CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

First Quarter Report
March 31, 2016

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Contents

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Statement of Management Responsibility by Senior Officials

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 19, 2016.

Michael Carter Executive Vice-President	Andrew G. Stafl, CPA, CA Vice-President, Finance

Toronto, Ontario
May 19, 2016

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, 2016 and CDEV's Annual Report for the year ended December 31, 2015.

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, 2016 the operations and structure of CDEV were the same as those described in the 2015 Annual Report of CDEV, available on our website, www.cdev.gc.ca. CDEV's subsidiaries are: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), and Canada GEN Investment Corporation ("GEN").

In the fourth quarter of 2015, CDEV amended its guidelines and policies governing travel and hospitality to align with current Treasury Board guidelines, including the Directive on Travel, Hospitality, Conference and Event Expenditures. The quarterly travel and hospitality expenses for CDEV's directors and officers are posted on our website.

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 the portions of the Corporate Asset Management Review ("CAMR") 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 $9 million during the first three months of 2016. 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 2016.
- We continued to manage several projects but undertook limited activity in the quarter, and remain prepared to undertake projects suitable to our capabilities.

Canada Hibernia Holding Corporation

Net crude oil revenues were 9% lower in the quarter compared to the comparative quarter in 2015, reflecting a 34% decline in realized oil prices partially offset by higher sales volumes and a significant reduction in royalties and net profits interest expenses.

Sales volumes of 0.89 million barrels in the quarter were 17% higher than the 0.76 million barrels sold in the comparative quarter due to a 4% increase in CHHC's net Hibernia production volumes combined with timing differences in cargo sales.

Hibernia production volumes increased to 121,800 barrels per day in the first quarter of 2016 from 109,900 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 working interest in the HSE Unit increased to 5.73% compared to 5.08% in the first quarter of 2015, as a result of an interim reset of working interests in December 2015. CHHC's working interest in the Hibernia Main Field remains at 8.5%.

CHHC's oil prices are based on the price of Dated Brent crude. The average Dated Brent price declined 37% in the quarter to US $34 per barrel compared to US $54 per barrel in the comparative quarter in 2015, reflecting global oversupply. CHHC's realized crude oil prices benefitted from favorable foreign exchange rates, resulting in an average price of $45 per barrel, 34% lower than the comparative period in 2015.

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). The topsides equipment for the gas lift project was successfully commissioned.

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 eight years. CEI holds cash and cash equivalents and funds within the Consolidated Revenue Fund of $25 million to pay for CEI's total estimated liabilities of $17 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, 2015 as described in the 2015 Annual Report.

Risks and Contingencies

No material changes in risks and contingencies have been identified since December 31, 2015 as described in the 2015 Annual Report.

Financial Statements for the Period Ended March 31, 2016

The interim condensed consolidated financial statements for the period ended March 31, 2016 and comparable figures, have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

Consolidated revenue for the three months ended March 31, 2016 was $32 million, compared to revenue of $67 million in the comparative period of the prior year. This significant decline is primarily attributable to the decrease in dividend income and net crude oil revenue in the current quarter. In the first quarter of 2016, there were no dividends received from GM common shares as the shares were sold in April 2015. In the comparative period of 2015, GEN received $28 million in GM common share dividends. Net crude oil sales declined 9% in the first quarter of 2016 to $33 million from $37 million in the first quarter of 2015 as detailed above. Royalty and net profits interest burdens were significantly lower in the period due to proportionately higher eligible capital and operating cost deductions from revenue in royalty and net profits interest calculations.

Total expenses for the quarter were $20 million compared to total expenses of $16 million in the first quarter of 2015. Production and operating expenses increased by $2 million in the quarter, reflecting increases in equipment maintenance, research and development, inventory adjustments and HSE Unit operating costs, partially offset by lower oil transportation expenses. Depletion and depreciation expenses increased by $3 million in the quarter due to a higher depletion rate and higher production volumes and inventory adjustments.

The remaining GM common share investment was sold on April 6, 2015. Thus there was no other comprehensive income ("OCI") recognized in the first quarter of 2016. During the comparable period of 2015, the change in the value of the GM common share investment was reflected as OCI of $518 million.

Cash and cash equivalents as at March 31, 2016 decreased to $228 million compared to $245 million at December 31, 2015 largely due to a $12 million transfer to cash and cash equivalents held in escrow.

The cash and cash equivalents held in escrow increased $12 million since December 31, 2015 to satisfy new proof of financial responsibility requirements under the federal *Energy Safety and Security Act* for both the Hibernia Main field and the HSE Unit.

