CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Second Quarter Report
June 30, 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 August 21, 2018.

Michael Carter
Executive Vice-President

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

Toronto, Ontario
August 21, 2018

Management Discussion and Analysis of Results – for the period ended June 30, 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 June 30, 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 June 30, 2018 the operations of CDEV were primarily the same as those described in the 2017 Annual Report of CDEV, available on our website, www.cdev.gc.ca. CDEV consolidated three subsidiaries during the period: Canada Eldor Inc. (“CEI”), Canada Hibernia Holding Corporation (“CHHC”), and until June 29, 2018, Canada GEN Investment Corporation (“GEN”). On June 29, 2018, GEN was dissolved and ceased to be a wholly owned subsidiary. In addition, the Corporation acquired two new wholly owned subsidiaries during the period, as discussed in notes 1 and 13 of the interim condensed consolidated financial statements for the period ended June 30, 2018. The companies, Project Deliver I Ltd. and Project Deliver II Ltd, (renamed Trans Mountain Corporation on August 17, 2018) were set up to potentially acquire entities related to the Trans Mountain Pipeline in Alberta and British Columbia. They had no financial activity during the period.

Subsequent to quarter end, Trans Mountain Corporation was designated by the Minister of Finance as the purchaser on behalf of Canada for the acquisition of shares and units relating to the business of the Trans Mountain Pipeline System and Expansion from Kinder Morgan Cochin ULC as per the Share and Unit Purchase Agreement dated May 29, 2018. The acquisition is expected to close at the end of August or early September 2018 at a purchase price of $4.5 billion.

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 $45 million during the first six months of 2018. Dividends to CDEV of $40 million were paid during the second quarter.
- There was no significant change in the management of CEI's liabilities.
- CDEV did not pay dividends to the Government during the first six months of 2018.
- We continued to manage several projects and remain prepared to undertake projects suitable to our capabilities.
- We assisted the Government in retaining firms to prepare due diligence reports and financial analysis of the Trans Mountain Pipeline assets.

Canada Hibernia Holding Corporation

Net crude oil revenue, after deducting marketing fees, royalties and net profits interest, declined 10% to $43 million in the second quarter of 2018 from $48 million in the comparative quarter, as higher oil prices were more than offset by lower sales volumes and increased royalty and net profits interest expenses. Sales volumes of 0.68 million barrels in the quarter were 26% lower than 0.93 million barrels sold in the second quarter of 2017, due to a 13% decrease in CHHC's net share of Hibernia daily average production volumes combined with cargo sale timing differences. Gross daily average production volumes for the Hibernia field declined to 129,900 barrels per day from 153,000 barrels per day in the comparative quarter, due to natural declines 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 50% to US $74 per barrel in the quarter from US $50 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 44% increase in CHHC's average realized sales price to $96 per barrel from $66 per barrel in the second 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 second 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, and maintenance activities associated with the triennial platform turnaround scheduled to commence later in the third quarter of 2018.

Canada Eldor Inc.

There was no significant change in the management of CEI's liabilities. In the first two quarters of 2018, the liability for site restoration decreased by $2.3 million due to the settlement of $1.5 million in obligations, a $0.8 million decrease in estimated costs, and a change in the discount rate during the period. 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 $19 million to pay for CEI's total estimated liabilities of $11 million.

Canada GEN Investment Corporation

As GEN sold all of its remaining GM common shareholdings in 2015, it had minimal activity during the period. On June 29, 2018, GEN was dissolved in accordance with Governor in Council approval.

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. We are evaluating the risks inherent to the operation and construction of an oil pipeline in the event we purchase entities of the Trans Mountain pipeline.

Financial Statements for the Period Ended June 30, 2018

The interim condensed consolidated financial statements for the period ended June 30, 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 June 30, 2018 was $46 million, compared to revenue of $49 million in the comparative period of the prior year. This change is mainly attributable to lower net crude oil revenue in the current quarter partly offset by higher foreign exchange gains and higher interest revenue in the period. Net crude oil revenue decreased by 10% in the second quarter of 2018 to $43 million from $48 million in the second quarter of 2017. Gross crude oil revenue increased by 64%, however, royalty and net profits interest expenses 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, a royalty refund included in the comparative quarter (not repeated in the current quarter), a permanently increased royalty rate on a portion of HSE Unit production and incremental royalties associated with higher oil prices.

