Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

First Quarter Report
March 31, 2018

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 24, 2018.

Michael Carter
Executive Vice-President

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

Toronto, Ontario
May 24, 2018

Management Discussion and Analysis of Results – for the period ended March 31, 2018

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, 2018 and CDEV's Annual Report for the year ended December 31, 2017.

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. CDEV's primary objective is to carry out its activities in the best interests of Canada, operating in a commercial manner. During the fiscal quarter ended March 31, 2018 the operations and structure of CDEV were the same as those described in the 2017 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 $24 million during the first three months of 2018. 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 2018.
- We continued to manage several projects and remain prepared to undertake projects suitable to our capabilities.

Canada Hibernia Holding Corporation

Net crude oil revenue, after deducting marketing fees, royalties and net profits interest, declined 3% to $53 million in the first quarter of 2018 from $55 million in the comparative quarter, as higher oil prices were largely offset by lower sales volumes and increased royalty and net profits interest expenses. Sales volumes of 0.95 million barrels in the quarter were 15% lower than 1.11 million barrels sold in the first quarter of 2017, due to a corresponding 15% decrease in CHHC's net share of Hibernia daily average production volumes. Gross daily average production volumes for the Hibernia field declined to 133,400 barrels per day from 154,500 barrels per day in the comparative quarter, due to natural declines, well timing and operational issues. 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 Hibernia gross field production.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The average price of Dated Brent crude increased 24% to US $67 per barrel in the quarter from US $54 per barrel in the comparative quarter of 2017. The increase in US prices was partially offset by negative exchange rate impacts of a stronger Canadian dollar, resulting in a 22% increase in CHHC's average realized sales price to $85 per barrel from $70 per barrel in the first quarter of 2017. CHHC does not enter into fixed price commodity (or exchange rate) contracts and sells its oil at market prices.

Capital expenditures in the first quarter were largely directed to development drilling activities in the Hibernia Main Field. In the near term, Hibernia owners plan to focus on drilling and work-over activity in the Hibernia Main Field, including development of the Ben-Nevis Avalon reservoir.

Canada Eldor Inc.

There was no significant change in the management of CEI's liabilities. In the first quarter of 2018, the liability for site restoration decreased by $1.2 million due to the settlement of $0.6 million in obligations, a $0.6 million decrease in estimated costs, and a change in the discount rate during the year. CEI continues to pay for costs relating to the decommissioning of former mine site properties in Saskatchewan and for retiree benefits of certain former employees. A plan is in place that should allow for the eventual transfer of the mine site properties to the Institutional Control Program of the Province of Saskatchewan within six years. CEI holds cash and cash equivalents as well as funds within the Consolidated Revenue Fund totaling $20 million to pay for CEI's total estimated liabilities of $13 million.

Canada GEN Investment Corporation

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

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, 2017 as described in the 2017 Annual Report.

Risks and Contingencies

No material changes in risks and contingencies have been identified since December 31, 2017 as described in the 2017 Annual Report.

Financial Statements for the Period Ended March 31, 2018

The interim condensed consolidated financial statements for the period ended March 31, 2018 and comparative figures, have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*.

Consolidated revenue for the three months ended March 31, 2018 was $57 million, compared to revenue of $56 million in the comparative period of the prior year. This change is mainly attributable to slightly lower net crude oil revenue in the current quarter offset by a higher foreign exchange gain in the period. Net crude oil revenue decreased by 3% in the first quarter of 2018 to $53 million from $55 million in the first quarter of 2017. Gross crude oil revenue increased by 4% as detailed above, however, royalty and net profits interest burdens were significantly higher in the period due to proportionately lower eligible capital and operating cost deductions from revenue in royalty and net profits interest calculations, and impacts from higher oil prices.

Total expenses for the quarter excluding finance costs were $22 million compared to total expenses of $24 million in the first quarter of 2017. Depletion and depreciation expenses decreased by $2 million in the quarter due mainly to lower production volumes. This was partly offset by a $1.3 million increase in production and operating expenses in the quarter, due mainly to increased costs for maintenance, logistics, research and development and transportation and transshipment.

