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Canada Development  
Investment Corporation

La Corporation de développement  
des investissements du Canada

Annual Report 2017





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Investment Corporation

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## Report to the Minister

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**The Honourable William Francis Morneau**  
**Minister of Finance**

Dear Minister Morneau:

I am pleased to report on the consolidated results of operations for Canada Development Investment Corporation (“CDEV”) for the year ended December 31, 2017.

During the year we paid \$91 million in dividends to the Government. We also worked with expert consultants to analyse various issues for the Government.

Canada Hibernia Holding Corporation, a wholly owned subsidiary, increased net crude oil revenue by 5% in 2017 to \$183 million. This reflected 19% higher Canadian Dollar oil prices offset by significant increases in royalty and net profit interest costs and lower sales volumes. In 2017 CHHC paid its two billionth dollar in dividends, in addition to which it has paid \$680 million in income taxes and \$250 million in net profits interest to the Government.

Canada Eldor Inc., a wholly owned subsidiary, which is responsible for the administration of outstanding issues pursuant to prior divestitures, continued to reimburse Cameco for their mine site restoration costs for work near Uranium City, Saskatchewan. The forecast costs of site restoration increased in 2017 mainly due to higher expected fees charged by the Canadian Nuclear Safety Commission.

We were subject to a special examination in 2017. We note that in the Report on Other Legal and Regulatory Requirements section of the joint auditor’s opinion for 2017 regarding the appointment of an officer-director, the auditors express an opinion that our Executive Vice President (“EVP”) is performing the duties of a chief executive officer (“CEO”). The auditors have therefore concluded that CDEV is not in compliance with the *Financial Administration Act* (the “FAA”) because the EVP has not been appointed by the Governor in Council. CDEV’s Board of Directors has consulted with its external legal counsel and unanimously disagrees with the opinion of the joint auditors that CDEV is not in compliance with the FAA. Our shareholder has chosen since 1987 not to appoint a CEO. The Board of Directors of CDEV has the authority to appoint an EVP, which it has done, and it has determined that CDEV’s needs are adequately served by the part-time EVP, who does not have all of the responsibilities and duties typically associated with a CEO.

Two Directors, Nick Wemyss and Ted Howell left the board during the year. We thank them for their hard work and insight. We welcome two new Directors: Darlene Halwas and Stephen Swaffield.

During 2017 CDEV did not borrow from the Government nor did it receive any appropriations.

On behalf of the Board of Directors,



Michael P. Mackasey  
Chair  
Canada Development Investment Corporation

March 26, 2018

## Directors and Officers as at March 26, 2018

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### Minister Responsible for CDEV

The Honourable William Francis Morneau  
Minister of Finance

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### Board of Directors

**Michael P. Mackasey** <sup>(2)</sup>

Chair  
Canada Development Investment Corporation  
Vice Chairman, Head of Equity Capital Markets  
Macquarie Capital Markets Canada  
Mississauga, Ontario

**Darlene Halwas, CFA, ICD.D** <sup>(1) (3)</sup>

Director  
Calgary, Alberta

**Jennifer Reynolds, ICD.D** <sup>(1) (3)</sup>

President and CEO  
Toronto Financial Services Alliance  
Toronto, Ontario

**Mary Ritchie, FCPA, FCA** <sup>(1) (2)</sup>

CEO  
Richford Holdings Ltd.  
Edmonton, Alberta

**Sandra Rosch** <sup>(2) (3)</sup>

President  
Stonecrest Capital Inc.  
Toronto, Ontario

**Stephen Swaffield, MBA** <sup>(2)</sup>

President  
CarbEx Consulting Inc.  
Whistler, British Columbia

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### Officers

**Michael Carter**

Executive Vice-President

**Andrew Staf, CPA, CA**

Vice-President, Finance

**Zoltan Ambrus, CFA, LLB**

Vice-President

**Noreen E. Flaherty, BA, LLB**

Legal Counsel and Corporate Secretary

### Committees of the Board

<sup>(1)</sup> Audit Committee

<sup>(2)</sup> Nominating and Governance Committee

<sup>(3)</sup> Human Resources and Compensation Committee

## CDEV 2017 Overview

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**Our Vision:** To be the Government of Canada’s primary resource for the evaluation, management and divestiture of its commercial assets.

**Our Mission:** Acting in the best interests of Canada, on behalf of the Minister of Finance, we bring excellent business judgement and commercial practices to the evaluation, management and divestiture of assets of the Government of Canada.

**Canada Hibernia Holding Corporation generated a profit of \$75 million in 2017 on net crude oil revenue of \$183 million from sales volume of 3.6 million barrels.**

**In 2017, CHHC’s cumulative dividends paid exceeded \$2 billion.**



CDEV Board of Directors

Left to Right: J. Reynolds, S. Swaffield, D. Halwas, M. Mackasey, S. Rosch  
Absent: M. Ritchie

**During 2017, we continued to work on several projects for the government.**

CDEV declared dividends of \$91 million to the Government in 2017.



## Corporate Governance Practices

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CDEV (formerly “CDIC”) reports to Parliament through the Minister of Finance. In November 2007, the Minister informed CDEV that “going forward, the operations of the CDIC should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the government in new directions suited to CDIC’s capabilities, while maintaining the capacity to divest CDIC’s existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance”. Since 2007, the Corporation has carried out new assignments, including acquiring and divesting assets and providing advice to the government on other government interests.

CDEV’s Board of Directors supervises and oversees the conduct of the business and affairs of CDEV. The Board currently consists of the Chair and five other directors. The members of the Board bring significant public and private experience, skills and expertise to their roles. The Chair of the Board assesses the effectiveness of the Board and its committees with input from all of the directors. All members of the Board are independent of CDEV management.

Attendance at directors’ meetings is outstanding and each director dedicates appropriate time outside of board meetings to the affairs and governance of the Corporation. CDEV and each subsidiary have separate and active boards of directors that meet regularly.

The Board annually reviews and approves the Corporate Plan of the Corporation and monitors its implementation over the planning period, evaluating the strategic direction in light of the changing business environment and assignments provided to it. Risks are identified and managed throughout the year. The Board conducts an annual retreat meeting where the directors consider, among other things, the goals of the Corporation from a strategic point of view.

To assist it in carrying out its stewardship of CDEV, the Board has established three committees, being the Nominating and Governance Committee, the Human Resources and Compensation Committee and the Audit Committee. The Nominating and Governance Committee deals with matters related to corporate governance. It continues to review CDEV’s governance practices in the spirit of continuous improvement and to address new requirements. In addition, this Committee assists in determining the desired composition and structure of the Board. The Human Resources and Compensation Committee assists the Board in matters pertaining to human resources and compensation strategy, policies and practices, including reviewing executive compensation. The Audit Committee monitors the integrity of the Corporation’s consolidated financial statements and the maintenance of proper controls and accounting procedures of the Corporation and communicates directly with the Corporation’s auditors. Work plans are updated annually for each board and committee.

The Board has an effective working relationship with CDEV’s management. The allocation of responsibilities between the Board and management is reviewed on a regular basis. A Board of Directors’ charter has been adopted which denotes roles and responsibilities, primarily in terms of Board stewardship.

Effective communication with the Crown and the public is conducted through the board-approved Corporate Plan, Corporate Plan Summary, and the Annual Report, as well as through the corporate website and an annual public stakeholders meeting. As well, meetings are held as required with the Minister of Finance and other officials of the Government of Canada.

Compensation paid to directors is set by Order in Council. The Board members receive an annual retainer for their services, plus a per diem for travel time, preparing for and attending meetings and other responsibilities as needed. Directors are also reimbursed for reasonable expenses incurred. CDEV will continue to monitor the government’s evolving guidance in governance matters and public sector best practices and implement changes in its governance practices as required. To this end, CDEV implemented a directive regarding travel expenditures in 2015.

## Canadian Environmental Assessment Act Compliance

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The primary activities of CDEV involve the management of agency sales roles for the potential sale of certain government assets, involvement in the analysis of government assets, in addition to administrative head office functions for itself and its subsidiaries.

Under section 67 of the *Canadian Environmental Assessment Act, 2012* (CEAA 2012), CDEV is required to conduct a determination of the significance of adverse environmental effects of any project it carries out or permits to be carried out on federal lands. CDEV undertakes a process to evaluate any such projects that would require assessment under section 67 and, consequently, reporting under section 71 of CEAA 2012. Based on that evaluation, CDEV has determined that none of its activities in 2016 or 2017 trigger these assessment or reporting obligations under CEAA 2012.

