011.

The fair values of the investment properties on September 30, 2012 are estimated at $21.7 million (March 31, 2012 – $18.3 million), the increase being attributable to a transfer at cost of land from property, plant and equipment.

The fair value of CLC's investment properties was estimated by an outside consultant at March 31, 2012 based on their market value. The outside consultant is an accredited independent valuator 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 market 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, anticipated operating costs as well as appropriate capitalization and discount rates. The direct comparison approach references market evidence derived from transactions involving similar properties.

6. Inventories

CLC carries its inventories at lower of cost and net realizable value and are classified as follows:

	September 30, 2012	March 31, 2012
Property Held For Future Development Or Sale	**$ 32,138**	**$ 30,410**
Property Under Development	**170,013**	**165,136**
Land Servicing	155,758	149,083
Construction	14,255	16,053
Completed Properties Held For Sale	**35,877**	**36,466**
Land	35,877	36,466
Construction	-	-
Total Property Inventories	**$ 238,028**	**$ 232,012**
Total Current		
Completed Properties Held for Sale	$ 35,877	$ 36,466
Property Under Development	170,013	165,136
	205,890	**201,602**
Total Non-current		
Properties Held For Futrure Development Or Sale	**32,138**	**30,410**
Total Property Inventories	**$ 238,028**	**$ 232,012**

During the period, the Garrison Village retail property in Chilliwack, British Columbia was impaired by $1.8 million. The project proforma analysis at the end of the period, indicated that based on the current market conditions in the project's location and management's current assumptions, that the net present value of the anticipated revenues was $1.8 million less than the total project costs. There were no reversals of impairments during six months ended September 30, 2012, or for the year ended March 31, 2012.

Inventories charged to cost of sales total $11.1 million (September 30, 2011 – $13.5 million).

At September 30, 2012 , the total inventories that are expected to be recovered from sale of the properties by March 31, 2013 are projected to be $43.5 million; and the amounts expected to be recovered after March 31, 2013 are $194.5 million.

7. Long-Term Receivable

Long-term receivables consist of the following:

	September 30, 2012		March 31, 2012	
Mortgages and securred notes (a)	**$**	**13,863**	$	14,070
Assignment of rents (b)		**1,317**		1,336
	$	**15,180**	$	15,406

Current Portion	$	2,804	$	3,440
Non Current Portion		11,059		10,630
	$	**13,863**	**$**	**14,070**

Years ending March 31	2013 (Remainder of year)	$	2,804
	2014		-
	2015		-
	2016		11,059
		$	**13,863**

a) Mortgages and secured notes receivable bear interest at a fixed rate at closing, yielding a weighted average rate of 4.97% (March 31, 2012 – 4.73%) and are receivable within four years.

b) CLC has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income until April 30, 2013. The future stream of cash flows is originally discounted at a fixed interest rate of 11.38%. The receipts are estimated to be as follows:

Years ending March 31	2013 (Remainder of year)	$	1,316
	2014		1
		$	**1,317**

8. Cash and Cash Equivalents

		September 30, 2012		March 31, 2012
Cash	**$**	**4,847**	$	3,428
Cash Equivalents		**49,000**		54,000
	$	**53,847**	$	57,428

9. Short-Term Investments

Short-term investments include a $50 million term deposit (March 31, 2012 - $50 million) that is maturing in March 2013. The deposit is held by a major Canadian Chartered bank; also included is a cash deposit of $20.6 million (March 31, 2012 - $20.8 million) held by a major chartered bank as collateral for CLC's letters of credit.

10. Trade and Other Receivables

Trade and other receivables are comprised of the following:

		September 30, 2012		March 30, 2012
Prepaids	**$**	**1,538**	$	1,134
Rents and other receivables		**8,105**		7,067
Restricted cash (a)		**62**		8
Inventories				
CN Tower		**1,244**		1,021
Total Trade and Other receivables	**$**	**10,949**	$	9,230
Current	**$**	**10,715**	$	8,353
Non-current		**234**		877
	$	**10,949**	$	9,230

a) Restricted cash represents holdback money owing for the Chilliwack projects. The balance is held in a joint account between CLC and the project contractor.

11. Mortgage Bond Payable

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

The CN Tower has been pledged as collateral. The carrying value of the pledged properties as of September 30, 2012 was $83.8 million (March 31, 2012 - $89.3 million).

