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Canada Development  
Investment Corporation

La Corporation de développement  
des investissements du Canada

First Quarter Report  
March 31, 2017



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Canada Development  
Investment Corporation

La Corporation de développement  
des investissements du Canada

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## **Statement of Management Responsibility by Senior Officials**

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Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with *IAS 34, Interim Financial Reporting* and for such internal controls as management determines are necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the interim condensed consolidated financial statements.

Based on our knowledge, these unaudited interim condensed consolidated financial statements present fairly, in all material respects, the financial position, the financial performance and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 18, 2017.



Michael Carter  
Executive Vice-President



Andrew G. Stafel, CPA, CA  
Vice-President, Finance

Toronto, Ontario  
May 18, 2017

## **Management Discussion and Analysis of Results – for the period ended March 31, 2017**

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The public communications of Canada Development Investment Corporation (“CDEV”), including this interim report, may include forward-looking statements that reflect management’s expectations regarding CDEV’s objectives, strategies, outlooks, plans, anticipations, estimates and intentions.

By their nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. In particular, any predictions, forecasts, projections or other elements of forward-looking statements may not be achieved. A number of risks, uncertainties and other factors could cause actual results to differ materially from what we currently expect.

This Management Discussion and Analysis of Results should be read in conjunction with CDEV’s unaudited interim condensed consolidated financial statements for the period ended March 31, 2017 and CDEV’s Annual Report for the year ended December 31, 2016.

### **Corporate Overview**

CDEV, a federal crown corporation, was incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government in the best interests of Canada, operating in a commercial manner. During the fiscal quarter ended March 31, 2017 the operations and structure of CDEV were the same as those described in the 2016 Annual Report of CDEV, available on our website, [www.cdev.gc.ca](http://www.cdev.gc.ca). CDEV’s subsidiaries are: Canada Eldor Inc. (“CEI”), Canada Hibernia Holding Corporation (“CHHC”), and Canada GEN Investment Corporation (“GEN”).

### **Corporate Performance**

Our year-to-date performance as compared to our key objectives is as follows:

#### **Key Objectives:**

- To manage our investments in the Hibernia oilfield, and continue to oversee the management of CEI’s obligations.
- To continue to manage reviews of government assets assigned to us.
- To continue to manage other issues which may arise and to remain prepared to assume management and divestiture of any other interests of Canada assigned to us for divestiture, in a commercial manner.

#### **Performance:**

We and our subsidiaries continue to manage our investments and obligations as detailed below:

- CHHC recorded an after-tax profit of \$25 million during the first three months of 2017. No dividends to CDEV were declared during the first quarter.
- There was no significant change in the management of CEI’s liabilities.
- CDEV did not pay dividends to the Government during the first three months of 2017.
- We continued to manage several projects and remain prepared to undertake projects suitable to our capabilities.

### **Canada Hibernia Holding Corporation**

Net crude oil revenues were 65% higher in the quarter compared to the comparative quarter in 2016, reflecting a 94% increase in gross crude oil revenue driven by higher realized oil prices and higher sales volumes partially offset by increased royalties and net profits interest expenses. Sales volumes of 1.11 million barrels in the quarter were 25% higher than the 0.89 million barrels sold in the comparative quarter due to a 15% increase in CHHC's net Hibernia production volumes combined with timing differences in cargo sales and sales from inventory.

Hibernia production volumes increased to 154,500 barrels per day in the first quarter of 2017 from 121,800 barrels per day in the comparative quarter, reflecting production additions from the Hibernia Southern Extension Unit's ("HSE Unit") drilling program which more than offset a decline in Hibernia Main Field production. CHHC has two different working interests in the Hibernia field which means that changes in CHHC's net Hibernia production will differ from changes in total gross Hibernia field production.

CHHC's oil prices are based on the benchmark price of Dated Brent crude. The average Dated Brent price improved by 58% in the quarter to US \$54 per barrel compared to US \$34 per barrel in the comparative quarter in 2016, reflecting a strengthening in the global oil markets. The increase in Dated Brent prices was offset by a stronger Canadian dollar, resulting in an average realized price of \$70 per barrel, 56% higher than the comparative period in 2016.

Capital expenditures in the first quarter were largely directed toward drilling activities in the HSE Unit. In the near term, Hibernia owners will continue to focus on the full field development of the HSE Unit (in particular the drilling of subsea water injection wells and platform oil producing wells) and on drilling and capital work-overs in the Hibernia main field.