# Management Discussion and Analysis of Results

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The public communications of Canada Development Investment Corporation (“CDEV”), including this annual 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.

## 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. In addition to certain activities of our own, we have three wholly-owned subsidiaries for which we are responsible: Canada Hibernia Holding Corporation (“CHHC”), Canada Eldor Inc. (“CEI”), and Canada GEN Investment Corporation (“GEN”). CHHC owns and manages the federal government’s interests in the Hibernia Development Project (“Hibernia”). CEI has no operations, but has responsibility for servicing liabilities, chiefly arising from an agreement of purchase and sale with Cameco Inc. entered into in 1988. GEN was incorporated in 2009 and until April 2015 held common shares of General Motors Company (“GM”) and until December 2014, preferred shares of GM. As discussed in note 3(b) of the consolidated financial statements, CDEV transferred the sole outstanding share of PPP Canada Inc. to the Minister of Infrastructure, Communities and Intergovernmental Affairs on July 4, 2016.

Since CDEV’s inception in 1982, we have been effective in the management and divestiture of corporate interests of the Crown. The assets sold on behalf of the Crown by CDEV through 2017 include Canadair Limited, de Havilland Aircraft of Canada Limited, Teleglobe Canada, Fishery Products International Limited, Canada Development Corporation, Nordion International Inc., Telesat Canada, shares of Cameco Corporation, interests in Chrysler and common and preferred shares of GM. Cash proceeds to the Crown from these divestment activities totaled approximately \$8.1 billion through 2017. In addition, CHHC has paid a total of \$2.08 billion in cumulative dividends from operations. From 2010 to 2015 GEN earned \$380 million in dividend income on GM shares.

CDEV has a management team based in Toronto headed by the Executive Vice-President, whose role is to work closely with external consultants, contractor specialists and the Board to ensure the effective functioning of CDEV and its subsidiaries. CHHC has a management team based in Calgary that is experienced in the oil industry which provides expertise in technical operations, marketing, transportation and finance.

In 2015, CDEV amended its guidelines and policies governing travel and hospitality to align with current Treasury Board guidelines, including the Directive on Travel, Hospitality, Conference and Event Expenditures. The travel and hospitality expenses for the directors and officers of CDEV and its subsidiaries are posted on our website each quarter. In 2017 CDEV and its subsidiaries incurred \$276 thousand in travel costs, \$4 thousand in hospitality, and \$22 thousand in conference fees. (2016 -\$234 thousand, \$2 thousand, and \$6 thousand respectively). The increase in travel from the prior year is due primarily to more project related travel by CDEV.

## Corporate Performance

### Key Objectives from the 2017 Corporate Plan:

- Manage our working interest in the Hibernia oil field through our subsidiary CHHC and ensure that this asset is ready for sale when deemed appropriate.
- Continue to oversee the management of CEI’s obligations.
- 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.
- Continue our involvement in the analysis or potential sale of government assets as requested by the Minister of Finance.
- Maintain our ability to perform all tasks given to us in an efficient manner.
- Remain available and prepared to address the needs of the Government for any future endeavour that is suitable given our capabilities and expertise.

## Management Discussion and Analysis of Results (continued)

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### Performance

We and our subsidiaries continue to manage our investments and obligations as detailed below:

#### Canada Development Investment Corporation

We managed financial, technical and legal advisors and assisted in the analysis, or potential sale of government assets in consultation with the federal departments responsible for the assets. We remain prepared to undertake the analyses of government assets and other endeavours suitable for our capabilities and expertise and perform all of our activities in an efficient manner.

We declared dividends of \$91 million in 2017. These dividends were funded by dividends received from CHHC.

We retain suitable levels of cash and cash equivalents and short-term investments to remain prepared to undertake future activities and to fund potential contingencies.

#### Canada Hibernia Holding Corporation

CHHC's after-tax profit of \$75 million in 2017 was higher than the \$63 million recorded in 2016 primarily as the result of higher net crude oil revenue.

Net crude oil revenue, after deducting marketing fees, royalties and net profits interest, increased 5% to \$183 million from \$174 million in 2016. The increase is due primarily to higher realized oil prices, which more than offset slightly lower sales volumes of 3.6 million barrels in 2017 compared to 3.8 million barrels in 2016. Hibernia production averaged 145,300 barrels per day in 2017 compared to 136,400 barrels per day in 2016, however CHHC's net share of production was relatively unchanged at about 10,000 barrels per day in both periods due to its lower working interest in the Hibernia Southern Extension Unit ("HSE Unit") which grew in 2017 to comprise the majority of total field production for the first time. HSE Unit production continued to increase in 2017 from its multi-year development drilling program which was substantially completed in April 2017. The flat production and timing of cargo sales around year-end explain the 5% decrease in volume of oil sold.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The price of Dated Brent crude increased 24% to average US \$54.26 per barrel from US \$43.74 per barrel in 2016 and CHHC realized a small price discount to Dated Brent in 2017 compared to a small premium in the prior year. The increase in US prices was partially offset by negative exchange rate impacts of a stronger Canadian dollar, resulting in a 19% increase in CHHC's average realized sales price to \$69.68 per barrel from \$58.40 per barrel in 2016. CHHC does not enter into fixed price commodity (or exchange rate) contracts and sells its oil at market prices.

Depletion and depreciation expense was \$51 million in 2017, consistent with the prior year expense.

CHHC paid dividends to CDEV of \$93 million during 2017 as compared to \$56 million in the prior year due to reduced investments in property and equipment and escrow funds.

During 2017, capital investments were primarily directed toward drilling and work-over activities in both the HSE Unit and 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 a water-alternating-gas pilot work-over well (designed to enhance oil recovery).

#### Canada Eldor Inc.

There was no significant change in the management of CEI's liabilities. In 2017, the liability for site restoration decreased \$0.9 million due to the settlement of \$2.4 million in obligations partly offset by a \$1.5 million increase in estimated costs, and a change in the discount rate during the year. The additional provisions for site restoration are largely due to higher expected regulatory fees. 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 and funds within the Consolidated Revenue Fund totaling \$21 million to pay for CEI's total estimated liabilities of \$14 million.

## Management Discussion and Analysis of Results (continued)

### Canada GEN Investment Corporation

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

### Summary of 2017 Operational Metrics

\$ Millions (unless noted otherwise)	2017 Plan	2017 Actual	2016 Actual	Y/Y %**	Explanation of changes Year over Year
Net crude oil revenue	170.8	183.2	174.3	+ 5%	19% higher C\$ oil prices; offset by higher royalty and net profit interest expense and 5% lower sales volume
Oil Sales Volume (million barrels)	3.3	3.6	3.8	- 5%	Slightly higher share of production at Hibernia Oil Project (+1%) more than offset by the timing of large cargo sales
Realized Oil Sale Price (\$US/barrel)	55.0	53.6	44.1	+ 22%	World oil prices increased overall in 2017
Realized Oil Sale Price (\$C/barrel)	72.0	69.7	58.4	+ 19%	An increase in the value of the C\$ reduced net oil price increase
Oil Operating Expense	27.7	21.7	25.7	- 16%	Higher allocation of costs to HSE Unit where CHHC has a lower working interest
Oil Capital Additions	37.2	24.2	50.6	- 52%	Early completion of HSE Unit subsea drilling program in April 2017; drilling improvements and efficiencies
Professional Fees and Administration Expenses *	11.9	11.3	8.2	+ 38%	Professional fee increase due to more project work; accrual of severance costs

\* Includes professional fees, salaries and benefits and other expenses.

\*\* Percentages may differ due to rounding.

## Management Discussion and Analysis of Results (continued)

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### Analysis of External Business Environment

The ongoing management of our holdings will be dependent on market and economic conditions specific to the underlying company or investment.

CHHC derives its cash flow exclusively from the Hibernia project assets and operations, including Hibernia oil production and facilities use. Cash flow fluctuates depending on oil production volumes, crude oil prices (including any premium or discount for Hibernia crude), the USD/CAD exchange rate, royalty and net profits interest burden, operating and transportation costs, income tax rates, and capital expenditure levels. CHHC is also a party to operating, royalty and other agreements, and is affected by regulatory changes under the Canada-Newfoundland and Labrador Offshore Petroleum Board and other regulators.

CEI will be affected by ongoing changes in the regulatory requirements and fees of the Canadian Nuclear Safety Commission and the Government of Saskatchewan.