The provision for site restoration expense was a $0.6 million recovery during the first quarter due to a change in estimated expected regulatory fees while there was no adjustment to the provision in the prior year quarter in 2017.

Cash and cash equivalents as at March 31, 2018 increased to $235 million compared to $207 million (including short-term investments) at December 31, 2017 as operating cash flows exceeded capital investments and working capital changes in the first quarter of 2018.

Trade and other receivables declined by $3.5 million at March 31, 2018 compared to December 31, 2017 due to a reduction in oil sales receivable partially offset by higher cash calls receivable.

Inventory declined by $2.6 million at March 31, 2018 compared to December 31, 2017 due to lower inventory volumes.

Trade and other payables declined by $5 million as at March 31, 2018 to $11 million compared to December 31, 2017 due to lower accruals for royalties, net profits interest and administrative expenses.

CDEV paid no dividends to the Government during the first quarter of 2018 or the comparative period in 2017.

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three months ended March 31, 2018

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

		March 31, 2018		December 31, 2017
Assets				
Current assets:				
Cash and cash equivalents	$	235,009	$	176,357
Short-term investments		-		30,169
Trade and other receivables (note 11)		18,745		22,246
Income taxes recoverable		750		1,857
Inventory		1,652		4,254
Prepaid expenses		1,507		260
Cash and cash equivalents held for future obligations		3,141		3,272
		260,804		238,415
Non-current assets:				
Property and equipment (note 5)		192,350		197,555
Cash and cash equivalents held for future obligations		137,120		136,603
Cash held in escrow		14,227		14,227
Deferred tax asset		17,043		16,101
		360,740		364,486
	$	621,544	$	602,901
Liabilities and Shareholder's Equity				
Current liabilities:				
Trade and other payables	$	11,148	$	16,176
Current portion of provision for decommissioning obligations (note 6(a))		3,708		4,627
Current portion of provision for site restoration (note 6(b))		2,722		3,066
Current portion of defined benefit obligation		150		200
		17,728		24,069
Non-current liabilities:				
Provision for decommissioning obligations (note 6(a))		130,746		128,771
Provision for site restoration (note 6(b))		8,162		9,014
Defined benefit obligation		1,528		1,527
		140,436		139,312
Shareholder's equity:				
Share capital		1		1
Contributed surplus		603,294		603,294
Accumulated deficit		(139,915)		(163,775)
		463,380		439,520
Commitments (note 9)				
Contingencies (note 10)				
	$	621,544	$	602,901

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	
	2018	2017
Revenue:		
Net crude oil revenue (note 8(a))	$ 53,377	$ 54,938
Foreign exchange gains	2,056	477
Interest income	1,128	605
	56,561	56,020
Expenses:		
Depletion and depreciation (note 5)	13,408	15,288
Production and operating expenses (note 8(b))	6,656	5,378
Foreign exchange losses	697	730
Professional fees	914	1,217
Salaries and benefits	713	1,143
Change in provision for site restoration (note 6)	(614)	-
Other expenses	248	241
Defined benefit expense	15	13
	22,037	24,010
Finance costs:		
Unwind of discount on decommissioning obligations (note 6(a))	710	669
Unwind of discount on provision for site restoration (note 6(b))	39	30
	749	699
Profit before income taxes	33,775	31,311
Income taxes:		
Current	10,857	10,967
Deferred	(942)	(2,705)
	9,915	8,262
Profit and comprehensive income	$ 23,860	$ 23,049

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	
	2018	2017
Share capital		
Balance, beginning and end of period	$ 1	$ 1
Contributed surplus		
Balance, beginning and end of period	603,294	603,294
Accumulated deficit		
Balance, beginning of period	(163,775)	(140,700)
Profit	23,860	23,049
Balance, end of period	(139,915)	(117,651)
Total shareholder’s equity	$ 463,380	$ 485,644

