



Canada Development
Investment Corporation

La Corporation de développement
des investissements du Canada

Annual Report 2016



Canada Development
Investment Corporation

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Contents

Report to the Minister	2
Directors and Officers	3
Corporate Governance Practices	6
Canadian Environmental Assessment Act Compliance	6
Management Discussion and Analysis of Results	7
Management's Responsibility for Financial Statements	12
Consolidated Financial Statements of Canada Development Investment Corporation December 31, 2016	13
Independent Auditors' Report	14

Corporate Address:

1240 Bay Street, Suite 302
Toronto, ON M5R 2A7

Telephone: (416) 966-2221

Facsimile: (416) 966-5485

Website: www.cdev.gc.ca

Report to the Minister

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, 2016.

During the year we hired expert consultants to analyse various issues for the Government, including the monetization potential of Canada's airports and ports.

Canada Hibernia Holding Corporation, a wholly owned subsidiary, increased net crude oil revenue by 36% in 2016 to \$174 million. This reflected higher sales volumes, partly offset by lower realized prices. Late in the year the Hibernia field produced its billionth barrel of oil, a mark which exceeds the original forecast of total production. However the field is now in long-term decline.

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. A plan is in place to return properties managed by Cameco on our behalf to the Province of Saskatchewan's Institutional Control programme by 2023.

During 2016 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 3, 2017

Directors and Officers as at March 3, 2017

Minister Responsible for CDEV

The Honourable William Francis Morneau
Minister of Finance

Board of Directors

Michael P. Mackasey ^{(2) (3)}

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

Jennifer Reynolds ⁽¹⁾

President and CEO
Women in Capital Markets
Toronto, Ontario

Ted Howell, CPA, CA, MBA ^{(1) (3)}

Director
St. John's, Newfoundland and Labrador

Mary Ritchie, FCPA, FCA ⁽¹⁾

CEO
Richford Holdings Ltd.
Edmonton, Alberta

Sandra Rosch ^{(2) (3)}

President
Stonecrest Capital Inc.
Toronto, Ontario

Nicholas Wemyss, PGeo ^{(2) (3)}

Director
Victoria, British Columbia

Officers

Michael Carter

Executive Vice-President

Andrew Staff, CPA, CA

Vice-President, Finance

Zoltan Ambrus, CFA, LLB

Vice-President

Noreen E. Flaherty, BA, LLB

Corporate Secretary

Committees of the Board

⁽¹⁾ Audit Committee

⁽²⁾ Nominating and Governance Committee

⁽³⁾ Human Resources and Compensation Committee

CDEV 2016 Overview

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 \$63 million in 2016 on net crude oil revenue of \$174 million and a sales volume of 3.8 million barrels. In December 2016, the Hibernia oil platform produced its one billionth barrel of oil. This milestone represents an amount higher than originally expected when the field started production in 1997.



CDEV Board of Directors

Back row: M. Ritchie, M. Mackasey, J. Reynolds, S. Rosch, T. Howell
Front row: M. Carter, M. Todd, N. Wemyss

During 2016, we commenced several projects for the government.

CDEV declared dividends of \$51 million to the Government in 2016.



Corporate Governance Practices

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 and recommending to the Governor in Council candidates for Board membership and for the position of Chair, as needed. 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

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 2015 or 2016 trigger these assessment or reporting obligations under CEAA 2012.

Management Discussion and Analysis of Results

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 2016 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 2016. In addition, CHHC has paid a total of \$1.99 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. This team, headed by CHHC’s President and CEO, 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 2016 CDEV and its subsidiaries incurred \$234 thousand in travel costs, \$2 thousand in hospitality, and \$6 thousand in conference fees. (2015 -\$348 thousand, \$3 thousand, and \$9 thousand respectively). The decrease from the prior year is due primarily to lower director travel expenditures and lower operational travel costs.