Total expenses for the quarter excluding finance costs were $20 million compared to total expenses of $22 million in the second quarter of 2017. Depletion and depreciation expenses decreased by $3 million in the quarter due to lower production volumes and inventory adjustments. In addition, we recognized a small foreign exchange loss for the quarter compared to a loss of $2 million in the comparative period in 2017. This was partly offset by a $3 million increase in professional fees in the quarter, due mainly to activity related to due diligence of the Trans Mountain Pipeline.

The provision for site restoration expense was a $0.3 million recovery during the second quarter due to a change in estimated regulatory fees while there was an increase of $0.1 million to the provision in the prior year quarter in 2017.

Consolidated revenue for the six months ended June 30, 2018 declined slightly to $102 million, compared to $105 million in the prior year-to-date period, mainly due to lower net crude oil revenue, partly offset by higher foreign exchange gains and higher interest revenue. Year-to-date net crude oil revenue was $96 million, a 6% decrease from $102 million in the prior year period due to a 5% increase in gross crude oil revenue more than offset by higher royalty and NPI expenses.

We recognized foreign exchange gains for the year-to-date period of $3 million compared to gains of $1 million on foreign exchange in the prior year comparative period largely due to the impact of a weakening trend in the Canadian dollar, which positively impacted revenue collections and month-end USD cash balances.

Year-to-date expenses declined to $42 million compared to $46 million in the prior year-to-date period. Depletion and depreciation costs decreased to $23 million from $28 million in the six months ended June 30, 2017, due mainly to a lower production volumes. We recognized a lower foreign exchange loss for the year-to-date period of $1 million compared to a $3 million loss on foreign exchange in the prior year comparative period. This was partly offset by a $3 million increase in professional fees in the year-to-date period due mainly to higher project activity related to the Trans Mountain Pipeline.

The provision for site restoration expense was a $0.9 million recovery during the first six months of 2018 due to a change in estimated regulatory fees while there was an increase of $0.1 million to the provision in the prior year period in 2017.

Cash and cash equivalents as at June 30, 2018 increased to $244 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 six months of 2018.

Trade and other receivables increased by $7 million to $30 million at June 30, 2018 compared to December 31, 2017 due to increases in oil sales receivable and cash calls receivable.

Inventory increased by $1 million to $5 million at June 30, 2018 compared to December 31, 2017 due to higher inventory volumes.

Trade and other payables declined by $2 million as at June 30, 2018 to $14 million compared to December 31, 2017 due an elimination of cash calls payable partially offset by higher accruals for royalties and net profits interest expenses.

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

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three and six months ended June 30, 2018

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

		June 30, 2018		December 31, 2017
Assets				
Current assets:				
Cash and cash equivalents	$	243,946	$	176,357
Short-term investments		-		30,169
Trade and other receivables (note 11)		29,541		22,246
Income taxes recoverable		285		1,857
Inventory		5,457		4,254
Prepaid expenses		1,383		260
Cash and cash equivalents held for future obligations		2,135		3,272
		282,747		238,415
Non-current assets:				
Property and equipment (note 5)		186,630		197,555
Cash and cash equivalents held for future obligations		138,543		136,603
Cash held in escrow		14,227		14,227
Deferred tax asset		17,785		16,101
		357,185		364,486
	$	639,932	$	602,901
Liabilities and Shareholder's Equity				
Current liabilities:				
Trade and other payables	$	13,739	$	16,176
Current portion of provision for decommissioning obligations (note 6(a))		3,705		4,627
Current portion of provision for site restoration (note 6(b))		1,948		3,066
Current portion of defined benefit obligation		150		200
		19,542		24,069
Non-current liabilities:				
Provision for decommissioning obligations (note 6(a))		130,860		128,771
Provision for site restoration (note 6(b))		7,803		9,014
Defined benefit obligation		1,505		1,527
		140,168		139,312
Shareholder's equity:				
Share capital		1		1
Contributed surplus		603,294		603,294
Accumulated deficit		(123,073)		(163,775)
		480,222		439,520
Commitments (note 9)				
Contingencies (note 10)				
Subsequent event (note 13)				
	$	639,932	$	602,901

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

On behalf of the Board:

