Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Third Quarter Report

September 30, 2016

Canada Development Investment Corporation | La Corporation de développement des investissements du Canada

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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 November 17, 2016.

Michael Carter
Executive Vice-President

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

Toronto, Ontario
November 17, 2016

Management Discussion and Analysis of Results – for the period ended September 30, 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 September 30, 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 September 30, 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"). As discussed in Note 1 of the interim condensed consolidated financial statements for the quarter, CDEV transferred the sole outstanding share of PPP Canada Inc. to the Minister of Infrastructure, Communities and Intergovernmental Affairs on July 4, 2016.

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 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 $44 million for the first nine months of 2016. No dividends to CDEV were declared during the first nine months of 2016.

- There was no significant change in the management of CEI's liabilities.
- CDEV did not pay dividends to the Government during the first nine months of 2016.
- We commenced several projects in the quarter, and remain prepared to undertake further projects suitable to our capabilities.

Canada Hibernia Holding Corporation

Net crude oil revenues increased to $45 million in the quarter from $24 million in the comparative quarter of 2015 due primarily to higher gross crude oil sales driven by higher sales volumes. Sales volumes of 0.94 million barrels in the quarter were 97% higher than the 0.47 million barrels sold in the comparative quarter due to an increase in CHHC's net Hibernia production volumes combined with favorable timing differences in cargo sales. Also, sales volumes were limited in the comparative quarter due to the triennial platform turnaround.

Gross Hibernia production volumes increased to 143,600 barrels per day in the third quarter of 2016 from 82,900 barrels per day in the comparative quarter, reflecting new production from the Hibernia Southern Extension Unit ("HSE Unit") where the drilling program has been focused which more than offset a modest decline in Hibernia Main Field production. Furthermore, production in the comparative quarter was negatively impacted by downtime associated with the triennial platform turnaround which took place in September-October 2015. CHHC has two different working interests in the Hibernia field which means that changes in CHHC's net share of Hibernia production will differ from changes in total gross Hibernia field production. CHHC's working interest is 5.73% in the HSE Unit compared to an 8.5% working interest in the Hibernia Main Field.

CHHC's oil prices are based on the price of Dated Brent crude. The average Dated Brent price declined 8% in the quarter to US $46 per barrel compared to US $50 per barrel in the comparative quarter in 2015, reflecting oversupply in the global oil markets. CHHC's realized crude oil prices benefitted from favorable foreign exchange rates – which were relatively unchanged quarter over quarter – resulting in an average realized Canadian price of $61 per barrel, compared to $66 per barrel in the same quarter of 2015, a decrease of 7%.

Capital expenditures in the third quarter were directed toward drilling activities in the HSE Unit and the platform drilling rig upgrades. 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).

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 $24 million to pay for CEI's total estimated liabilities of $16 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 September 30, 2016

The interim condensed consolidated financial statements for the period ended September 30, 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 September 30, 2016 was $45 million, compared to revenue of $26 million in the same period of the prior year. The significant increase is primarily due to higher net crude oil sales in the current quarter. Net crude oil sales increased 85% in the third quarter of 2016 to $45 million from $24 million in the third quarter of 2015 primarily due to 97% higher sales volumes partly offset by slightly lower prices.

Total expenses for the quarter were $19 million compared to total expenses of $11 million in the third quarter of 2015. The increase is primarily due to an increase in depletion and depreciation expenses to $12 million, from $5 million in the prior year due to a higher per barrel depletion rate and higher production volumes and inventory adjustments. Production and operating costs increased to $5 million from $4 million in the prior year due mainly to higher well work-over expenses and inventory adjustments. This was partly offset by a $1 million reduction in the provision for site restoration expense during the quarter due to an adjustment to the estimate received from Cameco during the quarter.

Consolidated revenue for the nine months ended September 30, 2016 was $123 million, compared to revenue of $2,299 million in the prior year period. The large decrease is mainly attributable to the gain on sale of the GM common shares of $2,131 million recorded in the second quarter of the prior year. This was partly offset by higher year-to-date net crude oil revenue compared to the prior year-to-date period. Year-to-date net crude oil sales were $123 million, a 25% increase from $99 million in the prior year due to higher gross oil sales driven by higher sales volumes and lower royalty and NPI expenses resulting from increased eligible cost deductions and certain refunds. There were no dividends received year-to-date from GM common shares as the shares were sold in April 2015. In the year-to-date period of 2015, GEN received $28 million in GM common share dividends.