Accounts receivable decreased by $4 million at March 31, 2016 compared to December 31, 2015 due to a reduction in oil sales receivable which was partially offset by an increase in the balance of unspent cash calls related to the Hibernia Main Field.

Property and equipment increased $12 million from December 31, 2015, comprised of capital additions of $23 million offset by $11 million of depletion and depreciation. The $23 million of capital additions includes $12 million of cash expenditures, primarily related to HSE drilling activities, and an $11 million increase in non-cash decommissioning obligation cost adjustments. The decommissioning obligation cost adjustments result from lower discount rates, new obligations and changes in estimates of future cash flows.

Accounts payable as at March 31, 2016 decreased to $17 million compared to $36 million at December 31, 2015 due to the payment of two large year-end payables related to royalties and HSE Unit capital cost adjustments.

The provision for decommissioning obligations increased to $142 million from $131 million at December 31, 2015 primarily due to a lower discount rate being used and to changes in other estimates.

CDEV paid nil dividends to the Government during the first quarter of 2016. Dividends paid in the comparative period in 2015 were $820 million.

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three months ended March 31, 2016

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

		March 31, 2016		December 31, 2015
Assets				
Current assets:				
Cash and cash equivalents	$	227,816	$	244,795
Accounts receivable		15,900		20,285
Income taxes recoverable		4,773		7,922
Inventory		5,032		5,246
Prepaid expenses		1,543		256
Cash on deposit in the Consolidated Revenue Fund		3,105		3,578
		258,169		282,082
Non-current assets:				
Cash on deposit in the Consolidated Revenue Fund		116,481		115,884
Cash and cash equivalents held in escrow (note 6)		16,279		4,603
Property and equipment (note 4)		235,863		224,106
Deferred tax asset		11,293		11,379
		379,916		355,972
	$	638,085	$	638,054
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	17,129	$	35,570
Current portion of provision for site restoration (note 7(b))		2,884		3,379
Current portion of provision for decommissioning obligations		1,871		-
Current portion of defined benefit obligation		180		180
		22,064		39,129
Non-current liabilities:				
Provision for decommissioning obligations (note 7(a))		140,588		130,914
Provision for site restoration (note 7(b))		12,484		13,087
Defined benefit obligation		1,744		1,770
		154,816		145,771
Shareholder's equity:				
Share capital		1		1
Contributed surplus		603,294		603,294
Accumulated deficit		(142,090)		(150,141)
		461,205		453,154
Commitments (note 10)				
Contingencies (note 11)				
	$	638,085	$	638,054

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

On behalf of the Board:

M. Whaley ____________________ Director   Mary C. Ritchie ____________________ Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	Three months ended March 31 2016	2015
Revenue:		
Net crude oil revenue (note 9(a))	$ 33,211	$ 36,690
Dividends (note 5)	-	28,102
Foreign exchange (loss) gain	(1,783)	1,746
Interest income	771	584
	32,199	67,122
Expenses:		
Depletion and depreciation (note 4)	11,482	8,453
Production and operating expenses (note 9(b))	6,641	4,846
Professional fees	449	1,399
Salaries and benefits	1,136	1,138
Other expenses	226	267
Defined benefit expense	12	16
	19,946	16,119
Finance costs:		
Unwind of discount on decommissioning obligations (note 7(a))	565	471
Unwind of discount on provision for site restoration (note 7(b))	26	53
	591	524
Profit before income taxes	11,662	50,479
Income taxes:		
Current	3,525	6,994
Deferred	86	(114)
	3,611	6,880
Profit	8,051	43,599
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Change in fair value of investment in common shares	-	518,211
Comprehensive income	$ 8,051	$ 561,810

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	
	2016	2015
Share capital		
Balance, beginning and end of period	$ 1	$ 1
Contributed surplus		
Balance, beginning and end of period	603,294	1,726,527
Accumulated deficit		
Balance, beginning of period	(150,141)	(255,545)
Profit	8,051	43,599
Dividends	-	(820)
Balance, end of period	(142,090)	(212,766)
Accumulated other comprehensive income		
Balance, beginning of period	-	1,848,138
Change in fair value of investment in common shares	-	518,211
Balance, end of period	-	2,366,349
Total shareholder's equity	$ 461,205	$ 3,880,111