The mortgage bond payable has a maturity schedule as follows:

		September 30, 2012		March 31, 2012	
Current Portion		$	5,743	$	5,593
Non Current Portion			2,917		5,826
		$	8,660	$	11,419
Years Ending March 31	2013 (Remainder of year)	$	2,834	$	5,593
	2014		5,897		5,897
		$	8,731	$	11,490
Less: Net unamortized deferred financing			71		71
		$	8,660	$	11,419

Interest is payable at an annual effective rate of 5.89%. Interest incurred on mortgage bond payable amounted to $0.3 million for the period ended September 30, 2012 (September 30, 2011 – $0.4 million).

CLC has the right to redeem the Series A Bond at any time upon payment of a specified redemption price equal to the greater of the Canada Yield Price and par, together, in each case, with accrued and unpaid interest up to but excluding the date fixed for redemption. The only financial covenant required for the bond is a ratio of 3:1 between shareholder's equity and secured indebtedness. CLC is in compliance with this covenant.

12. Term Loans

On March 31, 2012, CLC's $70 million operating line of credit with a major Canadian chartered bank was not renewed. The letters of credit amounting to $20.8 million that were secured by this operating line of credit were collateralized with a cash deposit at that time. This cash deposit is held by a major Canadian chartered bank and is included in the Short-term investments line item in the Consolidated Statements of Financial Position. Since there is no immediate need for an operating line of credit, CLC will revisit the need of an operating line of credit once its future cash requirement needs have been determined.

13. 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 (2012 to 2024) or the dates on which net proceeds become available from the sale by CLC of the properties in respect of which the notes were issued. The notes are non-interest bearing. For accounting purposes, the face value of the notes payable are discounted and recorded at their fair market value considering the estimated timing of note repayments, which are not fixed, as well as the estimated incremental corporate fixed interest rate when the notes are issued. 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 3.06% (March 31, 2012 – 2.86%).

During the period, interest capitalized was $0.7 million (March 31, 2012 – $1.7 million) and the interest expensed was $0.2 million (September 30, 2011 – $0.2 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	2013 (Remainder of year)	$	-
	2014		8,110
	2015		2,140
	2016		340
	2017		4,324
Subsequent years			56,283
Subtotal		**$**	**71,197**
Less: amounts representing imputed interest			18,007
		$	**53,190**

14. Trade and Other Payables

a) Capital commitments for servicing requirements and other development costs at September 30, 2012 total $28.7 million (March 31, 2012 - $16.3 million).

b) The components of the trade and other payables are as follows:

	September 30, 2012		March 31, 2012	
Accounts Payable	**$**	**10,220**	$	12,460
Finance Lease		**42**		58
	$	**10,262**	$	12,518
Current	**$**	**10,244**	$	12,493
Non-Current		**18**		25
	$	**10,262**	$	12,518

15. Provisions

Provisions are recognized when the corporation has a present obligation as a result of a past event and it is probable that the corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

Included in provisions are the following:

- estimated litigation costs for $1.2 million (March 31, 2012 - $1.2 million) relating to three claims or possible claims against the corporation. There is uncertainty regarding the amount or expected timing of any resulting outflows.

- severance and restructuring costs for $0.8 million (March 31, 2012 - $2.2 million) relating to employee termination benefits. Estimated costs were based on the terms of the termination agreements. The restructuring payments are expected to be completed by January 2014.

- servicing costs relating to sold properties in the amount of $1.6 million (March 31, 2012 - $1.7 million). Of this amount, $1.0 million (March 31 – 2012 - $1.0 million) was provided to complete servicing work for a sold property in Ontario. The costs are estimated to be spent over the next three years. The remainder of the provision relates to estimated costs to complete servicing costs for other sold properties. 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, market, development and construction risks.

- a guarantee of $0.6 million (March 31, 2012 -$0.6 million) relating to rental payments to be made by a former tenant of the corporation. There is uncertainty in the amount and timing of those rental payments.

- potential interest expense of $1.3 million (March 31, 2012 - $1.3 million) associated with the transition to IFRS.