Corporate Performance

Key Objectives from the 2016 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 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)

Performance

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

Canada Development Investment Corporation

We managed financial and legal advisors and assisted in the analysis 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 \$51 million in 2016. These dividends were funded by dividends received from CHHC.

Canada Hibernia Holding Corporation

CHHC's after-tax profit of \$63 million in 2016 was higher than the \$54 million recorded in 2015 as the result of higher net crude oil revenue, partially offset by higher depletion and depreciation and income tax expenses.

Net crude oil revenue, after deducting marketing fees, royalties and net profits interest, increased 36% to \$174 million from \$128 million in 2015. The increase is due primarily to higher sales volumes, which more than offset lower realized oil prices. CHHC sold 3.8 million barrels in 2016 as compared to 2.5 million barrels in 2015, a 51% increase, reflecting higher Hibernia production averaging 136,400 barrels per day, compared to 90,500 barrels per day in 2015, and favorable timing differences in cargo sales. In particular, production was lower in 2015 due to the scheduled triennial platform turnaround, where the platform was shut down for maintenance in September and October and thus there were no sales in those months in 2015. By comparison, 2016 reflects increased production from the Hibernia Southern Extension ("HSE"), where the drilling program has been focused, and less downtime.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The price of Dated Brent crude decreased 17% to average US \$44 per barrel from US \$52 per barrel in 2015 and CHHC realized no price differential to Dated Brent in both years. The decrease in US prices was partially offset by positive exchange rate impacts of a weaker Canadian dollar, resulting in a 12% decline in CHHC's average realized sales price to \$58 per barrel from \$66 per barrel in 2015. CHHC does not enter into fixed price commodity (or exchange rate) contracts and sells its oil at market prices.

Higher depletion and depreciation expense of \$51 million in 2016 compared to \$29 million in 2015 is due to lower estimates of remaining oil reserves and higher production volumes (which increase the depletion and depreciation rate), and larger inventory adjustments.

CHHC paid dividends to CDEV of \$56 million during 2016 as compared to \$30 million in the prior year, reflecting higher cash flows from operations primarily due to the higher net crude oil revenues.

During 2016, capital investments were directed toward drilling activities in the HSE Unit, upgrades to the platform drilling rig and a subsea fiber optic communications equipment project. In the near term, Hibernia owners plan to focus on the full development of the HSE Unit and drilling and work-over activity in the Hibernia Main Field, including 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 2016, the liability for site restoration decreased \$3.5 million primarily due to a \$1 million decrease in estimated costs and the settlement of \$2.4 million in obligations during the year. CEI continues to pay for costs relating to the decommissioning of former mine site properties in Saskatchewan and for retiree benefits of certain former employees. A plan is in place that should allow for the eventual transfer of the mine site properties to the Institutional Control Program of the Province of Saskatchewan within seven years. CEI holds cash and cash equivalents and funds within the Consolidated Revenue Fund of \$23 million to pay for CEI's total estimated liabilities of \$15 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 2016 Operational Metrics

\$ Millions (unless noted otherwise)	2016 Plan	2016	2015	Y/Y %**	Explanation of changes Year over Year
Net crude oil revenue	164.2	174.3	127.8	36%	Higher volumes partly offset by lower realized price
Oil Sales Volume (million barrels)	3.1	3.8	2.5	51%	Higher production at Hibernia Oil Project and higher cargo sales
Oil Sales Price (\$US/barrel)	55	44	52	(16%)	World oil prices fell throughout 2015 and early 2016 and remained low in 2016
Oil Sales Price (\$C/barrel)	73	58	66	(12%)	A decline in the value of the CAD helped reduce net price impact
Dividend Income	-	-	28.1	-	GM common shares were sold in April 2015
Oil Operating Expense	26.6	25.7	24.8	3.6%	higher inventory-related and R&D expenses
Oil Capital Additions	49.7	50.6	62.5	(20%)	Capital expenditure adjustment in 2015 of \$12 million to reflect CHHC's increased working interest in the HSE Unit
Administrative Expenses *	10.5	8.2	7.6	8%	Project related professional fees were higher in 2016 than 2015