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	
	2018	2017
Cash provided by (used in):		
Operating activities:		
Profit	$ 23,860	$ 23,049
Adjustments for:		
Depletion and depreciation	13,408	15,288
Income tax expense	9,915	8,262
Defined benefits paid in excess of expenses	(49)	(93)
Interest income	(1,128)	(605)
Change in provision for site restoration	(614)	-
Unwind of discount on provisions	749	699
Interest received	1,298	605
Provisions settled	(1,533)	(681)
Income taxes paid	(9,750)	(21,574)
	36,156	24,950
Change in non-cash working capital (note 7)	232	(5,713)
	36,388	19,237
Investing activities:		
Purchase of property and equipment	(7,349)	(11,035)
Sale of short term investments	29,999	-
Change in cash and cash equivalents held for future obligations	(386)	(164)
	22,264	(11,199)
Change in cash and cash equivalents	58,652	8,038
Cash and cash equivalents, beginning of period	176,357	219,914
Cash and cash equivalents, end of period	$ 235,009	$ 227,952
Represented by:		
Cash	64,357	56,982
Cash equivalents	170,652	170,970
	$ 235,009	$ 227,952

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”) which is an oil development and production project located offshore Newfoundland and Labrador.

1. Reporting entity (continued):

The Hibernia Project comprises the original Hibernia Development Project area, where CHHC has an 8.5% working interest, and the Hibernia Southern Extension Unit (“HSE Unit”), where CHHC has a current 5.6% working interest. CHHC’s working interest in the HSE Unit is subject to adjustment in accordance with the applicable provisions of the Unit Agreement. CHHC’s interest in the Hibernia Project has been recorded in CHHC’s financial statements which are consolidated into CDEV’s financial statements. The operator of the HSE Unit is ExxonMobil Canada.

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

GEN was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act*. Until April 6, 2015, GEN held common shares of General Motors Company (“GM”). At March 31, 2018, 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, 2017.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 24, 2018.

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

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 were the same as those disclosed in note 2(d) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of new accounting policies, which are described in note 3 below.

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, 2017, except for those policies which have changed as a result of the adoption of new accounting standards or interpretations effective January 1, 2018, 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 standards 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:

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 as well as the treatment of financial liabilities.

3. Significant accounting policies (continued):

The Corporation has adopted IFRS 9 as of January 1, 2018 using the modified retrospective approach. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard, if any, is recognized in the opening retained earnings of fiscal 2018. Related amendments to IFRS 7, *Financial Instruments: Disclosures* have been applied simultaneously with IFRS 9. The adoption of IFRS 9 did not have a material impact on the consolidated financial statements.

The nature and effect of the changes to the Corporation's accounting policy for financial instruments resulting from the adoption of IFRS 9 is described below.

(a) Classification and measurement

Financial assets: IFRS 9 eliminates the previous IAS 39 categories of loans and receivables, held-to-maturity and available-for-sale. From January 1, 2018, the Corporation classifies its financial assets in the following IFRS 9 classification categories:

- Measured at amortized cost ("amortized cost")
- Measured at fair value through profit or loss ("FVTPL")
- Measured at fair value through other comprehensive income ("FVOCI")

The classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, the Corporation may irrevocably designate a financial asset that meets the amortized cost or FVOCI criteria as measured at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch.

- The Corporation's cash and cash equivalents, short-term investments, cash held in escrow and trade and other receivables that were previously measured at amortized cost, continue to be measured at amortized cost under IFRS 9. There was no material change to the accounting for these financial assets. Cash and cash equivalents, short-term investments, and trade and other receivables were previously classified as loans and receivables and the cash held in escrow was classified as held-to-maturity; under IFRS 9 these items are all classified at amortized cost.

- Cash and cash equivalents held for future obligations that was previously classified and measured as fair value through profit or loss (FVTPL), are now classified and measured at amortized cost under IFRS 9. Despite this change in classification, there was no change to the carrying amount of the financial asset.

3. Significant accounting policies (continued):

- There was no impact on the classification and measurement of the Corporation's financial liabilities, as the new requirements only affect financial liabilities that are designated at FVTPL and the Corporation does not have any such liabilities. The Corporation's financial liabilities, comprised of trade and other payables, continue to be classified and measured at amortized cost.

- At initial recognition, the Corporation measures its financial instruments at fair value plus transaction costs that are directly attributable to the acquisition of a financial asset, unless they are carried at FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. The best evidence of fair value of a financial instrument on initial recognition is normally the transaction price.