	Legal	Restructuring	Cost to Complete	Others	Total
Balance at March 31, 2012	**$ 1,214**	**$ 2,224**	**$ 1,703**	**$ 1,895**	**$ 7,036**
Provisions added during the period	-	-	-	180	180
Provisions applied during the period	-	(1,358)	(73)	-	(1,431)
Provisions reversed during the period	-	-	-	-	-
Balance at September 30, 2012	**$ 1,214**	**$ 866**	**$ 1,630**	**$ 2,075**	**$ 5,785**

Contingencies

As at September 30, 2012, 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 there from will not have a significant adverse effect on these interim financial statements. However, these matters are subject to inherent uncertainties and their outcome difficult to predict; therefore, management's view of these matters may change in the future.

16. 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 Works and Government Services. 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 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.

c) Accumulated Other Comprehensive (Loss)

Losses on derivative designated as cash flow hedge are recognized in accumulated other comprehensive income. During the year ended March 31, 2012, the cash flow hedge was settled as the interest rate swap related to the term loans was paid on disposal of the MTCC Complex (See note 3).

17. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

		September 30, 2012		March 31, 2012
Less than 1 year	**$**	**248**	$	546
Between 1 and 5 years		**1,626**		1,626
More than 5 years		**42**		42
	$	**1,916**	$	2,214

The corporation has operating lease obligations for office space, computer hardware and other equipment. The leases typically run for a period of 1 to 10 years with an option to renew the lease after that date.

During the period ended September 30, 2012, an amount of $0.1 million was recognized as an expense in the Consolidated Statements of Comprehensive Income in respect of operating leases (September 30, 2011 – $0.2 million).

Leases as lessor

CLC leases out its investment properties, certain inventories and property, plant and equipment under operating leases generally with lease terms between less than 1 year to 46 years. Some leases have renewal options with one lease having nine 10-year renewal options.

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

		September 30, 2012		March 31, 2012
Less than 1 year	**$**	**8,089**	$	8,540
Between 1 and 5 years		**19,393**		17,746
More than 5 years		**10,761**		11,315
	$	**38,243**	$	37,601

During the period ended September 30, 2012, $11.1 million was recognized as rental income in the Consolidated Statements of Comprehensive Income (September 30, 2011 – $16.2 million).

18. Income Taxes

	Three months ended September 30, 2012	Three months ended September 30, 2011	Six months ended September 30, 2012	Six months ended September 30, 2011
Income Tax Expense				
Deferred income tax expense (recovery)	**$ (183)**	$ -	**$ (394)**	$ -
Current income tax expense	**2,476**	21,264	**3,128**	21,731
Total Tax Expense	**$ 2,293**	$ 21,264	**$ 2,734**	$ 21,731
Reconciliation of effective tax rate				
Profit excluding tax	**$ 9,671**	$ 72,503	**$ 12,545**	$ 74,278
Domestic tax rate	**26.85%**	26.85%	**26.85%**	26.85%
Tax using the domestic tax rate	**$ 2,596**	$ 19,465	**$ 3,368**	$ 19,942
Increase and decrease in provision resulting from:				
Non-deductible expenses	**$ 2**	$ 25	**$ 4**	$ 25
Revaluation of deferred taxes to reflect future statutory tax	**(179)**	(748)	**(232)**	(748)
Origination and reversal of temporary differences	**(126)**	2,513	**(406)**	2,513
Total Tax Expense	**$ 2,293**	$ 21,255	**$ 2,734**	$ 21,731

19. Consolidated Statements of Cash Flows – Supplemental Information

Property transferred at amortized cost between the Investment properties and Inventory of $3.4 million (September 30, 2011 - $nil) have been excluded from the investing activities in the Consolidated Statements of Cash Flows.

Non-cash increase in properties(inventories) and notes payable of $0.9 million (September 30, 2011 – $nil) for capitalization of interest have been excluded from the financing and investing activities in the Consolidated Statements of Cash Flows.

During the period ended September 30, 2012, interest received totalled $0.7 million (September 30, 2011 – $0.4 million), interest paid amounted to $0.3 million (September 30, 2011 – $1.0 million) and income taxes paid totalled $3.7 million (September 30, 2011 – 8.6 million).

20. Related Party Transactions and Balances

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

During the period ended September 30, 2012, the corporation paid dividends of $nil (September 30, 2011 – $8.7 million) to its shareholder, the Government of Canada.