_______________Director   Mary C. Ritchie _______________Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenue:				
Net crude oil revenue (note 8(a))	$ 42,970	$ 47,530	$ 96,347	$ 102,468
Foreign exchange gains	1,186	719	3,242	1,196
Interest income	1,381	470	2,509	1,075
	45,537	48,719	102,098	104,739
Expenses:				
Depletion and depreciation (note 5)	9,631	12,960	23,039	28,248
Production and operating (note 8(b))	4,612	5,186	11,268	10,564
Foreign exchange losses	146	2,143	843	2,873
Professional fees	4,578	1,124	5,492	2,341
Salaries and benefits	888	732	1,601	1,875
Other expenses	273	193	521	434
Change in estimates of provision for site restoration (note 6)	(290)	122	(904)	122
Defined benefit expense	15	13	30	26
	19,853	22,473	41,890	46,483
Finance costs:				
Unwind of discount on decommissioning obligations (note 6(a))	727	654	1,437	1,323
Unwind of discount on provision for site restoration (note 6(b))	39	30	78	60
	766	684	1,515	1,383
Profit before income taxes	24,918	25,562	58,693	56,873
Income taxes:				
Current	8,818	8,822	19,675	19,789
Deferred	(742)	(902)	(1,684)	(3,607)
	8,076	7,920	17,991	16,182
Profit and comprehensive income	$ 16,842	$ 17,642	$ 40,702	$ 40,691

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 June 30		Six months ended June 30	
	2018	2017	2018	2017
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	(139,915)	(117,651)	(163,775)	(140,700)
Profit	16,842	17,642	40,702	40,691
Balance, end of period	(123,073)	(100,009)	(123,073)	(100,009)
Total shareholder's equity	$ 480,222	$ 503,286	$ 480,222	$ 503,286

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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Profit	$ 16,842	$ 17,642	$ 40,702	$ 40,691
Adjustments for:				
Depletion and depreciation	9,631	12,960	23,039	28,248
Income tax expense	8,076	7,920	17,991	16,182
Defined benefits paid in excess of expenses	(23)	(32)	(72)	(125)
Interest income	(1,381)	(470)	(2,509)	(1,075)
Change in provision for site restoration	(290)	122	(904)	122
Unwind of discount on provisions	766	684	1,515	1,383
Interest received	1,381	470	2,509	1,075
Provisions settled	(1,994)	(1,780)	(3,527)	(2,461)
Income taxes paid	(8,353)	(7,838)	(18,103)	(29,412)
	24,655	29,678	60,641	54,628
Change in non-cash working capital (note 7)	(7,966)	10,871	(7,734)	5,158
	16,689	40,549	52,907	59,786
Investing activities:				
Purchase of property and equipment	(7,335)	(6,589)	(14,684)	(17,624)
Sale of short term investments	-	-	30,169	-
Change in cash and cash equivalents held for future obligations	(417)	4,829	(803)	4,665
	(7,752)	(1,760)	14,682	(12,959)
Change in cash and cash equivalents	8,937	38,789	67,589	46,827
Cash and cash equivalents, beginning of period	235,009	227,952	176,357	219,914
Cash and cash equivalents, end of period	$ 243,946	$ 266,741	$ 243,946	$ 266,741
Represented by:				
Cash	$ 65,035	$ 78,255	$ 65,035	$ 78,255
Cash equivalents	178,911	188,486	178,911	188,486
	$ 243,946	$ 266,741	$ 243,946	$ 266,741

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.

During the period, the Corporation consolidated three wholly-owned subsidiaries: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), and until June 29, 2018, Canada GEN Investment Corporation ("GEN").

During the quarter ended June 30, 2018, two new wholly-owned subsidiaries were incorporated under the provisions of the *Canada Business Corporations Act* and were acquired by the Corporation. On May 31, 2018, the Corporation acquired 10804126 Canada Inc. and 10804142 Canada Inc. (renamed Project Deliver I Ltd. and Project Deliver II Ltd, respectively on June 12, 2018). The companies are subject to the *Financial Administration Act* and Project Deliver II is also subject to the *Income Tax Act.* The companies were set up to potentially acquire and hold entities related to the Trans Mountain pipeline in Alberta and British Columbia and had no activity during the period.

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.

1. Reporting entity (continued):

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.

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"). During the period ended June 30, 2018, GEN held no investments in GM and had minimal activity. On June 29, 2018, in accordance with Governor in Council approval, GEN was dissolved pursuant to section 210(3) of the *Canada Business Corporations Act* and therefore ceased to be a wholly owned subsidiary of CDEV.

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 August 21, 2018.

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:

- 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.

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:

3. Significant accounting policies (continued):

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.

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.

3. Significant accounting policies (continued):

- 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.

- 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.

