Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Third Quarter Report

September 30, 2017

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 November 21 2017.

Michael Carter
Executive Vice-President

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

Toronto, Ontario
November 21 2017

Management Discussion and Analysis of Results – for the period ended September 30, 2017

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, 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 September 30, 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. 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 $60 million during the first nine months of 2017. No dividends to CDEV were declared during the first nine months of 2017.
- 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 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 in the quarter of $42 million were 7% lower than the comparative quarter in 2016 due to higher royalty expenses. Gross crude oil revenue was unchanged, at $58 million in both the current and comparative quarters, as an 8% increase in average realized oil price in the current quarter was offset by an 8% decline in oil sales volumes. The higher royalty and net profits interest expenses are explained by lower eligible cost deductions and thus a higher level of net revenue used in the calculations.

Hibernia production volumes declined by 5% to 135,900 barrels per day in the third quarter of 2017 from 143,600 barrels per day in the comparative quarter, reflecting natural decline of the Hibernia Main Field which more than offset production additions from the Hibernia Southern Extension Unit's ("HSE Unit") drilling program where the majority of drilling has been focused from 2015 to mid-2017. CHHC's sales volumes were likewise lower, at 0.87 million barrels sold in the current quarter compared to 0.94 million barrels sold in the comparative quarter. 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 decreased in the quarter to 5.63% (from 5.73% previously) as a result of an interim reset of working interests. CHHC's working interest in the Hibernia Main Field remains at 8.5%.

CHHC's crude oil prices are based on the benchmark price of Dated Brent crude. The average Dated Brent price improved by 14% in the quarter to US $52 per barrel compared to US $46 per barrel in the comparative quarter in 2016, reflecting a strengthening and stabilizing of the global oil markets. The increase in Dated Brent prices was partially offset by a stronger Canadian dollar, resulting in an 8% increase in average realized price to $66 per barrel, from $61 per barrel in the comparative quarter in 2016.

Capital expenditures in the third quarter were largely directed toward drilling activities in the Hibernia Main Field. In the near term, Hibernia owners plan to focus on drilling and workovers of platform wells and the WAG (water-alternating-gas) project.

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. The additional provisions for site restoration for the nine months ended September 30, 2017 are largely due to higher expected regulatory fees. CEI holds cash and cash equivalents and funds within the Consolidated Revenue Fund of $22 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 September 30, 2017

The interim condensed consolidated financial statements for the period ended September 30, 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 September 30, 2017 was $42 million, compared to revenue of $45 million in the comparative period of the prior year. The small decline is mainly attributable to lower net crude oil revenue in the current quarter. Net crude oil revenue decreased by 7% in the third quarter of 2017 to $42 million from $45 million in the third quarter of 2016. Gross crude oil revenue was flat as detailed above. Royalty expense was significantly higher in the period due to proportionately lower eligible cost deductions from revenue in royalty calculations.

Total expenses for the current quarter were $21 million compared to total expenses of $19 million in the third quarter of 2016. Depletion and depreciation expenses in the quarter were relatively unchanged at $12 million in both periods, as a higher depletion rate in the current quarter was offset by lower production volumes to deplete. Professional fees for the current quarter were $1 million higher than the third quarter of 2016 as a result of higher project related expenses. In addition, the provision for site restoration expense was $1 million in the current quarter compared to a reduction of $1 million in the 2016 quarter as a result of adjustments to the estimates received from Cameco.

Consolidated revenue for the nine months ended September 30, 2017 was $143 million, compared to revenue of $123 million in the prior year period, driven by higher net crude oil revenue. Year-to-date net crude oil revenue was $144 million, a 17% increase from $123 million in the prior year due to a 29% increase in gross crude oil revenue partially offset by higher royalty and net profits interest ("NPI") expenses. The increase in gross crude oil revenue was due to a 5% increase in sales volumes and a 23% increase in realized oil prices.

We recognized a foreign exchange loss for the year-to-date period of $2.7 million compared to a $1.9 million loss in the year-to-date period in 2016. Both periods were impacted by the impact of the strengthening of the CAD in relation to the US dollar on USD receivables.