The following disclosures represent the significant transactions with related parties:

(i) Most notes payable to the government are non-interest bearing (please refer to note 13 – Notes Payable) and are repayable on the earlier of their due dates or the dates on which net proceeds become available from the sale by CLC of the properties in respect of which the notes were issued.

(ii) CLC received management fees of $0.04 million from the Department of Defence for managing the operations of Canadian Forces Station in Pleasantville, St. John's, Newfoundland (September 30, 2011 – $0.04 million). Management fees are charged at 5% of operating and maintenance costs incurred at the leased premises over the term of the lease.

(iii) CLC also received various rental and other revenues from federal agencies and departments of $1.6 million (September 30, 2011 – $4.6 million, of which $1.9 million are sale of real estate to Public Works and Government Services). The $1.6 million mainly includes rents from leases with Department of Defence, Public Works and Government Services.

(iv) The transactions described above resulted in a net receivable from federal agencies and departments of $0.6 million (March 31, 2012 – $0.9 million).

(v) Key management personnel includes CLC's senior management team and the board of directors. For the period ended September 30, 2012, short-term employee benefits total $1.5 million (September 30, 2011 – $1.9 million). There were no amounts paid to key management personnel relating to other long-term benefits (September 30, 2011 – $nil).

21. Financial Instruments

All financial instruments measured at fair value 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 carrying values and fair values of the corporation's financial instruments are summarized in the following table:
Cash and cash equivalents, short-term investments, trade and other receivables, trade and other payables and prepaid rent, deposits and others approximate their carrying amounts due to their short term maturities.

CLC used an interest rate swap derivative to manage interest rate risk on a portion of its variable debt. This derivative was designated as a cash flow hedge with a notional amount of $50 million and a fixed rate of 2.47% maturing on April 1, 2013. On September 14, 2011, the corporation sold the MTCC Complex and retired the term loans of $94 million associated with the Complex. The cash flow hedge portion of the term loan of $50 million was also retired. At September 30, 2011, the amount of hedge ineffectiveness recorded in interest expense in connection with the corporation's interest rate hedging activities was insignificant.

There has not been any change in valuation technique for financial instruments during the period.

Classification	Subsequent Measurement	Level	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets						
Long-term receivable	Amortized cost	L2	**$ 16,242**	**$ 15,179**	$ 16,570	$ 15,406
Financial Liabilities						
Mortgage bond payable	Amortized cost	L2	**8,990**	**8,660**	11,905	11,419
Notes payable	Amortized cost	L2	**44,398**	**52,621**	47,562	54,513

22. Financial Risk Management

a) Liquidity Risk:

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

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

In September 2011, CLC sold its interest in the office tower on 227 Front Street West and the hotel facility at 225 Front Street West and thus discharged the $95 million term financing loan (See note 12).

CLC has Notes Payable which is owed to the shareholder and under the agreement, the notes are not due until positive cash flows are achieved from the properties by which they are secured (See note 13).

CLC has a mortgage bond payable of $8.7 million at September 30, 2012 (March 31, 2012 – $11.4 million) with semi-annual payments on January 1 and July 1 of $3.1 million. The last payment is on January 1, 2014 (See note 11).

b) Market Risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices.

CLC has little exposure to currency risk. This could have an effect on attractions, food and beverage and other hospitality revenues as a result of a decrease in tourism because of currency fluctuations.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

CLC is exposed to interest rate risk on its borrowings which exposes CLC to unpredictability in forecasting its cash flow requirements. It minimizes this risk by obtaining long-term fixed interest rate debt on some long-term investments. At present we have no borrowing against a line of credit.

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. The corporation does not account for its fixed rate debt instruments as held for trading; therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments.

CLC, as of reporting date, has no financial instruments that could impact the net income or equity.

c) Credit Risk

CLC's credit risk arises from the possibility that tenants or purchasers with vendor take-back mortgages may experience financial difficulty and be unable to pay the amounts owing under their commitments. For Vendor Take Back Mortgages (VTBs), the agreement is secured by a collateral mortgage on the property.

CLC attempts 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 or credit transactions. Also, this risk is further mitigated by signing long-term leases with varying lease expirations.

The corporation's receivables are comprised primarily of current balances owing. CLC performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts.

On September 30, 2012, the corporation has receivables of $8.1 million (March 31, 2012 – $7.1 million).