### **Canada Eldor Inc.**

CEI continues to pay for costs relating to the decommissioning of former mine site properties and for retiree benefits of certain former employees. A plan is in place to undertake work that should allow for the eventual transfer of the mine site properties to the Institutional Control Program of the Province of Saskatchewan within seven years. CEI holds cash and cash equivalents and funds within the Consolidated Revenue Fund of \$23 million to pay for CEI's total estimated liabilities of \$14 million.

### **Canada GEN Investment Corporation**

As GEN sold all of its remaining GM common shareholdings in 2015, it had minimal activity during the quarter.

### **Analysis of External Business Environment**

The ongoing management of our holdings will depend on overall market and economic conditions as well as factors specific to the underlying company or investment. No material changes have been identified since December 31, 2016 as described in the 2016 Annual Report.

## **Risks and Contingencies**

No material changes in risks and contingencies have been identified since December 31, 2016 as described in the 2016 Annual Report.

## **Financial Statements for the Period Ended March 31, 2017**

The interim condensed consolidated financial statements for the period ended March 31, 2017 and comparative figures, have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*.

Consolidated revenue for the three months ended March 31, 2017 was \$55 million, compared to revenue of \$32 million in the comparative period of the prior year. This significant increase is attributable to higher net crude oil revenue in the current quarter. Net crude oil sales increased by 65% in the first quarter of 2017 to \$55 million from \$33 million in the first quarter of 2016. Gross oil sales increased due to higher oil prices and volumes as detailed above. Royalty and net profits interest burdens were significantly higher in the period due to proportionately lower eligible capital and operating cost deductions from revenue in royalty and net profits interest calculations.

Total expenses for the quarter were \$23 million compared to total expenses of \$20 million in the first quarter of 2016. Depletion and depreciation expenses increased by \$4 million in the quarter due to a higher depletion rate and higher production volumes and inventory adjustments. This was partly offset by a \$1 million reduction in production and operating expenses in the quarter, due mainly to lower onshore support costs, the deferral of certain maintenance and R&D projects to future quarters and lower tanker operating costs. Professional fees for the current quarter were higher by \$1 million over the first quarter of 2016 as a result of higher project related expenses.

Cash and cash equivalents as at March 31, 2017 increased to \$228 million compared to \$220 million at December 31, 2016 as operating cash flows exceeded capital investments and working capital changes in the first quarter of 2017.

Accounts receivable increased by \$5 million at March 31, 2017 compared to December 31, 2016 due to an increase in oil sales receivable at quarter end.

Inventory had a nil balance at March 31, 2017 and was instead valued as a \$1 million liability (included within accounts payable and accrued liabilities) to reflect an overlift position of crude oil inventories at quarter-end.

CDEV paid no dividends to the Government during the first quarter of 2017 or the comparative period in 2016.

Interim Condensed Consolidated Financial Statements of

**CANADA DEVELOPMENT INVESTMENT  
CORPORATION**

Three months ended March 31, 2017

(Unaudited)

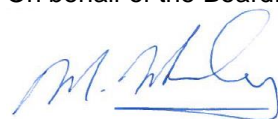
# CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Financial Position  
(Unaudited)  
(Thousands of Canadian Dollars)