In the first nine months of 2016, we recognized a $2 million loss on foreign exchange largely due to the impact of the strengthening of the CAD in relation to the US dollar on USD revenue conversions, particularly in the first quarter. In the first nine months of 2015, we recognized a gain on foreign exchange of $39 million which primarily related to the GM share sale during the second quarter due to an appreciation of the US dollar between the trade date and the settlement date.

Year-to-date expenses were $59 million compared to $44 million in the prior year-to-date period. Depletion and depreciation costs increased to $36 million from $22 million in the nine months ended September 30, 2015, due to a higher per barrel depletion rate, higher production volumes and larger inventory adjustments. Operating and production costs increased to $19 million from $16 million in the prior year-to-date period as a result of higher costs related to inventory and R&D. This was partly offset by a decline in professional fees by $1 million due to a lower activity level and a $1 million reduction in the provision for site restoration expense during the quarter.

There was no other comprehensive income (“OCI”) recognized year to date in 2016, as the remaining GM common share investment was sold on April 6, 2015. During the comparable period of 2015, the change in the value of the GM common share investment was reflected as OCI of $283 million and the gain on sale of the investment in GM common shares of $2,131 million was transferred to profit and loss.

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 of $29 million increased by $9 million at September 30, 2016 compared to December 31, 2015 due to increases in oil sales receivable and cash call balances receivable.

Property and equipment of $256 million increased $32 million from December 31, 2015, comprised of capital additions of $67 million offset by $35 million of depletion and depreciation. The $67 million of capital additions includes $37 million of cash expenditures, primarily related to HSE drilling activities, and $30 million of 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 September 30, 2016 decreased to $20 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 costs.

CDEV paid nil dividends to the Government during the first nine months of 2016. Dividends paid in the comparative period in 2015 were $3,731 million which were primarily funded from proceeds from the sale of GM shares.

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three and nine months ended September 30, 2016

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 260,428	$ 244,795
Accounts receivable	28,661	20,285
Income taxes recoverable	-	7,922
Inventory	3,587	5,246
Prepaid expenses	697	256
Cash on deposit in the Consolidated Revenue Fund	3,521	3,578
	296,894	282,082
Non-current assets:		
Cash on deposit in the Consolidated Revenue Fund	116,339	115,884
Cash and cash equivalents held in escrow (note 6)	16,279	4,603
Property and equipment (note 4)	255,656	224,106
Deferred tax asset	12,236	11,379
	400,510	355,972
	$ 697,404	$ 638,054
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 19,572	$ 35,570
Income taxes payable	4,272	-
Current portion of provision for site restoration (note 7(b))	3,321	3,379
Current portion of provision for decommissioning obligations (note 7(a))	1,885	-
Current portion of defined benefit obligation	150	180
	29,200	39,129
Non-current liabilities:		
Provision for decommissioning obligations (note 7(a))	159,857	130,914
Provision for site restoration (note 7(b))	10,529	13,087
Defined benefit obligation	1,716	1,770
	172,102	145,771
Shareholder's equity:		
Share capital	1	1
Contributed surplus	603,294	603,294
Accumulated deficit	(107,193)	(150,141)
	496,102	453,154
Commitments (note 10)		
Contingencies (note 11)		
	$ 697,404	$ 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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Revenue:				
Gain on sale of investment in common shares (note 5)	$ -	$ -	$ -	$ 2,130,987
Net crude oil revenue (note 9(a))	44,521	24,075	123,020	98,684
Dividends (note 5)	-	-	-	28,102
Foreign exchange gain (loss)	(11)	1,699	(1,871)	39,396
Interest income	572	647	1,984	1,968
	45,082	26,421	123,133	2,299,137
Expenses:				
Depletion and depreciation (note 4)	12,442	5,377	36,174	21,765
Production and operating (note 9(b))	5,292	4,226	19,485	16,388
Professional fees	691	428	1,393	2,856
Salaries and benefits	730	666	2,584	2,523
Other expenses	289	271	732	752
Change in estimates of provision for site restoration (note 7)	(949)	-	(949)	-
Defined benefit expense	12	16	35	48
	18,507	10,984	59,454	44,332
Finance costs:				
Unwind of discount on decommissioning obligations (note 7(a))	576	540	1,675	1,644
Unwind of discount on provision for site restoration (note 7(b))	26	53	78	160
	602	593	1,753	1,804
Profit before income taxes	25,973	14,844	61,926	2,253,001
Income taxes:				
Current	6,970	4,513	19,835	19,039
Deferred	(5)	(51)	(857)	(1,842)
	6,965	4,462	18,978	17,197
Profit	19,008	10,382	42,948	2,235,804
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Change in fair value of investment in common shares	-	-	-	282,849
Gain on sale of investment in common shares transferred to profit or loss	-	-	-	(2,130,987)
	-	-	-	(1,848,138)
Comprehensive income	$ 19,008	$ 10,382	$ 42,948	$ 387,666