### Risks and Contingencies

As with any oil development project, CHHC's interest in the Hibernia project faces geological and production risks. These particularly apply to the Ben-Nevis Avalon resources, which have not yet been fully developed. The operator of the project maintains high standards in all aspects of the operation including safety, efficiency and environmental protection. CHHC employs prudent risk management practices in consultation with the operator and maintains suitable insurance coverage that it regards as economically sound.

Another significant risk to CHHC's earnings and cash flow is the change in crude oil prices which can fluctuate due to global economic events and conditions. A \$1.00 per barrel change in the price of oil realized by CHHC is estimated to impact its earnings before tax by \$1.9 million (\$3.0 million in 2016). CHHC does not engage in crude oil hedging activities. Given the relatively low cost of production, CHHC is easily able to meet its obligations.

The present value cost for decommissioning and abandonment of the Hibernia wells and facilities of \$133 million is estimated based on known regulations, procedures and costs today for undertaking the decommissioning, the majority of which is projected to be incurred in the year 2056. It is possible that these costs may change materially before decommissioning due to regulatory changes, technological changes and inflation among other variables. CHHC has set aside funds totaling \$123 million (\$99 million deposited in the Consolidated Revenue Fund and \$24 million in short-term investments) to specifically provide for decommissioning and abandonment costs. As deemed necessary, CHHC may increase such funds set aside to offset the decommissioning obligation, or any other potential contingency.

CHHC is dependent on oil tankers to ship crude oil to its customers or to the Newfoundland Transshipment facility. To reduce single source tanker risk in case of reduced tanker availability, CHHC, along with all other East Coast Canada oil producers, entered into a long-term agreement in 2015 with a third-party shipping services company which has a fleet of shuttle tankers contracted to service the East Coast Canada oil projects.

The revenues of CHHC are impacted by foreign exchange fluctuations as CHHC's crude oil sales are priced in US dollars. The USD/CAD exchange rate decreased to 1.2545 at December 31, 2017 from 1.3427 at December 31, 2016, a 7% devaluation in the USD.

CHHC bears credit risks on relatively large cargo sales. CHHC deals with purchasers with established credit history and utilizes credit risk mitigation tools when necessary.

CEI is subject to liabilities due to its undertakings to Cameco as part of a 1988 Purchase and Sale agreement. The \$12 million provision determined for mine site restoration is based on estimates for expected restoration and monitoring work over a six year period. The actual costs may vary materially due to changes in inflation, changes in cost estimates in a difficult northern environment and changes in regulatory requirements. CEI has deposited \$17 million with the Consolidated Revenue Fund from which future liabilities could be settled.

CDEV operations face other risks including those related to a small management team, reputational risks, and information technology risks. Management regularly evaluates these risks in the fulfillment of the activities it undertakes to satisfy the mandates it is given.

The two contingencies disclosed in our financial statements have been analyzed by management and our legal counsel. Management believes that the probable resolutions will be favourable to CDEV and its subsidiaries.

## Management Discussion and Analysis of Results (continued)

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### Financial Statements for the Year Ended December 31, 2017

The consolidated financial statements for the year ended December 31, 2017 with comparative figures for 2016, have been prepared in accordance with International Financial Reporting Standards.

Consolidated revenue for the year ended December 31, 2017 was \$189 million, compared to revenue of \$179 million in the prior year. The increase is primarily due to an increase in net crude oil revenue by 5% to \$183 million from \$174 million in 2016. The increase in net crude oil revenue resulted from higher realized oil prices partly offset by slightly lower sales volumes and higher effective rates of royalties and net profits interest (NPI). Royalty and NPI expenses were significantly higher in the period due to proportionately lower eligible cost deductions from revenue in royalty and NPI calculations.

In 2017, we recognized \$2.2 million in gains on foreign exchange compared to \$2 million in gains in 2016, primarily due to the impact of a weaker CAD in relation to the realization of US dollar receivables, particularly in the fourth quarter. We recognized foreign exchange losses of \$4.2 million for the year compared to losses of \$3.7 million in the prior year primarily due to the impact of a general strengthening trend in the CAD during 2017 negatively impacting month-end adjustments (USD receivables and USD cash). Previously we presented net gains and losses.

Total expenses for the year excluding finance costs and foreign exchange loss were \$85 million, compared to \$83 million in the prior year. The increase is largely due to higher professional fees and salary and benefits. The increase in salary and benefits was primarily due to severance costs incurred in the fourth quarter of 2017. This was partly offset by lower operating and production costs by \$4 million due to a higher proportion of costs incurred in the HSE Unit where CHHC has a lower working interest ownership. The provision for site restoration expense was \$1.4 million during the year compared to a recovery of \$1.2 million in 2016 due to higher expected regulatory fees estimated in 2017.

Cash and cash equivalents as at December 31, 2017 decreased to \$176 million compared to \$220 million at December 31, 2016 largely due to the purchase of a \$30 million short-term investment and higher dividend payments in 2017.

Accounts receivable decreased by \$22 million at December 31, 2017, reflecting lower receivables in respect of oil sales in the month of December compared to those in the prior December, and lower cash call balances with the Hibernia operator at year end.

CDEV paid dividends of \$91 million to the Government in 2017. In 2016, we paid dividends to the Government of \$51 million.

## Management's Responsibility For Financial Statements

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The accompanying consolidated financial statements of Canada Development Investment Corporation ("CDEV") are the responsibility of management and were authorized for issue by the Board of Directors on March 26, 2018. The consolidated financial statements have been prepared by the Corporation in accordance with International Financial Reporting Standards. The financial statements of the Corporation's three wholly-owned subsidiaries for which it has responsibility have been consolidated with those of the Corporation. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with information contained in the consolidated financial statements.

CDEV maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the consolidated financial records are reliable, form a proper basis for the preparation of consolidated financial statements and that CDEV's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the consolidated financial statements in this report principally through its Audit Committee. The Audit Committee reviews CDEV's annual consolidated financial statements and reports its findings to the Board for its consideration and approval. The Audit Committee also meets with the Corporation's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, CDEV is exempt from the requirement to carry out internal audits but has carried them out periodically on the direction of the Board.

These consolidated financial statements have been audited by the Corporation's auditors, the Auditor General of Canada and KPMG LLP, whose report is presented separately.

As Executive Vice-President of CDEV and Vice-President, Finance, we have reviewed its consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position as at December 31, 2017, and financial performance and cash flows for the year ended December 31, 2017.



Michael Carter  
Executive Vice-President  
Canada Development Investment Corporation



Andrew Staf, CPA, CA  
Vice-President, Finance  
Canada Development Investment Corporation

March 26, 2018



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Canada Development  
Investment Corporation

La Corporation de développement  
des investissements du Canada

**Consolidated Financial Statements of  
Canada Development Investment Corporation**

**December 31, 2017**



## Independent Auditors' Report

To the Minister of Finance

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Canada Development Investment Corporation, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Development Investment Corporation as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Canada Development Investment Corporation and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, the articles and by-laws of Canada Development Investment Corporation and its wholly-owned subsidiaries, and the directive issued pursuant to section 89 of the *Financial Administration Act*, with the exception of subsection 105(5) of the *Financial Administration Act* regarding the appointment of an officer-director as described in the following paragraph.

Subsection 105(5) of the *Financial Administration Act* requires that each officer-director of a parent Crown corporation shall be appointed by the Governor in Council. Section 104.1 of the *Financial Administration Act* states that the term "officer-director", in respect of a parent Crown corporation, means the chairperson and the chief executive officer of the corporation, by whatever name called. In our opinion, the Executive Vice-President of the Canada Development Investment Corporation performs the responsibilities and duties of a chief executive officer, but has not been appointed by the Governor in Council as required.