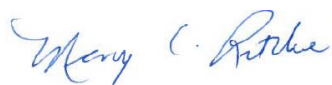
|  | March 31,<br>2017 | December 31,<br>2016 |
|--|-------------------|----------------------|
| <b>Assets</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$ 227,952        | \$ 219,914           |
| Accounts receivable  | 48,977            | 43,820               |
| Inventory  | -                 | 2,451                |
| Prepaid expenses   | 1,519             | 295                  |
| Cash and cash equivalents held for future obligations                    | 3,038             | 3,159                |
|  | <u>281,486</u>    | <u>269,639</u>       |
| Non-current assets:  |                   |                      |
| Property and equipment (note 5)  | 219,098           | 221,118              |
| Cash and cash equivalents held for future obligations                    | 129,122           | 128,837              |
| Cash and cash equivalents held in escrow                                 | 14,227            | 14,227               |
| Deferred tax asset   | 16,171            | 13,466               |
|  | <u>378,618</u>    | <u>377,648</u>       |
|  | <u>\$ 660,104</u> | <u>\$ 647,287</u>    |
| <b>Liabilities and Shareholder's Equity</b>                              |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable and accrued liabilities                                 | \$ 26,679         | \$ 27,252            |
| Income taxes payable   | 3,061             | 13,668               |
| Current portion of provision for decommissioning obligations (note 6(a)) | 3,747             | 2,811                |
| Current portion of provision for site restoration (note 6(b))            | 2,847             | 2,993                |
| Current portion of defined benefit obligation                            | 150               | 150                  |
|  | <u>36,484</u>     | <u>46,874</u>        |
| Non-current liabilities:   |                   |                      |
| Provision for decommissioning obligations (note 6(a))                    | 126,805           | 126,123              |
| Provision for site restoration (note 6(b))                               | 9,545             | 9,976                |
| Defined benefit obligation   | 1,626             | 1,719                |
|  | <u>137,976</u>    | <u>137,818</u>       |
| Shareholder's equity:  |                   |                      |
| Share capital  | 1                 | 1                    |
| Contributed surplus  | 603,294           | 603,294              |
| Accumulated deficit  | (117,651)         | (140,700)            |
|  | <u>485,644</u>    | <u>462,595</u>       |
| Commitments (note 9)   |                   |                      |
| Contingencies (note 10)  |                   |                      |
| Subsequent event (note 13)   |                   |                      |
|  | <u>\$ 660,104</u> | <u>\$ 647,287</u>    |

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

On behalf of the Board:



Director



Director



# CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Comprehensive Income  
(Unaudited)  
(Thousands of Canadian Dollars)

|  | Three months ended |         |
|--|--------------------|---------|
|  | March 31           |         |
|  | 2017               | 2016    |
| <b>Revenue:</b>  |                    |         |
| Net crude oil revenue (note 8(a))                                | 54,938             | 33,211  |
| Foreign exchange loss  | (253)              | (1,783) |
| Interest income  | 605                | 771     |
|  | 55,290             | 32,199  |
| <b>Expenses:</b>   |                    |         |
| Depletion and depreciation (note 5)                              | 15,288             | 11,482  |
| Production and operating expenses (note 8(b))                    | 5,378              | 6,641   |
| Professional fees  | 1,217              | 449     |
| Salaries and benefits  | 1,143              | 1,136   |
| Other expenses   | 241                | 226     |
| Defined benefit expense  | 13                 | 12      |
|  | 23,280             | 19,946  |
| <b>Finance costs:</b>  |                    |         |
| Unwind of discount on decommissioning obligations (note 6(a))    | 669                | 565     |
| Unwind of discount on provision for site restoration (note 6(b)) | 30                 | 26      |
|  | 699                | 591     |
| <b>Profit before income taxes</b>                                | 31,311             | 11,662  |
| <b>Income taxes:</b>   |                    |         |
| Current  | 10,967             | 3,525   |
| Deferred   | (2,705)            | 86      |
|  | 8,262              | 3,611   |
| <b>Profit and comprehensive income</b>                           | 23,049             | 8,051   |

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

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholder's Equity  
(Unaudited)  
(Thousands of Canadian Dollars)

|                                      | Three months ended |                   |
|--------------------------------------|--------------------|-------------------|
|                                      | March 31           |                   |
|                                      | 2017               | 2016              |
| <b>Share capital</b>                 |                    |                   |
| Balance, beginning and end of period | \$ 1               | \$ 1              |
| <b>Contributed surplus</b>           |                    |                   |
| Balance, beginning and end of period | 603,294            | 603,294           |
| <b>Accumulated deficit</b>           |                    |                   |
| Balance, beginning of period         | (140,700)          | (150,141)         |
| Profit                               | 23,049             | 8,051             |
| Balance, end of period               | (117,651)          | (142,090)         |
| <b>Total shareholder's equity</b>    | <b>\$ 485,644</b>  | <b>\$ 461,205</b> |