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 March 31	
	2016	2015
Cash provided by (used in):		
Operating activities:		
Profit	$ 8,051	$ 43,599
Adjustments for:		
Depletion and depreciation	11,482	8,453
Income tax expense	3,611	6,880
Defined benefits paid in excess of expenses	(26)	(31)
Interest income from Consolidated Revenue Fund	(124)	(187)
Unwind of discount on provisions	591	524
Provisions settled	(1,208)	(757)
Income taxes paid	(376)	(8,100)
	22,001	50,381
Change in non-cash working capital (note 8)	(3,108)	(8,799)
	18,893	41,582
Financing activities:		
Dividends paid	-	(467,809)
	-	(467,809)
Investing activities:		
Purchase of property and equipment	(12,013)	(8,412)
Change in cash held in escrow	(11,676)	-
Change in non-cash working capital (note 8)	(12,183)	1,372
	(35,872)	(7,040)
Change in cash and cash equivalents	(16,979)	(433,267)
Cash and cash equivalents, beginning of period	244,795	609,420
Cash and cash equivalents, end of period	$ 227,816	$ 176,153
Represented by:		
Cash	58,891	52,857
Cash equivalents	168,925	123,296
	$ 227,816	$ 176,153
Supplementary disclosure of cash flow from operating activities:		
Amount of interest received during the period	$ 691	$ 584
Amount of dividends received during the period	$ -	$ 28,102

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

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 late 2009, the Corporation began assisting the Department of Finance in its Corporate Asset Management Review programme involving the review of certain Government corporate assets.

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. 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

1. Reporting entity (continued):

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 was 5.08% and was adjusted to 5.73% effective December 1, 2015 pursuant to the first interim reset in accordance with the Unit Agreement.

An account is maintained on behalf of the working interest owners of each of 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") and, until December 31, 2014, GEN held Series A Fixed Rate Cumulative Perpetual Preferred Stock of GM with a liquidation preference value of US$25/preferred share.

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, 2015.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 19, 2016.

b) Basis of measurement:

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

- available-for-sale financial assets are measured at fair value
- inventory is measured at the lower of cost to produce or net realizable value

c) Functional and presentation currency:

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

2. Basis of preparation (continued):

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, 2015.

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, 2015 except for those policies which have changed as a result of the adoption of accounting standard amendments effective January 1, 2016, as described below.

Changes in accounting policies:

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

- **Amendments to IFRS 11, *Joint Arrangements: Accounting for acquisitions of interests in joint operations***
  The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, by applying IFRS 3, *Business Combinations* and other IFRSs. The adoption of this amended standard had no impact on the Corporation's interim condensed consolidated financial statements.
- **Amendments to IAS 1, *Presentation of Financial Statements: Disclosure Initiative***
  The amendments are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements and where and in what order information is presented in the financial disclosures, and includes guidance on how to apply the concepts of materiality and aggregation in practice. The adoption of this amended standard had no material impact on the Corporation's interim condensed consolidated financial statements.

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

4. Property and equipment:

	Oil development assets and production facilities
Cost	
Balance at December 31, 2015	$ 438,024
Additions for the period	12,013
Decommissioning adjustments	11,064
Balance at March 31, 2016	$ 461,101
Accumulated depletion and depreciation	
Balance at December 31, 2015	$ 213,918
Depletion and depreciation	11,320
Balance at March 31, 2016	$ 225,238
Carrying amounts	
At December 31, 2015	$ 224,106
At March 31, 2016	$ 235,863

At March 31, 2016, costs subject to the calculations of depletion and depreciation excluded the cost of equipment and facilities currently under construction of $9,765 ($19,998 - December 31, 2015) and included future development costs of $818,882 ($832,000 - December 31, 2015).

At December 31, 2015, indicators of impairment of CHHC's property and equipment were noted due to a decline in forecasted oil prices, and accordingly CHHC's CGU was tested for impairment. Based on the impairment test performed, there was no impairment of property and equipment for the year ended December 31, 2015.

At March 31, 2016, there were no indicators of impairment of CHHC's property and equipment for the period ended March 31, 2016. Accordingly, an impairment test was not required.

5. Investments:

The changes in investment balances by each classification of financial instruments reflected in the interim condensed consolidated statement of comprehensive income are as follows:

	Three months ended March 31	
	2016	2015
Net change in fair value of available-for-sale assets (in OCI):		
Common shares of GM		
Change in fair value of investment in common shares	$ -	$ 518,211

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

5. Investments (continued):

Available-for-sale financial assets:

The investment in the common shares of GM was designated as available-for-sale financial assets. The GM common shares were measured at fair value with any changes recorded in other comprehensive income.