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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Share capital				
Balance, beginning and end of period	$ 1	$ 1	$ 1	$ 1
Contributed surplus				
Balance, beginning of period	603,294	603,294	603,294	1,726,527
Dividends (note 13)	-	-	-	(1,123,233)
Balance, end of period	603,294	603,294	603,294	603,294
Accumulated deficit				
Balance, beginning of period	(126,201)	(171,016)	(150,141)	(255,545)
Profit	19,008	10,382	42,948	2,235,804
Dividends	-	-	-	(2,140,893)
Balance, end of period	(107,193)	(160,634)	(107,193)	(160,634)
Accumulated other comprehensive income				
Balance, beginning of period	-	-	-	1,848,138
Gain on sale of investment in common shares transferred to profit or loss (note 5)	-	-	-	(2,130,987)
Change in fair value of investment in common shares	-	-	-	282,849
Balance, end of period	-	-	-	-
Total shareholder's equity	$ 496,102	$ 442,661	$ 496,102	$ 442,661

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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Cash provided by (used in):				
Operating activities:				
Profit	$ 19,008	$ 10,382	$ 42,948	$ 2,235,804
Adjustments for:				
Depletion and depreciation	12,442	5,377	36,174	21,765
Income tax expense	6,965	4,462	18,978	17,197
Defined benefits paid in excess of expenses	(29)	(55)	(84)	(75)
Interest income from Consolidated Revenue Fund	(138)	(142)	(398)	(490)
Unwind of discount on provisions	602	593	1,753	1,804
Net foreign exchange gain	-	-	-	(33,452)
Gain on sale of investment in common shares	-	-	-	(2,130,987)
Change in provision for site restoration	(949)	-	(949)	-
Provisions settled	(180)	(978)	(1,809)	(1,879)
Income taxes paid	(2,938)	(4,350)	(7,641)	(12,448)
	34,783	15,289	88,972	97,239
Change in non-cash working capital (note 8)	(6,649)	28,789	(9,677)	19,556
	28,134	44,078	79,295	116,795
Financing activities:				
Dividends paid	-	(75,000)	-	(3,731,115)
	-	(75,000)	-	(3,731,115)
Investing activities:				
Proceeds on sale of investment in common shares	-	-	-	3,287,671
Increase in cash and cash equivalents held in escrow	-	-	(11,676)	-
Purchase of property and equipment	(12,126)	(16,210)	(37,400)	(36,486)
Change in non-cash working capital (note 8)	(635)	6,936	(14,586)	7,491
	(12,761)	(9,274)	(63,662)	3,258,676
Change in cash and cash equivalents	15,373	(40,196)	15,633	(355,644)
Cash and cash equivalents, beginning of period	245,055	293,972	244,795	609,420
Cash and cash equivalents, end of period	$ 260,428	$ 253,776	$ 260,428	$ 253,776
Represented by:				
Cash	$ 64,268	$ 68,539	$ 64,268	$ 68,539
Cash equivalents	196,160	185,237	196,160	185,237
	$ 260,428	$ 253,776	$ 260,428	$ 253,776
Supplementary disclosure of cash flow from operating activities:				
Amount of interest received during the period	$ 565	$ 609	$ 1,792	$ 1,929
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.

Until June 30, 2016, the Corporation held the sole outstanding share of PPP Canada Inc. ("PPP"). The Corporation did not consolidate PPP's operations because the Corporation did not meet the criteria for control of PPP. On June 30, 2016, the Corporation was authorized by Order in Council P.C. 2016-657 pursuant to the *Financial Administration Act* to transfer the sole outstanding share of PPP to the Minister of Infrastructure, Communities and Intergovernmental Affairs on behalf of Her Majesty in Right of Canada. This transfer was completed on July 4, 2016.

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 November 17, 2016.

2. Basis of preparation (continued):

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.

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.

<u>Changes in accounting policies:</u>

The following accounting standard amendments, issued by the International Accounting Standards Board ("IASB"), are effective for the first time in the current financial year 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.

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

3. Significant accounting policies (continued):

- **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.