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

** Percentages may differ due to rounding.

Management Discussion and Analysis of Results (continued)

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 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 HSE Unit and its reserves and Ben-Nevis Avalon reserves and 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 \$3.0 million (\$2.5 million in 2015). 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 \$129 million is estimated based on known 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 \$110 million (\$98 million deposited in the Consolidated Revenue Fund and a \$12 million short-term investment) to specifically provide for decommissioning and abandonment costs. As deemed necessary, CHHC may increase such funds set aside to offset the decommissioning obligation.

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 1.3427 at December 31, 2016 from 1.3840 at December 31, 2015, a 3% depreciation in the USD.

CEI is subject to liabilities due to its undertakings to Cameco as part of a 1988 Purchase and Sale agreement. The \$13 million provision determined for mine site restoration is based on estimates for expected restoration and monitoring work over a seven 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 \$22 million with the Consolidated Revenue Fund from which future liabilities could be settled.

The three 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)

Financial Statements for the Period Ended December 31, 2016

The consolidated financial statements for the year ended December 31, 2016 with comparative figures for 2015, have been prepared in accordance with International Financial Reporting Standards.

Consolidated revenue for the year ended December 31, 2016 was \$175 million, compared to revenue of \$2.33 billion in the prior year. The significant decrease is primarily attributable to the gain on sale of the GM common shares of \$2.13 billion recorded in the second quarter of 2015. There were no dividends received in 2016 from GM common shares as the shares were sold in April 2015. In 2015, GEN received \$28 million in GM common share dividends.

In 2016, we recognized a \$1.7 million loss on foreign exchange primarily due to the impact of the strengthening of the CAD in relation to the realization of US dollar receivables, particularly in the first quarter. In 2015, we recognized a gain on foreign exchange of \$40 million which largely related to the GM share sale due to an appreciation of the US dollar between the trade date and the settlement date.

Net crude oil sales increased 36% in 2016 to \$174 million from \$128 million in 2015. The increase in crude oil sales resulted from higher sales volumes partly offset by lower realized oil prices and lower effective rates of royalties and net profits interest. Lower oil prices are consistent with the decline in average Dated Brent benchmark prices (partially mitigated by a weaker Canadian dollar), and higher sales volumes reflect increased production from the HSE Unit.

Total expenses for the year excluding finance costs were \$83 million, compared to \$60 million in the prior year. The increase is largely due to higher depletion and depreciation expense. Depletion and depreciation costs increased to \$51 million from \$29 million in the prior year, due primarily to lower estimates of remaining oil reserves and higher production volumes (which increase the depletion and depreciation rate), and larger inventory adjustments. This was partly offset by a \$1 million reduction in the provision for site restoration expense during the year due to an adjustment to the budget estimate from Cameco.

There was no other comprehensive income ("OCI") recognized in 2016, as the remaining GM common share investment was sold on April 6, 2015. OCI in 2015 reflected a loss of \$1.85 billion, including a transfer to profit and loss of \$2.13 billion as a result of the GM share sale.

Cash and cash equivalents as at December 31, 2016 decreased to \$220 million compared to \$245 million at December 31, 2015 largely due to the payment of dividends, and increased cash investments in property and equipment and escrow and abandonment funds.

Cash and cash equivalents held in escrow increased \$10 million since December 31, 2015 to satisfy new proof of financial responsibility requirements under the federal *Energy Safety and Security Act* for both the Hibernia Main Field and the HSE Unit.

Accounts receivable increased by \$24 million at December 31, 2016, reflecting higher receivables in respect of oil sales, and higher cash call balances with the Hibernia operator.

CDEV paid dividends of \$51 million to the Government in 2016. In 2015, we paid dividends to the Government of \$3,731 million which were primarily funded from proceeds from the sale of GM shares.

Management's Responsibility For Financial Statements

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 3, 2017. 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.