(b) Impairment

Under IFRS 9, it is no longer necessary for a triggering event to occur before a provision for credit losses is recognized, as the measurement for impairment of financial assets is based on an 'expected credit loss' ("ECL") model, which focuses on the risk that the receivables or other financial assets will default, rather than an 'incurred loss' model as existed under IAS 39. Under IFRS 9, credit losses will be recognized earlier than under IAS 39.

IFRS 9 requires the Corporation to record expected credit losses (ECLs) on its financial assets measured at amortised cost, either on a 12-month or lifetime basis. For CHHC's trade and other receivables (which do not contain a significant financing component), the Corporation applies the simplified approach prescribed by IFRS 9 to measuring expected credit losses. This approach requires that that the loss provision be measured on the basis of lifetime expected credit losses. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. CHHC uses a combination of historical, present and forward-looking information to determine the appropriate loss allowance provision. The Corporation does not have any financial assets that contain a financing component. An earlier recognition of losses as a result of moving to the ECL model impacted CHHCs estimated loss provision on trade and other receivables at January 1, 2018, however CHHC's impact was not material for recognition purposes and no adjustment was required. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Accordingly, the adoption of IFRS 9 did not have any impact on the Corporation's opening retained earnings at January 1, 2018.

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

3. Significant accounting policies (continued):

(c) Estimates and judgments

CHHC uses considerable judgment in determining the ECL estimate which incorporates current estimates and forward-looking information.

(d) Transition

The following table presents the original measurement categories and carrying values in accordance with the previous IAS 39 and the new measurement categories under IFRS 9 for the Corporation's financial assets and financial liabilities at January 1, 2018:

				Impact of IFRS 9		
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassi-fication	Remeas-urement	New carrying amount under IFRS 9
Financial assets:						
Cash and cash equivalents	Loans and receivables	Amortized cost	176,357	–	–	176,357
Short-term investments	Loans and receivables	Amortized cost	30,169	–	–	30,169
Trade and other receivables	Loans and receivables	Amortized cost	22,246	–	–	22,246
Cash held in escrow	Held-to-maturity	Amortized cost	14,227	–	–	14,227
Cash and cash equivalents held for future obligations	FVTPL	Amortized cost	139,875	–	–	139,875
Financial liabilities:						
Trade and other payables	Loans and receivables	Amortized cost	16,176	–	–	16,176

3. Significant accounting policies (continued):

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaced IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 provides clarification on how and when an entity will recognize revenue and contains a single, principles-based, five-step model to be applied to all contracts with customers.

The Corporation has adopted IFRS 15 using the modified retrospective approach. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard, if any, is recognized in the opening retained earnings of fiscal 2018.

The Corporation reviewed its sources of revenue and contracts with customers using the five-step model and other guidance found in IFRS 15 and determined that the adoption of IFRS 15 had no impact on its consolidated financial statements, other than additional disclosures as set out below and in note 8. There were no changes to the recognition and measurement of the Corporation's revenue from contracts with customers compared to existing practice.

Nature of contracts with customers:

CHHC generates revenue from the sale of crude oil to customers in the ordinary course of its activities. CHHC uses a marketing agent to obtain its crude oil sales contracts and participates in a marketing group whereby the participants combine their crude oil to facilitate sales of full cargo shipments of crude oil to customers. CHHC's contracts with customers are short-term in nature, whereby typically one contract represents one cargo sale.

Payment terms vary by contract but are typically 30 calendar days following the cargo's bill of lading date. The customer's payment is made to the marketing agent. Two business days thereafter, the marketing agent pays to CHHC its share of the consideration from the cargo sale, less a marketing fee, in accordance with the terms of the marketing agreement.

Revenue recognition

Revenue is measured at the transaction price, which is the amount of consideration specified in a contract with a customer and includes a component of variable consideration. The variable consideration reflects sales prices which are based on benchmark crude oil prices at future dates, and thus the transaction price is not known at the time the contract is signed.