Vicki Clement, CPA, CA  
Principal  
for the Auditor General of Canada



Chartered Professional Accountants,  
Licensed Public Accountants

26 March 2018  
Ottawa, Canada

# Consolidated Statement of Financial Position

As at December 31  
(Thousands of Canadian Dollars)

	2017		2016
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (note 5)	\$ 176,357	\$	219,914
Short-term investments (note 5)	30,169		-
Trade and other receivables	22,246		43,820
Income taxes recoverable	1,857		-
Inventory	4,254		2,451
Prepaid expenses	260		295
Cash and cash equivalents held for future obligations (note 6)	3,272		3,159
	238,415		269,639
Non-current assets:			
Property and equipment (note 8)	197,555		221,118
Cash and cash equivalents held for future obligations (note 6)	136,603		128,837
Cash held in escrow (note 7)	14,227		14,227
Deferred tax asset (note 10)	16,101		13,466
	364,486		377,648
	\$ 602,901	\$	647,287
<b>Liabilities and Shareholder's Equity</b>			
Current liabilities:			
Trade and other payables	\$ 16,176	\$	27,252
Income taxes payable (note 10)	-		13,668
Current portion of provision for decommissioning obligations (note 9(a))	4,627		2,811
Current portion of provision for site restoration (note 9(b))	3,066		2,993
Current portion of defined benefit obligation	200		150
	24,069		46,874
Non-current liabilities:			
Provision for decommissioning obligations (note 9(a))	128,771		126,123
Provision for site restoration (note 9(b))	9,014		9,976
Defined benefit obligation	1,527		1,719
	139,312		137,818
Shareholder's equity:			
Share capital (note 11)	1		1
Contributed surplus (note 11)	603,294		603,294
Accumulated deficit	(163,775)		(140,700)
	439,520		462,595
Commitments (note 14)			
Contingencies (note 15)			
	\$ 602,901	\$	647,287

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

On behalf of the Board:

Director

Director

## Consolidated Statement of Comprehensive Income

Year ended December 31  
(Thousands of Canadian Dollars)

	2017	2016
<b>Revenue:</b>		
Net crude oil revenue (note 13)	\$ 183,170	\$ 174,266
Foreign exchange gain (note 20)	2,238	1,954
Interest income	3,189	2,684
	188,597	178,904
<b>Expenses:</b>		
Depletion and depreciation (note 8)	50,655	50,800
Production and operating expenses (note 13)	21,683	25,658
Foreign exchange loss (note 20)	4,224	3,686
Professional fees	5,318	3,790
Salaries and benefits	4,938	3,449
Change in estimates of provision for site restoration (note 9)	1,403	(1,233)
Other expenses	1,044	973
Defined benefit expense	52	47
	89,317	87,170
<b>Finance costs:</b>		
Unwind of discount on decommissioning obligations (note 9)	2,809	2,535
Unwind of discount on provision for site restoration (note 9)	119	104
	2,928	2,639
<b>Profit before income taxes</b>	96,352	89,095
<b>Income taxes (note 10):</b>		
Current	31,062	30,741
Deferred	(2,635)	(2,087)
	28,427	28,654
<b>Profit and comprehensive income</b>	\$ 67,925	\$ 60,441

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

## Consolidated Statement of Changes in Shareholder's Equity

Year ended December 31  
(Thousands of Canadian Dollars)

	2017	2016
<b>Share capital</b>		
Balance, beginning and end of year	\$ 1	\$ 1
<b>Contributed surplus</b>		
Balance, beginning and end of year	603,294	603,294
<b>Accumulated deficit</b>		
Balance, beginning of year	(140,700)	(150,141)
Profit	67,925	60,441
Dividends	(91,000)	(51,000)
Balance, end of year	(163,775)	(140,700)
<b>Total shareholder's equity</b>	<b>\$ 439,520</b>	<b>\$ 462,595</b>

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

## Consolidated Statement of Cash Flows

Year ended December 31  
(Thousands of Canadian Dollars)

	2017	2016
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Profit	\$ 67,925	\$ 60,441
Adjustments for:		
Depletion and depreciation	50,655	50,800
Income tax expense	28,427	28,654
Defined benefits paid in excess of expenses	(142)	(81)
Interest income	(3,189)	(2,684)
Unwind of discount on provisions	2,928	2,639
Change in provision for site restoration	1,403	(1,233)
Interest received	3,019	2,684
Provisions settled	(5,060)	(2,430)
Income taxes paid	(46,587)	(9,151)
	99,379	129,639
Change in non-cash working capital (note 12)	9,125	(16,080)
	108,504	113,559
<b>Financing activities:</b>		
Dividends paid	(91,000)	(51,000)
	(91,000)	(51,000)
<b>Investing activities:</b>		
Purchase of property and equipment (note 12)	(23,183)	(65,282)
Purchase of short-term investments	(29,999)	-
Change in cash and cash equivalents held for future obligations	(7,879)	(12,534)
Change in cash held in escrow	-	(9,624)
	(61,061)	(87,440)
Change in cash and cash equivalents	(43,557)	(24,881)
Cash and cash equivalents, beginning of year	219,914	244,795
<b>Cash and cash equivalents, end of year</b>	<b>\$ 176,357</b>	<b>\$ 219,914</b>

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

## 1. Reporting entity:

Canada Development Investment Corporation (“the Corporation” or “CDEV”) was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The Corporation is an agent Crown corporation listed in Schedule III, Part II of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. In November 2007, the Minister of Finance informed CDEV that its mandate “should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the Government of Canada (“Government”) in new policy directions suited to CDEV’s capabilities, while maintaining the capacity to divest CDEV’s existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance”.

In July 2015, the Corporation was issued a directive (P.C. 2015-1107) pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation’s legal obligations and to report on the implementation of the directive in its next corporate plan. The Corporation aligned its policies, guidelines and practices as of October 2015.

The address of the Corporation’s registered office is 79 Wellington Street West, Suite 3000, Box 270, TD Centre, Toronto, Ontario, M5K 1N2. The address of the Corporation’s principal place of business is 1240 Bay Street, Suite 302, Toronto, Ontario, M5R 2A7.

The Corporation consolidates three wholly-owned subsidiaries: Canada Eldor Inc. (“CEI”), Canada Hibernia Holding Corporation (“CHHC”), and Canada GEN Investment Corporation (“GEN”).

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act*. During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation (“Cameco”) in exchange for share capital of the purchaser and a promissory note. As a result of the sale of the Cameco shares and the assumption of certain of CEI’s remaining debt by the Government in 1995, CEI is left with the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI’s remaining obligations include site restoration and retiree defined benefit obligations.

CHHC was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by CDEV in March 1993. CHHC is subject to the *Financial Administration Act* and the *Income Tax Act*. CHHC’s sole purpose is the holding and management of its interest in the Hibernia Development Project (“Hibernia Project”). The Hibernia Project is an oil development and production project located offshore Newfoundland and Labrador.

CHHC holds an 8.5% working interest in the original Hibernia Project area and a corresponding 8.5% equity interest in the Hibernia Management and Development Company Ltd. (“HMDC”). CHHC’s interest in the Hibernia Project has been recorded in CHHC’s financial statements which are consolidated into CDEV’s financial statements.

During 2010 and 2011, CHHC and other participants signed agreements with the Province of Newfoundland and Labrador (the “Province”) and the Government, received regulatory approvals from the Canada-Newfoundland and Labrador Offshore Petroleum Board (“C-NLOPB”) and authorized full funding for development of the Hibernia Southern Extension Unit (“HSE Unit”). CHHC’s initial working interest in the HSE Unit was 5.08% and was adjusted to 5.73% effective December 1, 2015 and thereafter to 5.63% effective May 1, 2017, pursuant to the interim reset provisions in the Unit Agreement. The operator of the HSE Unit is ExxonMobil Canada.

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

GEN was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act*. Until April 6, 2015, GEN held common shares of General Motors Company (“GM”). At December 31, 2017, GEN no longer holds any investments in GM and has minimal activity.

## 2. Basis of preparation:

### a) Statement of compliance:

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The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as set out in Part I of the Chartered Professional Accountants (CPA) Canada Handbook.

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2018.

### b) Basis of measurement:

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The 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:

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

### d) Use of estimates and judgments:

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The timely preparation of the financial statements in conformity with IFRS 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.

Key sources of estimation uncertainty:

#### Reserves

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of oil reserves. By their nature, the estimates of reserves, including the estimates of future prices, exchange rates, operating and capital costs, royalties and net profits interest, HSE Unit working interest adjustments, discount rates and the related future cash flows, as well as the interpretation of complex geological and geophysical models and data, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Pursuant to the HSE Unit Agreement dated February 16, 2010, unit interest ownership is subject to change as a result of revised tract factor allocations. These tract factors are subject to interim resets once oil production and water injection wells have been drilled and completed, and sustained production has been established. All production adjustments from interim resets are prospective in nature. The agreement also has provisions for a first and a final redetermination of the HSE Unit working interests. These redeterminations call for adjustments of historical oil production to be settled on a prospective basis, as well as operating costs. Historical capital costs will be adjusted at the time of each reset and redetermination if a threshold level of adjustment is attained. The first and second interim resets occurred in 2015 and 2017, respectively, and there is expected to be no further interim resets. The first and final redeterminations are expected to be complete in 2020 and 2024, respectively.