Year-to-date expenses were $65 million compared to $59 million in the prior year-to-date period. Depletion and depreciation costs increased to $40 million from $36 million in the nine months ended September 30, 2016, due to a higher per barrel depletion rate and higher production volumes.

Cash and cash equivalents as at September 30, 2017 increased to $283 million compared to $220 million at December 31, 2016 as operating cash flows exceeded capital investments and working capital changes in the first nine months of 2017.

Accounts receivable of $28 million at September 30, 2017 decreased by $16 million compared to December 31, 2016 due mainly to decreases in cash calls receivable and crude oil sales receivable at quarter end.

Inventory decreased by $2 million at September 30, 2017 compared to December 31, 2016 due to the elimination of oil inventory volumes at year-end that were subsequently sold.

Property and equipment decreased by $23 million from year-end to $198 million at September 30, 2017 resulting from $17 million of total capital additions (comprised of $19 million cash capital expenditures, less $2 million of non-cash decommissioning cost adjustments) which were more than offset by $40 million of depletion and depreciation.

Accounts payable and accrued liabilities of $10 million at September 30, 2017 declined by $17 million compared to December 31, 2016 due to lower accruals and cash calls payable in respect of the HSE Unit capital program and lower royalty and NPI accruals.

CDEV paid no dividends to the Government during the nine months of 2017 or the comparative period in 2016. CDEV declared and paid a dividend of $66 million to the Government subsequent to quarter-end.

Future accounting changes

The following standards issued by the International Accounting Standards Board (IASB) are effective for annual periods beginning on or after January 1, 2018 and have been assessed as having a possible impact on the Corporation in the future:

- IFRS 9, *Financial Instruments*
- IFRS 15, *Revenue from Contracts with Customers*

We are currently assessing the impact of these standards on our consolidated financial statements but do not expect it to be material. These standards are discussed further in note 4 of the interim condensed consolidated financial statements. The Corporation does not intend to early adopt any of the standards.

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three and nine months ended September 30, 2017

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

		September 30, 2017		December 31, 2016
Assets				
Current assets:				
Cash and cash equivalents	$	282,584	$	219,914
Accounts receivable		27,615		43,820
Inventory		646		2,451
Prepaid expenses		676		295
Cash and cash equivalents held for future obligations		3,675		3,159
		315,196		269,639
Non-current assets:				
Property and equipment (note 5)		198,232		221,118
Cash and cash equivalents held for future obligations		123,874		128,837
Cash and cash equivalents held in escrow		14,227		14,227
Deferred tax asset		17,914		13,466
		354,247		377,648
	$	669,443	$	647,287
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	10,237	$	27,252
Income taxes payable		1,248		13,668
Current portion of provision for decommissioning obligations (note 6(a))		5,576		2,811
Current portion of provision for site restoration (note 6(b))		2,959		2,993
Current portion of defined benefit obligation		150		150
		20,170		46,874
Non-current liabilities:				
Provision for decommissioning obligations (note 6(a))		121,578		126,123
Provision for site restoration (note 6(b))		9,250		9,976
Defined benefit obligation		1,569		1,719
		132,397		137,818
Shareholder's equity:				
Share capital		1		1
Contributed surplus		603,294		603,294
Accumulated deficit		(86,419)		(140,700)
		516,876		462,595
Commitments (note 9)				
Contingencies (note 10)				
Subsequent event (note 13)				
	$	669,443	$	647,287