Revenue is recognized when control of the crude oil is transferred to a customer, which is generally when title passes from CHHC to the customer, at the amount to which the entity expects to be entitled. The Company satisfies its performance obligations in contracts with customers upon delivery of crude oil, which occurs at a point in time. The crude oil may be considered delivered upon loading to a vessel or alternatively upon reaching the customer's destination point, depending on the delivery terms. The delivery terms and title transfer location are stated in each contract.

3. Significant accounting policies (continued):

CHHC pays the marketing agent a fixed price marketing fee per barrel of crude oil sold. CHHC applies a practical expedient to expense these costs to obtain a contract when incurred, when the amortization period would have been one year or less.

Estimates and judgments

CHHC uses judgment in determining its performance obligations in its contracts with customers and the level of disaggregation of revenue for disclosure purposes.

IFRIC 22, *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22")

IFRIC 22 clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. The application of the interpretation had no impact on the Corporation's 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 March 31, 2018 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.

IFRS 16, *Leases* ("IFRS 16")

In January 2016, the IASB issued 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 also been adopted.

The Corporation has commenced its initial assessment of the impact of the new standard, including a review of its operating leases and other contracts. However, the extent of the impact of adoption of this standard on the Corporation's consolidated financial statements has not yet been determined. The impact will depend on factors as they exist at the adoption date such as the composition of the Corporation's leases, future economic conditions (such as borrowing rates) and the extent to which the Corporation chooses to use practical expedients and recognition exemptions.

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

4. Recent accounting pronouncements issued but not yet effective (continued):

IFRIC 23*, Uncertainty Over Income Tax Treatments* (“IFRIC 23”)

IFRIC 23 was issued in June 2017 and clarifies application of the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments that have yet to be accepted by tax authorities. The interpretation is effective for annual periods beginning on or after January 1, 2019. CDEV has not yet determined what, if any, impact the application of the interpretation will have on its consolidated financial statements.

5. Property and equipment:

	Oil development assets and production facilities
Cost	
Balance at December 31, 2017	$ 512,664
Additions for the period	5,443
Decommissioning adjustments	1,258
Balance at March 31, 2018	$ 519,365
Accumulated depletion and depreciation	
Balance at December 31, 2017	$ 315,109
Depletion and depreciation	11,906
Balance at March 31, 2018	$ 327,015
Carrying amounts:	
At December 31, 2017	$ 197,555
At March 31, 2018	$ 192,350

At March 31, 2018, costs subject to the calculations of depletion and depreciation included future development costs of $485,336 ($491,000 - December 31, 2017).

At March 31, 2018 an assessment of indicators of impairment was conducted for CHHC’s cash generating unit. No indicators were noted and accordingly an impairment test was not required.

(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, 2017	$ 133,398	$ 12,080
Additional provisions	-	-
Changes in estimates	261	(556)
Obligations settled	(912)	(621)
Changes in discount rate	997	(58)
Unwind of discount	710	39
Balance at March 31, 2018	$ 134,454	$ 10,884
Current	3,708	2,722
Non-current	130,746	8,162
Provisions	$ 134,454	$ 10,884

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 $267,993 at March 31, 2018 ($268,401 - December 31, 2017). Estimates of decommissioning obligation costs can change significantly based on factors such as operating experience and changes in legislation and regulations.

These obligations will be settled based on the expected timing of abandonment, which currently extends up to the year 2056 and is based upon the useful lives of the underlying assets. The provision was calculated at March 31, 2018 using an inflation rate of 2.00% (2.00% - December 31, 2017) and was discounted using an average risk-free rate of 2.15% (2.16% - December 31, 2017).