#### Decommissioning obligations

A provision is set up for decommissioning costs which will be incurred primarily when certain of CHHC’s tangible long-lived assets are retired. Assumptions, based on current economic factors which management believes are reasonable, have been made to estimate the future obligation. However, the actual cost and timing of decommissioning is uncertain and these estimates may change in response to numerous factors including changes in legal requirements, technological advances,

## 2. Basis of preparation: (continued)

### d) Use of estimates and judgments: (continued)

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inflation and the timing of expected decommissioning and restoration which incorporates drilling and development plans. The impact to comprehensive income over the remaining economic life of the assets could be significant due to changes in the estimates of costs and timing as new information becomes available. In addition, CHHC determines the appropriate discount rate at the end of each reporting period. This discount rate, which is not credit adjusted, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

Some uncertainties relate to CEI's future costs of fulfilling its obligations for site restoration including the estimation of future costs, including inflation, timing and other variables to complete restoration.

Critical judgments in applying accounting policies:

#### Contingencies

Considerable judgment is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgment is necessary to determine the likelihood that pending litigation or other claims will succeed, or a liability will arise and to quantify the possible range of the final settlement.

#### Joint arrangements and subsidiaries

Management has applied judgment in determining whether CHHC's joint arrangement in the Hibernia Project represents a joint venture or joint operation. This determination required judgment based on the structure of the arrangement including the existence of joint control, the legal form of any separate vehicle, the contractual rights and obligations of the parties to the arrangement, and other relevant facts and circumstances. Based on its evaluation, management has classified its joint arrangement as a joint operation.

#### Royalties

When calculating the net revenues on which royalties are based, management must determine the appropriate eligible cost deductions. This requires the use of judgment in the application of the Hibernia royalty agreements. The royalty audit and redetermination process can take several years to confirm such eligible costs. Accordingly, the final outcome could result in royalty amounts different from those initially recorded, thereby impacting the royalty expense in the year of such redeterminations.

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries to all years presented in these consolidated financial statements, unless otherwise disclosed in (a) below.

### a) Changes in accounting policies:

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The following accounting standard amendments, issued by the International Accounting Standards Board ("IASB"), and set out in the CPA Canada Handbook, are effective for the first time in the current financial year and have been adopted effective January 1, 2017 in accordance with the applicable transitional provisions:

- Amendments to IAS 7, *Statement of Cash Flows: Disclosure Initiative* ("IAS 7")

The IAS 7 narrow-scope amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amended standard was adopted January 1, 2017 and applied prospectively, and had no impact on the Corporation's consolidated financial statements.

### 3. Significant accounting policies: (continued)

#### b) Basis of consolidation:

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The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Corporation and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by CDEV. The Corporation controls an entity when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity.

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

#### c) Joint operation:

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CHHC has a material joint operation, the Hibernia Project (including its interests in HMDC and the HSE Unit). The Hibernia Project explores for, develops and produces oil reserves from the Hibernia offshore oilfield, which is located east of St. John’s, NL, Canada. The activities of Hibernia are conducted jointly, primarily through HMDC, as operator and agent of the Hibernia Development Project joint account. HMDC’s principal place of business is located in St. John’s, NL, Canada. The Hibernia Project is of strategic importance to CHHC as it is the Company’s sole business activity from which it derives all of its crude oil revenues.

CHHC has an 8.5% working interest in the original Hibernia Project area (with a corresponding 8.5% equity interest in HMDC) and has a 5.63% working interest in the HSE Unit development.

On December 1, 2015, CHHC’s HSE Unit working interest was revised to 5.73% from 5.08% initially, in accordance with the first interim reset provision of the Unit Agreement. This reset resulted in an accrued amount payable by CHHC of \$11,858 in respect of adjustments to certain historical capital expenditures, which was subsequently paid in 2016. A refund of \$3,457 in respect of adjustments to certain historical royalty expenses was recorded in 2016.

On May 1, 2017, CHHC’s HSE Unit working interest was revised to 5.63% from 5.73%, in accordance with the second interim reset provision of the Unit Agreement. This reset resulted in refunds to CHHC in 2017 of \$2,934 in respect of adjustments to certain historical capital expenditures and \$3,910 in respect of adjustments to certain historical royalty expenses.

Under the terms of the joint operation, CHHC has a direct share in the assets employed by the operation and is liable for its share of the liabilities incurred. Accordingly, CHHC has recorded in its financial statements its contractual share of the assets, liabilities, revenues and expenses of the joint operation.

#### d) Cash and cash equivalents:

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Cash and cash equivalents include funds in bank accounts and short-term investments, which are considered to be highly liquid investments with original maturities of three months or less.

#### e) Inventory:

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Inventory of crude oil is an asset that is held for sale in the ordinary course of business, and is valued at the lower of cost to produce or net realizable value. Cost to produce includes production and operating expenses, transportation costs and depletion and depreciation. Crude oil lifted below or above CHHC’s working interest share of production results in production underlifts or overlifts. Net underlifts are recorded at the lower of cost to produce or net realizable value in inventory and net overlifts are recorded in trade and other payables at fair market value. CHHC follows the first-in, first-out basis of accounting for inventories.

### 3. Significant accounting policies: (continued)

#### f) Property and equipment:

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##### *i. Recognition and measurement:*

Items of property and equipment, which include oil development and production assets, are measured at acquisition cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGU's") for impairment testing. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate components within the CGU. The Corporation has grouped its development and production assets into one CGU.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in profit or loss.

##### *ii. Subsequent costs:*

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil interests represent costs incurred in developing proven and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

##### *iii. Depletion and depreciation:*

The net carrying value of property and equipment is depleted using the unit of production method by reference to the ratio of production in the period to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. Estimates of reserves are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Oil development assets and production facilities are depleted and depreciated using the unit of production method.

CHHC has estimated the useful life of the offshore production facilities, which includes the gravity base structure, topsides and offshore loading system, to be consistent with the reserve lives of the areas for which they serve, with the exception of facility turnarounds and major overhauls which may be necessary to extend the life of these facilities. As a result, CHHC includes the cost of these assets within their associated major component for the purpose of depletion using the unit of production method.

Leased assets that are recognized as finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Depletion and depreciation on assets under construction begins only when the asset is complete and is put into service.

### 3. Significant accounting policies: (continued)

#### g) Leased assets:

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Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Corporation's consolidated statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

#### h) Financial instruments:

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##### *(i) Recognition:*

All financial assets and financial liabilities are initially recognized on the date at which the Corporation becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized or derecognized on a trade date basis.

Transaction costs of financial instruments at fair value through profit or loss are recognized in profit or loss immediately. Transaction costs of other financial instruments are included in the initial measurement of the financial instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

##### *(ii) Classification and measurement:*

###### (a) Financial Assets

Financial instruments are, for measurement purposes, grouped into classes. The classification depends on the purpose and is determined at initial recognition. The Corporation has the following financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, and loans and receivables.

###### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Corporation designated its cash and cash equivalents held for future obligations as fair value through profit or loss.

### 3. Significant accounting policies: (continued)

#### h) Financial instruments: (continued)

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##### *Held-to-maturity financial assets*

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Corporation from classifying investment securities as held-to-maturity for the current and following two financial years. Classification of held-to-maturity occurs only when the Corporation has the intention and ability to hold the asset to maturity. Cash held in escrow is classified as held-to-maturity.

##### *Loans and receivables*

Loans and receivables, comprised of cash and cash equivalents, short-term investments and trade and other receivables, are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

##### (b) Financial liabilities

All of the Corporation's financial liabilities are classified as other financial liabilities and are initially measured at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition and measurement, these financial liabilities are measured at amortized cost using the effective interest method. The Corporation's financial liabilities consist of trade and other payables.

##### ***(iii) Disclosures:***

Fair value measurements recognized in the consolidated statement of financial position are classified using a three level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices available in active markets for identical assets and liabilities. Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred.

#### **i) Impairment:**

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##### ***(i) Financial assets:***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are recognized in the consolidated statement of comprehensive income.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be attributed objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

### 3. Significant accounting policies: (continued)

#### i) Impairment: (continued)

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##### *(ii) Non-financial assets:*

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, development and production assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("CGU's"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

#### j) Foreign currency transactions:

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Transactions in foreign currencies are translated to Canadian dollars at the exchange rate in existence at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the period end date exchange rates.

Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

#### k) Provisions and contingencies:

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A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognized for future operating losses.

The decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as unwind of discount on decommissioning obligations within finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized in property and equipment in the statement of financial position. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Corporation, or present obligations where it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

### 3. Significant accounting policies: (continued)

#### **l) Income taxes:**

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Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on profit before income taxes for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **m) Revenue recognition:**

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Revenue from the sale of crude oil is recorded when title passes to a customer at contractual loading or delivery points. Net crude oil revenue is presented net of marketing fees, royalties and net profits interest.

#### **n) Finance costs and income:**

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Finance costs comprise unwinding of the discount on decommissioning obligations and unwinding of the discount on provision for site restoration. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

## 4. Recent accounting pronouncements issued but not yet effective:

A number of new standards, amendments to standards and interpretations are effective for future annual periods, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not plan to adopt these pronouncements early.

### IFRS 9, *Financial Instruments* (“IFRS 9”)

IFRS 9 was issued in July 2014 and replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 includes revised guidance on the classification and measurement of financial assets, a new expected credit loss model for calculation of impairment on financial assets and new hedge accounting requirements. It also carries forward, from IAS 39, guidance on recognition and derecognition of financial instruments.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, and is to be applied retrospectively. Related amendments to IFRS 7, *Financial Instruments: Disclosures* are to be applied simultaneously with IFRS 9.

The Corporation plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Corporation performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available in 2018 when IFRS 9 is adopted. Overall, the Corporation expects no significant impact on its consolidated financial statements from applying IFRS 9. The Corporation expects a minimal increase in the loss allowance resulting in a minor negative impact on equity as discussed below. In addition, there will be changes in classification of certain financial instruments. The new standard also introduces expanded disclosure requirements and changes in presentation which are expected to change the nature and extent of the Corporation’s disclosures about its financial instruments particularly in the year of adoption of the new standard.

#### (a) Classification and measurement

- The Corporation’s cash and cash equivalents, short-term investments, cash held in escrow and trade and other receivables are currently measured at amortized cost, and will satisfy the conditions for classification and measurement at amortized cost under IFRS 9. As a result, CDEV does not expect any material change to the accounting for these financial assets. Cash and cash equivalents, short-term investments, and trade and other receivables are currently classified as loans and receivables and the cash held in escrow is currently classified as held-to-maturity; under IFRS 9 these items will all be converged to the amortized cost classification.
- Although cash and cash equivalents held for future obligations is currently classified and measured as fair value through profit or loss (FVTPL), it will satisfy the conditions for classification and measurement at amortized cost under IFRS 9. Despite this change in classification, there is expected to be no change to the carrying amount of the financial asset.
- There will be 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.

#### (b) Impairment

IFRS 9 requires the Corporation to record expected credit losses on its trade receivables, either on a 12-month or lifetime basis. The Corporation will apply the simplified approach and record lifetime expected losses on all trade receivables. Based on the assessments undertaken to date, CHHC expects to recognize an immaterial impairment loss provision for its trade and other receivables. On initial adoption, opening retained earnings will be adjusted by the amount of the loss provision, if any, to conform with the transitional requirements of IFRS 9.

### IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, and is to be applied retrospectively. The Corporation plans to adopt the new standard on the required effective date retrospectively, but without restating prior periods.

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

Based on management's assessment undertaken to date of the effects of applying the new standard, no changes are expected to the recognition and measurement of the Corporation's revenue from contracts with customers compared to existing practice. However, the Corporation expects to include increased qualitative and quantitative disclosures in its consolidated financial statements about its contracts with customers, performance obligations, impairment losses related to contracts with customers and disaggregation of revenue.

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

IFRIC 22 was issued in December 2016 and 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 interpretation is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. CDEV does not expect the application of the interpretation to have any impact on its consolidated financial statements.

### *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.

### *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. Cash and cash equivalents and short-term investments:

### (a) Cash and cash equivalents

Cash comprises bank balances. Cash equivalents include short-term highly liquid investments including banker's acceptances and GICs. Interest revenue arising on cash and cash equivalents was earned at interest rates ranging from 0.3% to 1.6% for 2017 (2016 - 0.3% to 1.2%). The details are as follows:

		2017		2016
Bank balances	\$	43,224	\$	52,407
Cash equivalents		133,133		167,507
Cash and cash equivalents	\$	176,357	\$	219,914

### (b) Short-term investments

Short-term investments of \$30,169 (2016-nil) are comprised of highly liquid deposit notes maturing on July 12, 2018 bearing yields of 1.4%.

## 6. Cash and cash equivalents held for future obligations:

The Corporation has deposited cash in the Consolidated Revenue Fund ("CRF") of the Government of Canada established under Section 129(1) of the *Financial Administration Act*. The Corporation has set aside funds in the CRF and short-term investments to provide for future obligations as follows:

		2017		2016
CRF balance, beginning of year	\$	119,996	\$	119,462
Allocated interest		689		534
Withdrawals		(5,000)		-
CRF balance, end of year	\$	115,685	\$	119,996
Short-term investments	\$	24,190	\$	12,000
	\$	139,875	\$	131,996
Represented by:				
Current portion	\$	3,272	\$	3,159
Non-current portion		136,603		128,837
	\$	139,875	\$	131,996

At December 31, 2017, the balance of cash and cash equivalents held for future obligations consists of cash and cash equivalents held for future abandonment and risk fund and site restoration. This is comprised of cash on deposit in the CRF of \$16,830 held for CEI and \$98,855 held for CHHC and short-term investments of \$24,190 held for CHHC.

CEI has deposited cash in the CRF to provide for obligations resulting from the sale of assets and other potential future liabilities related to site restoration. The current portion in the CRF has been allocated by CEI to provide for current liabilities related to site restoration and defined benefit obligations.

CHHC has deposited cash in the CRF and in short-term investments to provide for future abandonment of the Hibernia facility and to provide for security against future risks. CHHC has reduced a portion of its third party insurance coverage as a result of the risk fund. The short-term investments are comprised of term deposits of three months or less, and earned interest income at interest rates ranging from 1.11% to 1.65% during the year 2017 (2016 - 1.16%).

Funds held in the CRF are interest bearing at a rate of 90% of the three-month treasury bill tender rate. The average annual interest rate was 0.59 % during the year (2016 - 0.45%). The interest is retained in the CRF. Access to these funds is unrestricted.

## 7. Cash held in escrow:

CHHC maintains cash escrow accounts to collateralize outstanding letters of credit. In the granting of operations and drilling authorizations associated with Hibernia Project, the C-NLOPB requires evidence of financial responsibility. During 2016, new legislation required an increase to the amount of evidence of financial responsibility for the Hibernia Project. To comply with the new legislation, CHHC provided letters of credit to the C-NLOPB totaling \$14,227, representing its proportionate share of the evidence required by each the Hibernia and HSE Unit owners. The letters of credit were secured by cash in escrow accounts, of the same amount. The C-NLOPB has the right to make claims against the cash held in escrow under certain circumstances and CHHC retains any interest earned on the account. The letters of credit are scheduled to expire in 2018 (HSE Unit portion of \$5,727) and 2020 (Hibernia portion of \$8,500).

## 8. Property and equipment:

	Oil development assets and production facilities	
<b>Cost</b>		
Balance at December 31, 2015	\$	438,024
Additions for the year		50,556
Decommissioning adjustments		(4,453)
Balance at December 31, 2016		484,127
Additions for the year		24,233
Decommissioning adjustments		4,304
Balance at December 31, 2017	\$	512,664
<b>Accumulated depletion and depreciation</b>		
Balance at December 31, 2015	\$	213,918
Depletion and depreciation		49,091
Balance at December 31, 2016		263,009
Depletion and depreciation		52,100
Balance at December 31, 2017	\$	315,109
<b>Carrying amounts:</b>		
At December 31, 2016	\$	221,118
At December 31, 2017	\$	197,555

At December 31, 2017, costs subject to the calculations of depletion and depreciation excluded the cost of equipment and facilities currently under construction of \$nil (2016 - \$10,086) and included future development costs of \$491,000 (2016 - \$512,334). Oil development assets and production facilities include \$113,647 at December 31, 2017 (2016 - \$109,342) of capitalized costs relating to decommissioning obligations, which will be depreciated over the life of the asset.