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

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Cash Flows  
(Unaudited)  
(Thousands of Canadian Dollars)

|   | Three months ended<br>March 31 |                   |
|---|--------------------------------|-------------------|
|   | 2017                           | 2016              |
| <b>Cash provided by (used in):</b>                                      |                                |                   |
| <b>Operating activities:</b>  |                                |                   |
| Profit  | \$ 23,049                      | \$ 8,051          |
| Adjustments for:  |                                |                   |
| Depletion and depreciation  | 15,288                         | 11,482            |
| Income tax expense  | 8,262                          | 3,611             |
| Defined benefits paid in excess of expenses                             | (93)                           | (26)              |
| Interest income from Consolidated Revenue Fund                          | (127)                          | (124)             |
| Unwind of discount on provisions  | 699                            | 591               |
| Provisions settled  | (681)                          | (1,208)           |
| Income taxes paid   | (21,574)                       | (376)             |
|   | <u>24,823</u>                  | <u>22,001</u>     |
| Change in non-cash working capital (note 7)                             | (5,713)                        | (3,108)           |
|   | 19,110                         | 18,893            |
| <b>Investing activities:</b>  |                                |                   |
| Purchase of property and equipment                                      | (11,035)                       | (24,196)          |
| Change in cash and cash equivalents held in escrow                      | -                              | (11,676)          |
| Change in cash and cash equivalents held for future obligations         | (37)                           | -                 |
|   | <u>(11,072)</u>                | <u>(35,872)</u>   |
| Change in cash and cash equivalents                                     | 8,038                          | (16,979)          |
| Cash and cash equivalents, beginning of period                          | 219,914                        | 244,795           |
| <b>Cash and cash equivalents, end of period</b>                         | <b>\$ 227,952</b>              | <b>\$ 227,816</b> |
| <b>Represented by:</b>  |                                |                   |
| Cash  | 56,982                         | 58,891            |
| Cash equivalents  | 170,970                        | 168,925           |
|   | <u>\$ 227,952</u>              | <u>\$ 227,816</u> |
| <b>Supplementary disclosure of cash flow from operating activities:</b> |                                |                   |
| Amount of interest received during the period                           | \$ 578                         | \$ 691            |

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

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

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## 1. Reporting entity:

Canada Development Investment Corporation ("the Corporation" or "CDEV") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The Corporation is an agent Crown corporation listed in Schedule III, Part II of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. In November 2007, the Minister of Finance informed CDEV that its mandate "should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the Government of Canada ("Government") in new policy directions suited to CDEV's capabilities, while maintaining the capacity to divest CDEV's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance".

In July 2015, the Corporation was issued a directive (P.C. 2015-1107) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations and to report on the implementation of the directive in its next corporate plan. The Corporation aligned its policies, guidelines and practices as of October 2015.

The address of the Corporation's registered office is 79 Wellington Street West, Suite 3000, Box 270, TD Centre, Toronto, Ontario, M5K 1N2. The address of the Corporation's principal place of business is 1240 Bay Street, Suite 302, Toronto, Ontario, M5R 2A7.

The Corporation consolidates three wholly-owned subsidiaries: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), and Canada GEN Investment Corporation ("GEN").

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act*. During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation ("Cameco") in exchange for share capital of the purchaser and a promissory note. As a result of the sale of the Cameco shares and the assumption of certain of CEI's remaining debt by the Government in 1995, CEI is left with the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI's remaining obligations include site restoration and retiree defined benefit obligations.

CHHC was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by CDEV in March 1993. CHHC is subject to the *Financial Administration Act* and the *Income Tax Act*. CHHC's sole purpose is the holding and management of its interest in the Hibernia Development Project ("Hibernia Project"). The Hibernia Project is an oil development and production project located offshore Newfoundland and Labrador.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

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## 1. Reporting entity (continued):

CHHC holds an 8.5% working interest in the original Hibernia Project area and a corresponding 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's interest in the Hibernia Project has been recorded in CHHC's financial statements which are consolidated into CDEV's financial statements.

During 2010 and 2011, CHHC and other participants signed agreements with the Province of Newfoundland and Labrador (the "Province") and the Government, received regulatory approvals from the Canada-Newfoundland and Labrador Offshore Petroleum Board ("C-NLOPB") and authorized full funding for development of the Hibernia Southern Extension Unit ("HSE Unit"). CHHC's initial unit working interest in the HSE Unit was 5.08%, was adjusted to 5.73% effective December 1, 2015 pursuant to the first interim reset (in accordance with the Unit Agreement), and was adjusted subsequent to March 31, 2017 as disclosed in note 13. The operator of the HSE Unit is ExxonMobil Canada.