The corporation's cash, including bank deposits and term deposits as well as security deposits, is held with a major financial institution. The corporation does not expect any related counterparties to fail to meet their obligations.

On September 30, 2012, the corporation's cash and cash equivalent balances are $53.8 million (March 31, 2012 – $57.4 million).

The corporation's maximum exposure to credit risk is limited to the carrying value of each class of financial asset.

On September 30, 2012, CLC has long-term receivables of $13.9 million (March 31, 2012 - $13.4 million) arising from sales of properties. $13.8 million (March 31, 2012 - $13.3 million) of these are covered by collateral mortgages and $0.1 million (March 31, 2012 - $0.1 million) is a promissory note from a municipal government.

CLC has an assignment of rents with a balance of $1.3 million at September 30, 2012 (March 31, 2012 – $1.3 million). Default in payment of subject assignment of rents is covered by a guarantee from the lessee.

23. Capital Management

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

		September 30, 2012		March 31, 2012
Shareholder's Equity	**$**	**401,463**	$	391,653
Mortgage Bond Payable		**8,660**		11,419
Notes Payable		**53,190**		54,513
Cash and Cash Equivalents		**53,847**		57,428
Total	**$**	**517,160**	$	515,013

CLC is in full compliance with the financial covenant of the mortgage bond payable.

CLC has Notes Payable which is owed to the shareholder and under the agreement, the notes are not due until positive cash flows are achieved from the properties.

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 corporate plan which must receive Treasury Board approval.

In order to meet its objective, CLC 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 and money market funds. All are held with major financial institutions.

On September 30, 2012, cash and cash equivalents total $53.8 million. The cash equivalents are invested in term deposits with a Canadian chartered bank with maturities up to 24 days.

CLC's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and 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, debt service and recurring capital and leasing costs in its commercial property, attractions & hospitality and residential development businesses. CLC 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. CLC'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. Additional Information

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

Additional information on these activities is as follows:

	Six months ended September 30, 2012				Six months ended September 30, 2011			
	Real Estate	CN Tower	Hotel	Total	Real Estate	CN Tower	Hotel (1)	Total
Revenues	$ 26,707	$ 42,405	$ -	**$ 69,112**	$ 151,448	$ 38,764	$ 139,775	$ 329,987
Depreciation & amortization	150	3,729	-	**3,879**	2,070	3,546	3,088	8,704
Net income (loss) before tax	(2,243)	14,788	-	**12,545**	61,857	12,421	33,842	108,120
Acquisition and expenditures on properties	20,829	1,508	-	**22,337**	19,198	3,570	5,770	28,538

	Three months ended September 30, 2012				Three months ended September 30, 2011			
	Real Estate	CN Tower	Hotel	Total	Real Estate	CN Tower	Hotel	Total
Revenues	$ 16,685	$ 26,225	$ -	**$ 42,910**	$141,140	$ 24,447	$128,760	$294,347
Depreciation & amortization	74	1,871	-	**1,945**	876	1,803	1,383	4,062
Net income (loss) before tax	(1,970)	11,641	-	**9,671**	62,344	10,160	33,819	106,323
Acquisition and expenditures on properties	11,388	583	-	**11,971**	13,484	2,059	5,293	20,836

	September 30, 2012				September 30, 2011			
	Real Estate	CN Tower	Hotel	Total	Real Estate	CN Tower	Hotel	Total
Total assets	$385,022	$109,323	$ 92	**494,437**	$418,985	$103,473	$ 5,995	$528,453
Other liabilities	25,879	5,207	38	**31,124**	53,741	3,858	2,717	60,316
Mortgage bond, notes payable and term loans	53,190	8,660	-	**61,850**	53,879	14,073	-	67,952

(1) Includes sale of the property for $121.2 million

The numbers presented above do not agree to the interim financial statements as the Hotel activities and balances are classified as discontinued operations on the Consolidated Statements of Comprehensive Income.

Employee benefits expense for the period total $16.6 million (September 30, 2011 – $16.5 million).

25. Pension Plan

CLC has a defined contribution pension plan covering all of its full-time employees and certain part-time employees in accordance with the plan. Employees are eligible to join either at the date of employment or after a year of employment. The amount of the current service cost for the period charged to expense for this plan was $0.4 million for the period ended September 30, 2012 (September 30, 2011 – $0.5 million).