At December 31, 2017, an assessment of indicators of impairment was conducted for CHHC's cash generating unit (CGU). No indicators were noted and accordingly an impairment test was not required.

At December 31, 2016, an assessment of indicators of impairment was conducted for CHHC's CGU. In performing the review, management determined that a reduction in CHHC's proved plus probable reserves resulting from a reduction in the Hibernia Project operator's capital budget was a potential indicator of impairment for CHHC's CGU, and thus an impairment test was required. Based on the impairment test performed, there was no impairment of property and equipment for the year ended December 31, 2016.

## 9. Provisions:

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

	Decommissioning obligations		Site restoration	
Balance at December 31, 2016	\$	128,934	\$	12,969
Additional provisions		1,655		2,254
Changes in estimates		1,505		(594)
Obligations settled		(2,649)		(2,411)
Changes in discount rate		1,144		(257)
Unwind of discount		2,809		119
Balance at December 31, 2017	\$	133,398	\$	12,080
Current		4,627		3,066
Non-current		128,771		9,014
Provisions	\$	133,398	\$	12,080

### Sensitivity Analysis:

Changes to the discount rate or the inflation rate would have the following impact on the provision for decommissioning obligations at December 31, 2017:

	One percent increase		One percent decrease	
Discount rate	\$	(31,533)	\$	45,902
Inflation rate	\$	45,502	\$	(31,853)

### **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 \$268,401 at December 31, 2017 (2016 - \$273,869). 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 December 31, 2017 using an inflation rate of 2.00% (2016 - 2.00%) and was discounted using an average risk-free rate of 2.16% (2016 - 2.11%).

## 9. Provisions: (continued)

### 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 consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The costs are estimated over a period ending in 2023 (2016 – 2023). The future estimate of costs for site restoration has been discounted at a rate of 1.73% (2016 – 1.11%) and an inflation rate of 2.0% (2016 – 2.0%) was used to calculate the provision at December 31, 2017. The current estimate for costs and the amount accrued as at December 31, 2017 is \$12,080 (2016 - \$12,969).

## 10. Income taxes:

CDEV, CEI and GEN are not subject to income tax in Canada. CHHC is subject to income tax.

### a) Income tax expense:

The components of income tax expense are as follows:

	2017		2016	
Current tax expense				
Current period	\$	31,315	\$	29,646
Adjustment related to prior periods		(28)		1,251
Investment tax credits		(225)		(156)
		31,062		30,741
Deferred tax recovery				
Origination and reversal of temporary differences		(1,103)		(1,423)
Adjustment related to prior periods		(1,422)		(737)
Changes in tax rates applied to temporary differences		(110)		73
		(2,635)		(2,087)
Total income tax expense	\$	28,427	\$	28,654

## 10. Income taxes: (continued)

### b) Reconciliation of effective tax rate

The statutory combined federal and provincial income tax rates applicable to CHHC increased modestly to 29.28% in 2017 from 28.40% in 2016. A reconciliation of the amount recorded for income tax expense from the expected amount by applying CHHC's combined federal and provincial income tax rate to profit before income tax is as follows:

	2017		2016	
Net profit for the year (see note 19)	\$	74,516	\$	63,235
Total income tax expense		28,427		28,654
Profit before income tax	\$	102,943	\$	91,889
Income tax using CHHC's combined federal and provincial Canadian tax rate of 29.28% (2016 - 28.40%)	\$	30,142	\$	26,096
Non-deductible expenses and other		292		(29)
Investment tax credits		(249)		(156)
(Over) Under-provided in prior periods		(1,713)		82
Revisions and reassessments to prior years' tax returns		-		2,401
Differences attributed to rate differences and other		(45)		260
	\$	28,427	\$	28,654

Unrecognized deferred tax assets (liabilities):

At December 31, 2017, CHHC has not recognized the tax benefit in respect of investment tax credits, net of tax on utilization, associated with experimental development claims for the 2006 taxation year. The claim for investment tax credits is under dispute with the Canada Revenue Agency and management has determined that the recovery of these credits is uncertain. Unrecognized tax assets totaled \$1,384 at December 31, 2017 and 2016.

Recognized deferred tax assets (liabilities):

Deferred tax assets refer to estimated deductible temporary differences between the carrying value and tax basis of certain balance sheet amounts. The amount of deferred tax assets and liabilities are as follows:

	Inventory	Property and equipment	Provisions	Accrued liabilities	Total
At December 31, 2016	\$ (409)	\$ (25,394)	\$ 36,643	\$ 2,626	\$ 13,466
Credited/ (charged) to the statement of comprehensive income	(160)	2,531	2,804	(2,540)	2,635
At December 31, 2017	\$ (569)	\$ (22,863)	\$ 39,447	\$ 86	\$ 16,101

## 11. Share capital and contributed surplus:

	2017		2016
Share Capital:			
Authorized - unlimited number of common shares			
Issued and fully paid - 101 common shares (2016 - 101)	\$ 1	\$	1

The holder of common shares is entitled to receive dividends as declared from time to time, and is entitled to one vote per share at meetings of the Corporation.

Contributed surplus is a component of shareholder's equity used to record the transfer of capital to the Corporation by a related party where there is no requirement to repay the amount under any circumstances.

## 12. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the years ended December 31 include the following:

	2017		2016
Change in trade and other receivables	\$ 21,574	\$	(23,535)
Change in inventory	(358)		1,086
Change in prepaid expenses	35		(39)
Change in trade and other payables	(11,076)		(8,318)
Change in non-cash working capital items	\$ 10,175	\$	(30,806)
Relating to:			
Operating activities	\$ 9,125	\$	(16,080)
Investing activities	1,050		(14,726)
Change in non-cash working capital items	\$ 10,175	\$	(30,806)

Property and equipment expenditures comprise the following:

	2017		2016
Property and equipment additions (note 8)	\$ (24,233)	\$	(50,556)
Change in non-cash investing working capital	1,050		(14,726)
Cash used for property and equipment expenditures	\$ (23,183)	\$	(65,282)

### 13. Net crude oil revenue and production and operating expenses:

#### a) Net crude oil revenue for the years ended December 31 is comprised as follows:

	2017		2016	
Gross crude oil revenue	\$	253,549	\$	224,284
Less: marketing fees		(490)		(531)
Less: royalties		(54,734)		(40,248)
Less: net profits interest		(15,155)		(9,239)
Net crude oil revenue	\$	183,170	\$	174,266

#### b) Royalties:

CHHC pays royalties monthly to the Province on the revenues generated from Hibernia Project production in accordance with two royalty agreements which govern the applicable license areas. Both royalty agreements consist of tiered royalty structures including gross royalty, net royalty and supplementary royalty. While the stated royalty rates range from 5% of gross transfer revenue to over 40% of net transfer revenue depending on the royalty area, the majority of the Company's revenue in 2017 was encumbered by a royalty rate of 30% of net transfer revenue. Gross transfer revenue reflects gross revenue adjusted for eligible transportation costs, while net transfer revenue reflects gross transfer revenue adjusted for eligible operating and capital costs. In 2017, total royalties averaged 22% of gross revenue (2016 - 18%).

#### c) Net Profits Interest ("NPI"):

CHHC is also party to an NPI Agreement, which provides for a monthly NPI payment to the Government of Canada by all Hibernia Development Project owners. The NPI payment is based on 10% of net revenue (gross revenue adjusted for eligible transportation, operating and capital costs). In 2017, NPI payments averaged 6% of gross revenue (2016 - 4%).

#### d) Production and operating expenses for the years ended December 31 are comprised as follows:

	2017		2016	
Hibernia joint account production and operating expense	\$	17,902	\$	22,314
Crude oil transportation		6,964		5,443
Facility use fees net of incidental net profits interest		(3,183)		(2,099)
Total production and operating expense	\$	21,683	\$	25,658

## 14. Commitments:

CDEV's commitments at December 31, 2017 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 CHHC's share of HMDC's office premises.