4. Property and equipment:

	Oil development assets and production facilities
Cost	
Balance at December 31, 2015	$ 438,024
Additions for the period	37,400
Decommissioning adjustments	29,217
Balance at September 30, 2016	$ 504,641
Accumulated depletion and depreciation	
Balance at December 31, 2015	$ 213,918
Depletion and depreciation	35,067
Balance at September 30, 2016	$ 248,985
Carrying amounts	
At December 31, 2015	$ 224,106
At September 30, 2016	$ 255,656

At September 30, 2016, costs subject to the calculations of depletion and depreciation excluded the cost of equipment and facilities currently under construction of $9,949 ($19,998 - December 31, 2015) and included future development costs of $793,495 ($832,000 - December 31, 2015).

At September 30, 2016, an indicator of impairment of property and equipment was noted due to a reduction in CHHC's estimated remaining proved plus probable oil reserves resulting from a reduction in the Hibernia Project operator's capital budget, and accordingly, CHHC's CGU was tested for impairment. Based on the impairment test performed, there was no impairment of property and equipment at September 30, 2016.

At December 31, 2015, an indicator of impairment of CHHC's property and equipment was 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 at December 31, 2015.

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

5. Investments:

The changes in investment balances reflected in the interim condensed consolidated statement of comprehensive income are as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	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	$ -	$ -	$ -	$ 282,849
Gain on sale of investment in common shares transferred to profit or loss	-	-	-	(2,130,987)
	$ -	$ -	$ -	$ (1,848,138)

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.

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

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	(64)	(1,745)
Changes in estimates of future cash flows	(469)	(1,905)
New obligations	8,220	900
Changes in discount rate	21,466	56
Unwind of discount	1,675	78
Balance at September 30, 2016	$ 161,742	$ 13,850
Current	1,885	3,321
Non-current	159,857	10,529
Provisions	$ 161,742	$ 13,850

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 $265,899 at September 30, 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 September 30, 2016 using an inflation rate of 2.0% (2.0% - December 31, 2015) and was discounted using an average risk-free rate of 1.47% (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. 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. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The costs are estimated over a period ending in 2023 (December 31, 2015 – 2023). The future estimate of costs for site restoration has been discounted

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

7. Provisions (continued):

b) Provision for site restoration of CEI (continued):

at a rate of 0.62% (December 31, 2015 – 0.73%) and an inflation rate of 2.0% was used to calculate the provision at September 30, 2016 (December 31, 2015 – 2.0%). The current estimate for costs and the amount accrued as at September 30, 2016 is $13,850 (December 31, 2015 - $16,466).

8. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the periods ended September 30 include the following:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Change in accounts receivable	$ (11,422)	$ 35,930	$ (8,376)	$ 32,567
Change in inventory	(1,043)	(1,856)	552	(2,868)
Change in prepaid expenses	433	429	(441)	(401)
Change in accounts payable and accrued liabilities	4,748	1,222	(15,998)	(2,251)
Change in non-cash working capital items	$ (7,284)	$ 35,725	$ (24,263)	$ 27,047
Relating to:				
Operating activities	$ (6,649)	$ 28,789	$ (9,677)	$ 19,556
Investing activities	(635)	6,936	(14,586)	7,491
	$ (7,284)	$ 35,725	$ (24,263)	$ 27,047

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

a) Net crude oil revenue for the periods ended September 30 is as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Gross crude oil revenue	$ 57,974	$ 31,788	$ 152,555	$ 137,721
Less: marketing fees	(99)	(50)	(350)	(256)
Less: royalties	(10,824)	(6,112)	(24,021)	(29,751)
Less: net profits interest	(2,530)	(1,551)	(5,164)	(9,030)
Net crude oil revenue	$ 44,521	$ 24,075	$ 123,020	$ 98,684

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

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

b) Production and operating expenses for the periods ended September 30 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Hibernia joint account production and operating	$ 4,529	$ 3,089	$ 16,948	$ 12,908
Crude oil transportation	1,281	1,523	4,052	4,772
Facility use fees net of incidental net profits interest	(518)	(386)	(1,515)	(1,292)
Total production and operating expense	$ 5,292	$ 4,226	$ 19,485	$ 16,388

10. Commitments:

CHHC's commitments at September 30, 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	$ 1,376	$ 19,187	$ 43,317	$ 63,880
Hibernia Project contracts	5,335	13,136	6,104	24,575
Office premises	136	1,481	–	1,617
Total Commitments	$ 6,847	$ 33,804	$ 49,421	$ 90,072

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.

11. 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 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.

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 $119,722 ($119,462 - December 31, 2015) and the fair value measurement is a Level 1 (quoted prices in active markets) at September 30, 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 in the three and nine months ended September 30, 2016 in the amount of $nil (2015 - $75,000 and $3,731,115 respectively, of which $1,123,233 was paid from contributed surplus).