An account is maintained on behalf of the working interest owners of each the Hibernia Development Project and the HSE Unit by its operator, acting as agent (a "joint account"). All common project expenditures are charged to the joint account which is owned and funded by the participants in proportion to their working interest.

GEN was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act*. Until April 6, 2015, GEN held common shares of General Motors Company ("GM"). At March 31, 2017, GEN no longer holds any investments in GM and has minimal activity.

## 2. Basis of preparation:

### a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2016.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 18, 2017.

### b) Basis of measurement:

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- inventory is measured at the lower of cost to produce or net realizable value

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

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## 2. Basis of preparation (continued):

### c) Functional and presentation currency:

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

### d) Use of estimates and judgments:

The preparation of the Corporation's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Critical judgments and key sources of estimation uncertainty are disclosed in note 2(d) of the Corporation's annual consolidated financial statements for the year ended December 31, 2016.

## 3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of application as those presented in note 3 of the annual audited consolidated financial statements for the year ended December 31, 2016, except for those policies which have changed as a result of the adoption of accounting standard amendments effective January 1, 2017, as described below. In addition, income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

### Changes in accounting policies:

The following accounting standard amendment, issued by the International Accounting Standards Board ("IASB"), is effective for the first time in the current financial period and has been adopted in accordance with the applicable transitional provisions:

#### Disclosure initiative

In January 2016, the IASB issued *Statement of Cash Flows: Disclosure Initiative* (Amendments to IAS 7). The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after January 1, 2017 and are to be applied prospectively. The adoption of this amended standard had no material impact on the Corporation's interim condensed consolidated financial statements.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

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## 4. Recent accounting pronouncements issued but not yet effective:

A number of new accounting standards and amendments to existing standards are not yet effective for the period ended March 31, 2017 and have not been applied in preparing these interim condensed consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not intend to early adopt any of the following standards or amendments to existing standards, unless otherwise noted.

### i. Revenue

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") replacing IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and several revenue-related interpretations. The standard clarifies the principles for recognizing revenue from contracts with customers. Disclosure requirements have also been expanded.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, and is to be applied retrospectively. The Corporation does not expect the standard to have a material impact on the financial statements.

### ii. Financial instruments

In July 2014, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial assets, a new expected credit loss model for calculation of impairment on financial assets and new hedge accounting requirements. It also carries forward, from IAS 39, guidance on recognition and derecognition of financial instruments.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, and is to be applied retrospectively. The extent of the impact of adoption of IFRS 9 has not yet been determined.

### iii. Leases

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has been adopted. The extent of the impact of adoption of IFRS 16 has not yet been determined.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

## 5. Property and equipment:

|   | Oil development<br>assets and<br>production facilities |
|---|--|
| <b>Cost</b>                                   |  |
| Balance at December 31, 2016                  | \$ 484,127   |
| Additions for the period                      | 10,568   |
| Decommissioning adjustments                   | 1,023  |
| <b>Balance at March 31, 2017</b>              | <b>\$ 495,718</b>                                      |
| <b>Accumulated depletion and depreciation</b> |  |
| Balance at December 31, 2016                  | \$ 263,009   |
| Depletion and depreciation                    | 13,611   |
| <b>Balance at March 31, 2017</b>              | <b>\$ 276,620</b>                                      |
| <b>Carrying amounts:</b>                      |  |
| At December 31, 2016                          | \$ 221,118   |
| At March 31, 2017                             | \$ 219,098   |

At March 31, 2017, costs subject to the calculations of depletion and depreciation excluded the cost of equipment and facilities currently under construction of \$10,071 (\$10,086 - December 31, 2016) and included future development costs of \$500,412 (\$512,334 - December 31, 2016).

At December 31, 2016, indicators of impairment of CHHC's property and equipment were noted due to a reduction in the Company's estimated remaining proved plus probable oil reserves resulting from a reduction in the Hibernia Project operator's capital budget. Accordingly, CHHC's single cash generating unit (CGU) was tested for impairment. Based on the impairment test performed, there was no impairment of property and equipment at December 31, 2016.

At March 31, 2017, there were no indicators of impairment of CHHC's property and equipment for the period ended March 31, 2017. Accordingly, an impairment test was not required.



# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

## 6. Provisions:

Changes to provisions for decommissioning obligations and site restoration were as follows:

|                              | Decommissioning<br>obligations | Site<br>restoration |
|------------------------------|--------------------------------|---------------------|
| Balance at December 31, 2016 | \$ 128,934                     | \$ 12,969           |
| Additional provisions        | 1,655                          | -                   |
| Changes in estimates         | (713)                          | -                   |
| Obligations settled          | (74)                           | (607)               |
| Changes in discount rate     | 81                             | -                   |
| Unwind of discount           | 669                            | 30                  |
| Balance at March 31, 2017    | \$ 130,552                     | \$ 12,392           |
| Current                      | 3,747                          | 2,847               |
| Non-current                  | 126,805                        | 9,545               |
| Provisions                   | \$ 130,552                     | \$ 12,392           |

### a) Provision for decommissioning obligations of CHHC:

The provision for decommissioning obligations is based on CHHC's net ownership interest in wells and facilities and management's estimate of costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred. CHHC estimates the total future undiscounted liability to be \$276,271 at March 31, 2017 (\$273,869 - December 31, 2016). Estimates of decommissioning obligation costs can change significantly based on factors such as operating experience and changes in legislation and regulations.

These obligations will be settled based on the expected timing of abandonment, which currently extends up to the year 2056 and is based upon the useful lives of the underlying assets. The provision was calculated at March 31, 2017 using an inflation rate of 2.00% (2.00% - December 31, 2016) and was discounted using an average risk-free rate of 2.10% (2.11% - December 31, 2016).

### b) Provision for site restoration of CEI:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to the sale of assets to Cameco. Provision for site restoration as at the date of the interim condensed consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. The estimates used to calculate the provision for site restoration are described in the consolidated financial statements for the year ended December 31, 2016. There were no significant changes to estimates used.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

## 7. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the periods ended March 31 include the following:

|  | 2017              | 2016               |
|--|-------------------|--------------------|
| Change in accounts receivable                      | \$ (5,157)        | \$ 4,385           |
| Change in inventory                                | 1,949             | 52                 |
| Change in prepaid expenses                         | (1,224)           | (1,287)            |
| Change in accounts payable and accrued liabilities | (1,748)           | (18,441)           |
| <b>Change in non-cash working capital items</b>    | <b>\$ (6,180)</b> | <b>\$ (15,291)</b> |
| Relating to:                                       |                   |                    |
| Operating activities                               | \$ (5,713)        | \$ (3,108)         |
| Investing activities                               | (467)             | (12,183)           |
| <b>Change in non-cash working capital items</b>    | <b>\$ (6,180)</b> | <b>\$ (15,291)</b> |

Property and equipment expenditures comprise the following:

|  | 2017               | 2016               |
|--|--------------------|--------------------|
| Property and equipment additions (note 5)                | \$ (10,568)        | \$ (12,013)        |
| Change in non-cash investing working capital             | (467)              | (12,183)           |
| <b>Cash used for property and equipment expenditures</b> | <b>\$ (11,035)</b> | <b>\$ (24,196)</b> |

## 8. Net crude oil revenue and production and operating expenses:

a) Net crude oil revenue for the periods ended March 31 is comprised as follows:

|                              | Three months ended<br>March 31 |                  |
|------------------------------|--------------------------------|------------------|
|                              | 2017                           | 2016             |
| Gross crude oil revenue      | \$ 77,470                      | \$ 39,885        |
| Less: marketing fees         | (143)                          | (154)            |
| Less: royalties              | (17,487)                       | (6,080)          |
| Less: net profits interest   | (4,902)                        | (440)            |
| <b>Net crude oil revenue</b> | <b>\$ 54,938</b>               | <b>\$ 33,211</b> |

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## 8. Net crude oil revenue and production and operating expenses (continued):

b) Production and operating expenses for the periods ended March 31 are comprised as follows:

|  | Three months ended<br>March 31 |                 |
|--|--------------------------------|-----------------|
|  | 2017                           | 2016            |
| Hibernia joint account production and operating          | \$ 5,066                       | \$ 5,687        |
| Crude oil transportation                                 | 1,205                          | 1,521           |
| Facility use fees net of incidental net profits interest | (893)                          | (567)           |
| <b>Total production and operating expense</b>            | <b>\$ 5,378</b>                | <b>\$ 6,641</b> |