	2018	2019-2022	Thereafter	Total
Crude oil transportation and transshipment services (i)	\$ 5,649	\$ 17,592	\$ 28,606	\$ 51,847
Hibernia Project contracts	5,699	22,873	–	28,572
Office premises	682	594	–	1,276
<b>Total Commitments</b>	<b>\$ 12,030</b>	<b>\$ 41,059</b>	<b>\$ 28,606</b>	<b>\$ 81,695</b>

(i) CHHC is committed to crude oil transportation services pursuant to a Contract of Affreightment ("COA"), as part of the Basin Wide Transportation and Transshipment System ("BWTTS") which also involves other East Coast Canada oil producers. The term of the COA is June 1, 2015 to May 31, 2030 and involves a commitment for voyage charters on shuttle tankers managed by a third-party shipping service provider, Teekay (Atlantic) Chartering ("Teekay") for CHHC's needs at Hibernia. The commitment cost includes an estimate for fuel costs, which can fluctuate. Also in conjunction with the BWTTS, the Company is committed to crude oil transshipment services pursuant to a Reserved Capacity Services agreement with Newfoundland Transshipment Ltd., also for a term of June 1, 2015 to May 31, 2030.

While CHHC's costs for the remaining COA commitment term are provided in the table above, there is a provision such that if a nil production forecast is submitted to Teekay, the Company would only be committed to a further 27 to 39 months (nominally three years) of COA costs.

## 15. 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 December 31, 2017.

## 16. Capital management:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of \$439,520 (2016 - \$462,595), which is comprised of its share capital, contributed surplus and accumulated deficit. The Corporation and its subsidiaries' objectives when managing capital are to prudently manage its revenues, expenses, assets, liabilities and general dealings to ensure that it effectively achieves its objectives and purpose, while remaining a going concern.

CHHC monitors changes in economic conditions and the risk characteristics of the underlying petroleum industry so that it can continue to provide returns for shareholders and benefits for other stakeholders. CHHC maintains higher levels of cash and cash equivalents, given lower oil prices and to ensure full funding of its capital expenditure program.

CEI monitors its cash and cash equivalents position and its cash held in the CRF so that it can meet its liabilities.

GEN currently maintains a cash balance to fund minimal operations and potential contingencies.

The Corporation's share capital is not subject to any external restrictions.

## 17. 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. This note provides information about the Corporation's exposure to each of these risks as well as the Corporation's objectives, policies and processes for measuring and managing them.

### (a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale and marketing of crude oil. CHHC has assessed the risk of non-collection of funds as low, as CHHC shares cargos with the marketer, generally contracts with large purchasers with established credit history and utilizes credit risk mitigation tools when necessary. The marketer maintains credit surveillance over all pre-approved purchasers. Of the total amount of trade and other receivables, 83% (2016 – 67%) relates to trade receivables from the marketer, which was all collected subsequent to year end. Remaining receivables at December 31, 2017 consist primarily of input tax credits (GST/HST) receivable.

The carrying amount of cash and cash equivalents, short-term investments, trade and other receivables, cash held in escrow and cash and cash equivalents held for future obligations represents the maximum credit exposure.

The Corporation did not have an allowance for doubtful accounts as at December 31, 2017 and 2016 and did not provide for any doubtful accounts during 2017 or 2016. As at December 31, the following amounts were included in accounts receivable:

	2017	2016
Outstanding under 120 days	\$ 21,468	\$ 43,043
Outstanding greater than 120 days	778	777
Total trade and other receivables	\$ 22,246	\$ 43,820

Cash and cash equivalents, short-term investments and cash held in escrow are held by major Canadian chartered banks. All cash equivalents and short-term investments are purchased from issuers with a credit rating of R1 High by Dominion Bond Rating Service.

## 17. Risks to the Corporation: (continued)

### **(b) Liquidity risk:**

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Liquidity risk is the risk that the Corporation will not be able to meet its work commitments and/or other financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due. Trade and other payables and income taxes payable are generally due within one year from the date of the statement of financial position.

The Corporation's liquidity is dependent upon its operating cash flows. Expected future cash flow from the working interest in the Hibernia Development Project currently exceeds estimated operating expenses and future capital expenditures. Considering these circumstances and the cash and cash equivalents and short-term investments balance at December 31, 2017 of \$206,526 (2016 - \$219,914), the Corporation's liquidity risk is assessed as insignificant. Some operating expenses and commitments of subsidiaries can be funded by capital contributions from the Corporation to maintain the liquidity of subsidiaries.

### **(c) Market risk:**

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Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, and includes foreign exchange, commodity price, and interest rate risk.

The Corporation does not use derivative instruments, such as interest rate swaps or forward foreign currency contracts, or other tools and strategies to manage its market related risks.

#### ***(i) Foreign exchange risk:***

The Corporation is exposed to foreign exchange risk on revenues and certain expenditures that are denominated in U.S. dollars. Crude oil is priced in U.S. dollars and fluctuations in USD/CAD exchange rates may have a significant impact on revenues. It is estimated that a 1% strengthening in the Canadian dollar relative to the U.S. dollar would result in a \$1,344 decrease to the Corporation's profit for the year ended December 31, 2017 (2016 - \$1,215), with all other variables held constant.

The Corporation did not have any foreign exchange rate contracts in place as at or during the year ended December 31, 2017 or 2016.

#### ***(ii) Commodity price risk:***

CHHC's financial performance is closely linked to crude oil prices (including price differentials). All of CHHC's oil production is sold at spot prices, exposing the Corporation to the risk of price movements and resulting fluctuations in revenues. CHHC did not have any commodity price contracts in place as at or during the year ended December 31, 2017 or 2016. It is estimated that a 10% decrease in realized oil price would result in a \$13,437 decrease to CHHC's comprehensive income for the year ended December 31, 2017 (2016 - \$12,149), with all other variables held constant.

#### ***(iii) Interest rate risk:***

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its cash and cash equivalents which bear a fixed rate of interest. The risk is not considered significant as the Corporation's interest revenue is less than 2% of total revenue.

### **(d) Fair value of financial instruments:**

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The Corporation's only financial asset carried at fair value is cash and cash equivalents held for future obligations of \$139,875 (\$131,996 - December 31, 2016) and the fair value measurement is a Level 1 (quoted prices in active markets) at December 31, 2017 and 2016.

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short-term nature of these items. There were no movements between levels in the fair value hierarchy during the period.

## 18. Related party transactions:

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

CDEV paid dividends to the Government of Canada during the year ended December 31, 2017 in the amount of \$91,000 (2016 - \$51,000).

### a) Key management personnel compensation

Key management personnel are comprised of the directors and executive officers of CDEV and its subsidiaries. In addition to their salaries, the Corporation also provides non-cash benefits to executive officers.

There were no amounts paid to key management personnel relating to post-employment benefits, other long-term benefits or share-based payment.

	2017	2016
Key management personnel compensation comprised of:		
Salaries, termination, other short-term benefits, director fees	\$ 4,140	\$ 2,732

### b) Other related party transactions affecting Profit:

	2017	2016
CRF Interest income	\$ 689	\$ 534

### c) Items affecting Statement of Financial Position

	2017	2016
Cash on deposit in the CRF	\$ 115,685	\$ 119,996

## 19. Supplementary information:

The consolidated financial statements of the Corporation include 100% of the assets, liabilities, revenues and expenses of CHHC as follows:

	2017		2016	
<b>Statement of Financial Position:</b>				
Assets:				
Current	\$	129,359	\$	161,535
Non-current		350,928		359,081
		480,287		520,616
Liabilities:				
Current		20,812		43,263
Non-current		128,771		126,123
		149,583		169,386
Shareholder's Equity		330,704		351,230
	\$	480,287	\$	520,616
<b>Statement of Comprehensive Income:</b>				
Revenue:				
Net crude oil revenue	\$	183,170	\$	174,266
Other income		1,199		381
Expense:				
Total expenses		(81,426)		(82,758)
Income taxes		(30,469)		(28,654)
Comprehensive income	\$	72,474	\$	63,235
<b>Statement of Cash Flows:</b>				
Cash provided (used) by:				
Operating activities	\$	114,500	\$	117,663
Financing activities		(93,000)		(56,000)
Investing activities		(33,984)		(85,606)
Increase in cash and cash equivalents	\$	(12,484)	\$	(23,943)

## 20. Reclassification of prior period comparative figures:

Certain prior period comparative figures have been reclassified to conform to the current period's presentation. In 2017, the Corporation determined it was appropriate to present foreign exchange gains separately from foreign exchange losses on the consolidated statement of comprehensive income. In prior years, foreign exchange gains and losses were presented on a net basis. To conform to the current year presentation, the prior year comparative figures have been reclassified, whereby the net foreign exchange loss of \$1,732 in 2016 is presented as \$1,954 of foreign exchange gains and \$3,686 of foreign exchange losses. This reclassification had no impact on the Corporation's financial position, income before income taxes or comprehensive income.



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