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 1.88% (December 31, 2017 – 1.73%) and an inflation rate of 2.0% was used to calculate the provision at March 31, 2018 (December 31, 2017 – 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 March 31 include the following:

		2018		2017
Change in trade and other receivables	$	3,501	$	(5,157)
Change in inventory		1,100		1,949
Change in prepaid expenses		(1,247)		(1,224)
Change in trade and other payables		(5,028)		(1,748)
Change in non-cash working capital items	$	(1,674)	$	(6,180)
Relating to:				
Operating activities	$	232	$	(5,713)
Investing activities		(1,906)		(467)
Change in non-cash working capital items	$	(1,674)	$	(6,180)

Property and equipment expenditures comprise the following:

		2018		2017
Property and equipment additions (note 5)	$	(5,443)	$	(10,568)
Change in non-cash investing working capital		(1,906)		(467)
Cash used for property and equipment expenditures	$	(7,349)	$	(11,035)

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

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

	Three months ended March 31			
		2018		2017
Gross crude oil revenue	$	80,820	$	77,470
Less: marketing fees		(169)		(143)
Less: royalties		(21,127)		(17,487)
Less: net profits interest		(6,147)		(4,902)
Net crude oil revenue	$	53,377	$	54,938

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

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

The following table illustrates the disaggregation of gross crude oil revenue by primary geographical market:

	Three months ended March 31	
	2018	2017
Canada	$ 36,432	$ 32,607
Europe	34,783	18,067
United States	9,605	26,796
	$ 80,820	$ 77,470

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

	Three months ended March 31	
	2018	2017
Hibernia joint account production and operating	$ 5,618	$ 5,066
Crude oil transportation	1,716	1,205
Facility use fees net of incidental net profits interest	(678)	(893)
Total production and operating expense	$ 6,656	$ 5,378

9. Commitments:

CDEV's commitments at March 31, 2018 are summarized in the table below and include crude oil transportation and transshipment commitments, CHHC's share of Hibernia Project contract commitments (well and related services including helicopters and support vessels) and operating leases for CDEV and CHHC's office premises and its share of HMDC's office premises.

	2018	2019-2022	Thereafter	Total
Crude oil transportation and transshipment services	$ 4,237	$ 17,592	$ 28,606	$ 50,435
Hibernia Project contracts	4,275	22,873	–	27,148
Office premises	511	594	–	1,105
Total Commitments	$ 9,023	$ 41,059	$ 28,606	$ 78,688

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.

In March 2015, CDEV received notice of a lawsuit filed in 2014 in the Republic of Panama against Multidata Systems International Inc., Nordion Inc., and CDEV. The lawsuit alleges that the defendants are liable for injuries to the plaintiffs as a result of overexposure to radiation from equipment during treatments received at a clinic in Panama. Management believes that it is not probable there will be an outflow of resources in relation to this lawsuit and thus no accrual has been recorded on the consolidated financial statements as at March 31, 2018.

11. Risks to the Corporation:

Overview:

The nature of CDEV's consolidated operations expose the Corporation to risks arising from its financial instruments that may have a material effect on cash flows, profit and comprehensive income (loss). The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Corporation's annual financial statements as at December 31, 2017. 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.

CDEV is exposed to financial risks including market risk relating to commodity prices, foreign exchange rates and interest rates, as well as credit risk and liquidity risk. A description of the nature and extent of risks arising from the Corporation's financial assets and liabilities can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2017.

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

11. Risks to the Corporation (continued):

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from CHHC's trade and other receivables. The composition of CHHC's trade and other receivables is as follows:

	March 31, 2018	December 31, 2017
Contracts with customers	$ 13,025	$ 18,328
Hibernia joint arrangement	3,583	1,661
HST/GST input tax credits	1,291	1,439
Other	846	818
Trade and other receivables	$ 18,745	$ 22,246
Amount outstanding greater than 90 days	$ 778	$ 778

CHHC applies a simplified approach to providing for expected credit losses (ECL), using the lifetime ECL provision for all trade receivables. To measure the ECL provision related to trade receivables, CHHC applies a provision matrix based on the number of days past due. Due to the high credit quality of CHHC's counterparties, the ECL provision at March 31, 2018 is not material for recognition purposes.

The Corporation's cash and cash equivalents (including those held in escrow and held for future abandonment and risk fund) are exposed to investment-grade Canadian banks and financial institutions and the Government of Canada, accordingly the ECL provision at March 31, 2018 related to cash and cash equivalents is not material for recognition purposes.

The Corporation realized no actual impairment losses during the three months ended March 31, 2018 or 2017.

12. Related party transactions:

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

CDEV paid no dividends to the Government of Canada during the three months ended March 31, 2018 or March 31, 2017.