## 9. Commitments:

CHHC's commitments at March 31, 2017 are summarized in the table below and include crude oil transportation and transshipment commitments, CHHC's share of Hibernia Project contract commitments (drilling, well and related services including helicopters and support vessels) and operating leases for its office premises and its share of HMDC's office premises.

|   | 2017             | 2018-2021        | Thereafter       | Total            |
|---|------------------|------------------|------------------|------------------|
| Crude oil transportation and transshipment services | \$ 4,005         | \$ 18,361        | \$ 34,776        | \$ 57,142        |
| Hibernia Project contracts                          | 5,842            | 22,408           | –                | 28,250           |
| Office premises                                     | 419              | 955              | –                | 1,374            |
| <b>Total Commitments</b>                            | <b>\$ 10,266</b> | <b>\$ 41,724</b> | <b>\$ 34,776</b> | <b>\$ 86,766</b> |

## 10. Contingencies:

The Corporation or its subsidiaries, in the normal course of its operations, may become subject to a variety of legal and other claims against the Corporation. Where it is probable that a past event will require an outflow of resources to settle the obligation and a reliable estimate can be made, management accrues its best estimate of the costs to satisfy such claims.

CHHC is a party to a contractual dispute, the outcome of which is subject to confidential dispute resolution proceedings with a related court proceeding. The court proceeding was heard in March 2017 and CHHC is currently awaiting a decision. CHHC is not disclosing its estimate of the financial effect, if any, of the dispute as such disclosure would prejudice CHHC. Based on information presently available and after consultation with external legal counsel, management believes that the probable resolution will be favorable to CHHC, and thus no amount has been recognized in the financial statements.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

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## 10. Contingencies (continued):

CEI is co-defendant with the Province of Ontario, the Attorney General of Canada, the Canadian Nuclear Safety Commission and BOC Canada Limited in a proposed class action lawsuit brought by certain residents of the municipality formerly known as Deloro in the County of Hastings, Ontario. The lawsuit is based on the alleged contamination of certain properties. CEI has filed a notice of intent to defend. While no liability is admitted, the financial impact on the Corporation, if defence against the action is unsuccessful, is currently not determinable.

In March 2015, CDEV received notice of a lawsuit filed in 2014 in the Republic of Panama against Multidata Systems International Inc., Nordion Inc., and CDEV. The lawsuit alleges that the defendants are liable for injuries to the plaintiffs as a result of overexposure to radiation from equipment during treatments received at a clinic in Panama. Management believes that it is not probable there will be an outflow of resources in relation to this lawsuit and thus no accrual has been recorded on the consolidated financial statements as at March 31, 2017.

## 11. Risks to the Corporation:

Overview:

The nature of CDEV's consolidated operations expose the Corporation to risks arising from its financial instruments that may have a material effect on cash flows, profit and comprehensive income (loss). The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Corporation's annual financial statements as at December 31, 2016. There have been no changes in the Corporation's financial risk management objectives, policies and processes for measuring and managing these risks since year end.

Fair value of financial instruments:

The Corporation's only financial asset carried at fair value is cash and cash equivalents held for future obligations of \$132,160 (\$131,996 - December 31, 2016) and the fair value measurement is a Level 1 (quoted prices in active markets) at March 31, 2017 and December 31, 2016.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short-term nature of these items. There were no movements between levels in the fair value hierarchy during the period.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three months ended March 31, 2017

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## **12. Related party transactions:**

The Corporation is related in terms of common ownership to all Canadian federal government departments, agencies and Crown corporations. The Corporation may enter into transactions with some of these entities in the normal course of business under its stated mandate.

CDEV paid no dividends to the Government of Canada during the three months ended March 31, 2017 or March 31, 2016.

## **13. Subsequent event:**

Pursuant to the second interim reset provisions of the HSE Unit Agreement, CHHC's working interest in the HSE Unit decreased to 5.63% (from 5.73%), effective May 1, 2017. The Unit operator will provide calculations of adjustments required to certain historical capital expenditures and royalties associated with the second interim reset in accordance with the Unit Agreement. These adjustments are expected to be completed by June 30, 2017 and are not expected to be material to the consolidated financial statements.

Previously CHHC's working interest in the HSE Unit had been increased to 5.73% effective December 1, 2015 from its initial working interest of 5.08%, pursuant to the first interim reset provisions of the Unit Agreement.