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	
	2017	2016	2017	2016
Revenue:				
Net crude oil revenue (note 8(a))	$ 41,554	$ 44,521	$ 144,022	$ 123,020
Foreign exchange loss	(1,002)	(11)	(2,679)	(1,871)
Interest income	1,001	572	2,076	1,984
	41,553	45,082	143,419	123,133
Expenses:				
Depletion and depreciation (note 5)	12,017	12,442	40,265	36,174
Production and operating (note 8(b))	5,162	5,292	15,726	19,485
Professional fees	1,670	691	4,011	1,393
Salaries and benefits	732	730	2,607	2,584
Other expenses	313	289	747	732
Change in estimates of provision for site restoration (note 6)	1,082	(949)	1,204	(949)
Defined benefit expense	13	12	39	35
	20,989	18,507	64,599	59,454
Finance costs:				
Unwind of discount on decommissioning obligations (note 6(a))	794	576	2,117	1,675
Unwind of discount on provision for site restoration (note 6(b))	30	26	90	78
	824	602	2,207	1,753
Profit before income taxes	19,740	25,973	76,613	61,926
Income taxes:				
Current	6,991	6,970	26,780	19,835
Deferred	(841)	(5)	(4,448)	(857)
	6,150	6,965	22,332	18,978
Profit and comprehensive income	$ 13,590	$ 19,008	$ 54,281	$ 42,948

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	
	2017	2016	2017	2016
Share capital				
Balance, beginning and end of period	$ 1	$ 1	$ 1	$ 1
Contributed surplus				
Balance, beginning and end of period	603,294	603,294	603,294	603,294
Accumulated deficit				
Balance, beginning of period	(100,009)	(126,201)	(140,700)	(150,141)
Profit	13,590	19,008	54,281	42,948
Balance, end of period	(86,419)	(107,193)	(86,419)	(107,193)
Total shareholder's equity	$ 516,876	$ 496,102	$ 516,876	$ 496,102

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	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Profit	$ 13,590	$ 19,008	$ 54,281	$ 42,948
Adjustments for:				
Depletion and depreciation	12,017	12,442	40,265	36,174
Income tax expense	6,150	6,965	22,332	18,978
Defined benefits paid in excess of expenses	(25)	(29)	(150)	(84)
Interest income from Consolidated Revenue Fund	(183)	(138)	(446)	(398)
Unwind of discount on provisions	824	602	2,207	1,753
Change in provision for site restoration	1,082	(949)	1,204	(949)
Provisions settled	(1,472)	(180)	(3,933)	(1,809)
Income taxes paid	(9,788)	(2,938)	(39,200)	(7,641)
	22,195	34,783	76,560	88,972
Change in non-cash working capital (note 7)	(5,461)	(6,649)	(303)	(9,677)
	16,734	28,134	76,257	79,295
Investing activities:				
Purchase of property and equipment	(856)	(12,761)	(18,480)	(51,986)
Change in cash and cash equivalents held in escrow	-	-	-	(11,676)
Change in cash and cash equivalents held for future obligations	(35)	-	4,893	-
	(891)	(12,761)	(13,587)	(63,662)
Change in cash and cash equivalents	15,843	15,373	62,670	15,633
Cash and cash equivalents, beginning of period	266,741	245,055	219,914	244,795
Cash and cash equivalents, end of period	$ 282,584	$ 260,428	$ 282,584	$ 260,428
Represented by:				
Cash	$ 78,129	$ 64,268	$ 78,129	$ 64,268
Cash equivalents	204,455	196,160	204,455	196,160
	$ 282,584	$ 260,428	$ 282,584	$ 260,428
Supplementary disclosure of cash flow from operating activities:				
Amount of interest received during the period	$ 885	$ 565	$ 1,912	$ 1,792

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 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.

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% and was adjusted to 5.73% effective December 1, 2015 and thereafter to 5.63% effective May 1, 2017, pursuant to the interim reset provisions of the Unit Agreement. 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 September 30, 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 November 21 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

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 fiscal year 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.

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 September 30, 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 is currently evaluating the impact of the new revenue standard on its financial statements and related disclosures but does not expect it to have a material impact on the consolidated 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 Corporation is currently evaluating the impact of the new standard on its financial statements and related disclosures but does not expect it to have a material impact on the consolidated financial statements.

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.