In the second quarter of 2015, the Corporation sold its remaining holdings of 73,389,831 common shares of GM. In the first quarter of 2015, GEN received $28,102 in dividends on the GM common shares.

6. Cash held in escrow:

CHHC maintains cash escrow accounts to collateralize outstanding letters of credit.

During the period ended March 31, 2016, CHHC increased the amount of cash held in escrow to collateralize two new letters of credit provided to the C-NLOPB. The letters of credit were required to comply with new federal legislation which required an increase to the evidence of financial responsibility provided to the regulators of offshore oil projects in Canada. The new legislation required the Hibernia and HSE Unit owners to separately provide $100 million of evidence of financial responsibility to the C-NLOPB, in respect of the operations and drilling authorizations granted to the Hibernia Project. CHHC complied with the new legislation by providing two letters of credit, each collateralized by a new escrow account, totalling $14,227 for its proportionate working interest share. Cash escrow funds of $2,550 associated with evidence of financial responsibility under the former legislation were returned to CHHC.

7. Provisions:

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

	Decommissioning obligations	Site restoration
Balance at December 31, 2015	$ 130,914	$ 16,466
Obligations settled	(84)	(1,124)
Changes in estimates of future cash flows	1,554	-
New obligations	1,870	-
Changes in discount rate	7,640	-
Unwind of discount	565	26
Balance at March 31, 2016	$ 142,459	$ 15,368
Current	1,871	2,884
Non-current	140,588	12,484
Provisions	$ 142,459	$ 15,368

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

7. Provisions (continued):

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 $256,339 at March 31, 2016 ($253,006 - December 31, 2015). 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 2055 and is based upon the useful lives of the underlying assets. The provision was calculated at March 31, 2016 using an inflation rate of 2.0% (2.0% - December 31, 2015) and was discounted using an average risk-free rate of 1.73% (2.15% - December 31, 2015).

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. The estimates used to calculate the provision for site restoration are described in the consolidated financial statements for the year ended December 31, 2015. There were no significant changes to estimates used.

8. Supplemental cash flow disclosure:

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

		2016		2015
Change in accounts receivable	$	4,385	$	(2,025)
Change in inventory		52		(551)
Change in prepaid expenses		(1,287)		(1,267)
Change in accounts payable and accrued liabilities		(18,441)		(3,584)
Change in non-cash working capital items	$	(15,291)	$	(7,427)
Relating to:				
Operating activities	$	(3,108)	$	(8,799)
Investing activities		(12,183)		1,372
Change in non-cash working capital items	$	(15,291)	$	(7,427)

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

9. Net crude oil revenue and production and operating expenses:

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

	2016	2015
Gross crude oil revenue	$ 39,885	$ 51,664
Less: marketing fees	(154)	(105)
Less: royalties	(6,080)	(11,523)
Less: net profits interest	(440)	(3,346)
Net crude oil revenue	$ 33,211	$ 36,690

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

	2016	2015
Hibernia joint account production and operating expense	$ 5,687	$ 3,158
Crude oil tanker operating expense	1,521	3,239
Facility use fees net of incidental net profits interest	(567)	(544)
Recoveries of crude oil tanker operating expense	-	(1,007)
Total production and operating expense	$ 6,641	$ 4,846

10. Commitments:

CHHC's commitments at March 31, 2016 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.

	2016	2017-2020	Thereafter	Total
Crude oil transportation and transshipment services	$ 4,129	$ 19,187	$ 43,317	$ 66,633
Hibernia Project contracts	16,004	13,136	6,104	35,244
Office premises	407	1,481	–	1,888
Total Commitments	$ 20,540	$ 33,804	$ 49,421	$ 103,765

11. 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 an ongoing contractual dispute, the outcome of which is subject to confidential dispute resolution proceedings. 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 of this dispute will be favorable to CHHC, and thus no amount has been recognized in the interim condensed consolidated financial statements.

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 interim condensed consolidated financial statements.

12. 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, 2015. 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.

12. Risks to the Corporation (continued):

Fair value of financial instruments:

The Corporation's only financial asset carried at fair value is cash on deposit in the Consolidated Revenue Fund of $119,586 ($119,462 - December 31, 2015) and the fair value measurement is a Level 1 (quoted prices in active markets) at March 31, 2016 and December 31, 2015.

The carrying amounts of cash and cash equivalents, accounts receivable and 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.

13. 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 dividends to the Government of Canada for the three months ended March 31, 2016 in the amount of $nil (2015 - $467,809).