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

3. Significant accounting policies (continued):

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

(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 June 30, 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 is assessing the impact of the new standard, including a review and analysis 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	11,284
Decommissioning adjustments	1,754
Balance at June 30, 2018	$ 525,702
Accumulated depletion and depreciation	
Balance at December 31, 2017	$ 315,109
Depletion and depreciation	23,963
Balance at June 30, 2018	$ 339,072
Carrying amounts:	
At December 31, 2017	$ 197,555
At June 30, 2018	$ 186,630

At June 30, 2018, costs subject to the calculations of depletion and depreciation included future development costs of $479,495 ($491,000 - December 31, 2017).

At June 30, 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	(196)	(808)
Obligations settled	(2,024)	(1,503)
Changes in discount rate	1,950	(96)
Unwind of discount	1,437	78
Balance at June 30, 2018	$ 134,565	$ 9,751
Current	3,705	1,948
Non-current	130,860	7,803
Provisions	$ 134,565	$ 9,751

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 $267,014 at June 30, 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 June 30, 2018 using an inflation rate of 2.00% (2.00% - December 31, 2017) and was discounted using an average risk-free rate of 2.17% (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 1.98% (December 31, 2017 – 1.73%) and an inflation rate of 2.0% was used to calculate the provision at June 30, 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 June 30 include the following:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Change in trade and other receivables	$ (10,796)	$ 17,108	$ (7,295)	$ 11,951
Change in inventory	(1,379)	(793)	(279)	1,156
Change in prepaid expenses	124	417	(1,123)	(807)
Change in trade and other payables	2,591	(8,886)	(2,437)	(10,634)
Change in non-cash working capital items	$ (9,460)	$ 7,846	$ (11,134)	$ 1,666
Relating to:				
Operating activities	$ (7,966)	$ 10,871	$ (7,734)	$ 5,158
Investing activities	(1,494)	(3,025)	(3,400)	(3,492)
	$ (9,460)	$ 7,846	$ (11,134)	$ 1,666

Property and equipment expenditures comprise the following:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Property and equipment additions (note 5)	$ (5,841)	$ (3,564)	$ (11,284)	$ (14,132)
Change in non-cash investing working capital	(1,494)	(3,025)	(3,400)	(3,492)
Cash used for property and equipment expenditures	$ (7,335)	$ (6,589)	$ (14,684)	$ (17,624)

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

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Gross crude oil revenue	$ 65,092	$ 61,274	$ 145,912	$ 138,744
Less: marketing fees	(87)	(133)	(256)	(276)
Less: royalties	(17,157)	(10,106)	(38,284)	(27,593)
Less: net profits interest	(4,878)	(3,505)	(11,025)	(8,407)
Net crude oil revenue	$ 42,970	$ 47,530	$ 96,347	$ 102,468

(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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Europe	$ 16,945	$ –	$ 51,728	$ 18,067
Canada	–	9,737	36,432	42,344
United States	13,755	39,899	23,360	66,695
South America	17,521	–	17,521	–
Asia	16,871	11,638	16,871	11,638
	$ 65,092	$ 61,274	$ 145,912	$ 138,744

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

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Hibernia joint account production and operating	$ 3,822	$ 3,662	$9,440	$ 8,728
Crude oil transportation	1,402	2,528	3,118	3,733
Facility use fees net of incidental net profits interest	(612)	(1,004)	(1,290)	(1,897)
Total production and operating	$ 4,612	$ 5,186	$ 11,268	$ 10,564

9. Commitments:

CDEV's commitments at June 30, 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	$ 2,825	$ 17,592	$ 28,606	$ 49,023
Hibernia Project contracts	2,850	22,873	–	25,723
Office premises	286	392	–	678
Total Commitments	$ 5,961	$ 40,857	$ 28,606	$ 75,424

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 June 30, 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.

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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:

	June 30, 2018	December 31, 2017
Contracts with customers	$ 23,749	$ 18,328
Hibernia joint arrangement	2,671	1,661
HST/GST input tax credits	1,429	1,439
Other	1,692	818
Trade and other receivables	$ 29,541	$ 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 June 30, 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 June 30, 2018 related to cash and cash equivalents is not material for recognition purposes.

The Corporation realized no actual impairment losses during the three and six months ended June 30, 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 and six months ended June 30, 2018 or June 30, 2017.

13. Subsequent event:

On August 15, 2018, the Minister of Finance designated Trans Mountain Corporation (formerly named Project Deliver II Ltd.), a subsidiary of CDEV, as the purchaser of certain entities related to the Trans Mountain Pipeline System and Trans Mountain Pipeline System Expansion from Kinder Morgan Cochin ULC. The acquisition is expected to close at the end of August or early September 2018 at a purchase price of $4.5 billion to be financed by a loan from the Government.