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

5. Property and equipment:

		Oil development assets and production facilities
Cost		
Balance at December 31, 2016	$	484,127
Additions for the period		18,610
Decommissioning adjustments		(2,018)
Balance at September 30, 2017	$	500,719
Accumulated depletion and depreciation		
Balance at December 31, 2016	$	263,009
Depletion and depreciation		39,478
Balance at September 30, 2017	$	302,487
Carrying amounts:		
At December 31, 2016	$	221,118
At September 30, 2017	$	198,232

At September 30, 2017, costs subject to the calculations of depletion and depreciation excluded the cost of equipment and facilities currently under construction of $nil ($10,086 - December 31, 2016) and included future development costs of $489,941 ($512,334 - December 31, 2016).

At September 30, 2017, there were no indicators of impairment of CHHC's property and equipment. Accordingly, an impairment test was not required.

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 Development 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.

(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 obligations	Site restoration
Balance at December 31, 2016	$ 128,934	$ 12,969
Additional provisions	1,655	2,396
Changes in estimates	2,694	(934)
Obligations settled	(1,879)	(2,054)
Changes in discount rate	(6,367)	(258)
Unwind of discount	2,117	90
Balance at September 30, 2017	$ 127,154	$ 12,209
Current	5,576	2,959
Non-current	121,578	9,250
Provisions	$ 127,154	$ 12,209

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 $270,970 at September 30, 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 September 30, 2017 using an inflation rate of 2.00% (2.00% - December 31, 2016) and was discounted using an average risk-free rate of 2.30% (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. 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 future estimate of costs for site restoration has been discounted at a rate of 1.58% (December 31, 2016 – 1.11%) and an inflation rate of 2.0% was used to calculate the provision at September 30, 2017 (December 31, 2016 – 2.0%).

(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 September 30 include the following:

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Change in accounts receivable	$ 4,254	$ (11,422)	$ 16,205	$ (8,376)
Change in inventory	(138)	(1,043)	1,018	552
Change in prepaid expenses	426	433	(381)	(441)
Change in accounts payable and accrued liabilities	(6,381)	4,748	(17,015)	(15,998)
Change in non-cash working capital items	$ (1,839)	$ (7,284)	$ (173)	$ (24,263)
Relating to:				
Operating activities	$ (5,461)	$ (6,649)	$ (303)	$ (9,677)
Investing activities	3,622	(635)	130	(14,586)
	$ (1,839)	$ (7,284)	$ (173)	$ (24,263)

Property and equipment expenditures comprise the following:

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Property and equipment additions (note 5)	$ (4,478)	$ (12,126)	$ (18,610)	$ (37,400)
Change in non-cash investing working capital	3,622	(635)	130	(14,586)
Cash used for property and equipment expenditures	$ (856)	$ (12,761)	$ (18,480)	$ (51,986)

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

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Gross crude oil revenue	$ 57,567	$ 57,974	$ 196,311	$ 152,555
Less: marketing fees	(88)	(99)	(364)	(350)
Less: royalties	(13,319)	(10,824)	(40,912)	(24,021)
Less: net profits interest	(2,606)	(2,530)	(11,013)	(5,164)
Net crude oil revenue	$ 41,554	$ 44,521	$ 144,022	$ 123,020

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

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

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Hibernia joint account production and operating	$ 4,274	$ 4,529	$ 13,002	$ 16,948
Crude oil transportation	1,514	1,281	5,247	4,052
Facility use fees net of incidental net profits interest	(626)	(518)	(2,523)	(1,515)
Total production and operating	$ 5,162	$ 5,292	$ 15,726	$ 19,485

9. Commitments:

CHHC's commitments at September 30, 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	$ 1,335	$ 18,361	$ 34,776	$ 54,472
Hibernia Project contracts	1,107	22,408	–	23,515
Office premises	140	955	–	1,095
Total Commitments	$ 2,582	$ 41,724	$ 34,776	$ 79,082

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.

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.

10. Contingencies (continued):

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 September 30, 2017.

11. Risks to the Corporation:

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 $127,549 ($131,996 - December 31, 2016) and the fair value measurement is a Level 1 (quoted prices in active markets) at September 30, 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.

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 and nine months ended September 30, 2017 or September 30, 2016.

13. Subsequent event:

On October 11, 2017, the Corporation's Board of Directors declared a dividend payable to the government of $66,000 which was paid on October 20, 2017.