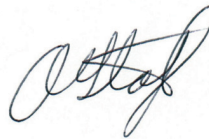
The Board of Directors carries out its responsibilities for the consolidated financial statements in this report principally through its Audit Committee. The Audit Committee reviews CDEV's annual consolidated financial statements and reports its findings to the Board for its consideration and approval. 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, 2016, and financial performance and cash flows for the year ended December 31, 2016.



Michael Carter
Executive Vice-President
Canada Development Investment Corporation



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

March 3, 2017



Canada Development
Investment Corporation

La Corporation de développement
des investissements du Canada

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

December 31, 2016



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 2016, 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 2016, 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*.

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

Chartered Professional Accountants,
Licensed Public Accountants

3 March 2017
Ottawa, Canada

Consolidated Statement of Financial Position

As at December 31
(Thousands of Canadian Dollars)

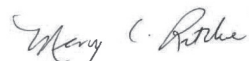
	2016		2015
Assets			
Current assets:			
Cash and cash equivalents (note 5)	\$ 219,914	\$	244,795
Accounts receivable	43,820		20,285
Income taxes recoverable	-		7,922
Inventory	2,451		5,246
Prepaid expenses	295		256
Cash and cash equivalents held for future obligations (note 6)	3,159		3,578
	269,639		282,082
Non-current assets:			
Cash and cash equivalents held for future obligations (note 6)	128,837		115,884
Cash and cash equivalents held in escrow (note 7)	14,227		4,603
Property and equipment (note 8)	221,118		224,106
Deferred tax asset (note 11)	13,466		11,379
	377,648		355,972
	\$ 647,287	\$	638,054
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 27,252	\$	35,570
Income taxes payable (note 11)	13,668		-
Current portion of provision for decommissioning obligations (note 10(a))	2,811		1,848
Current portion of provision for site restoration (note 10(b))	2,993		3,379
Current portion of defined benefit obligation	150		180
	46,874		40,977
Non-current liabilities:			
Provision for decommissioning obligations (note 10(a))	126,123		129,066
Provision for site restoration (note 10(b))	9,976		13,087
Defined benefit obligation	1,719		1,770
	137,818		143,923
Shareholder's equity:			
Share capital (note 12)	1		1
Contributed surplus (note 12)	603,294		603,294
Accumulated deficit	(140,700)		(150,141)
	462,595		453,154
Commitments (note 15)			
Contingencies (note 16)			
	\$ 647,287	\$	638,054

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)

	2016	2015
Revenue:		
Gain on sale of investment in common shares (note 9)	\$ -	\$ 2,130,987
Net crude oil revenue (note 14)	174,266	127,762
Dividends (note 9)	-	28,102
Foreign exchange gain (loss)	(1,732)	40,316
Interest income	2,684	2,567
	175,218	2,329,734
Expenses:		
Depletion and depreciation (note 8)	50,800	28,697
Production and operating expenses (note 14)	25,658	24,847
Professional fees	3,790	3,245
Salaries and benefits	3,449	3,386
Change in estimates of provision for site restoration (note 10)	(1,233)	(1,146)
Other expenses	973	999
Defined benefit expense	47	64
	83,484	60,092
Finance costs:		
Unwind of discount on decommissioning obligations (note 10)	2,535	2,343
Unwind of discount on provision for site restoration (note 10)	104	214
	2,639	2,557
Profit before income taxes	89,095	2,267,085
Income taxes (note 11):		
Current	30,741	18,191
Deferred	(2,087)	2,597
	28,654	20,788
Profit	60,441	2,246,297
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Change in fair value of investment in common shares	-	282,849
Gain on sale of investment in common shares transferred to profit or loss (note 9)	-	(2,130,987)
	-	(1,848,138)
Comprehensive income	\$ 60,441	\$ 398,159

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)

	2016	2015
Share capital		
Balance, beginning and end of year	\$ 1	\$ 1
Contributed surplus		
Balance, beginning of year	603,294	1,726,527
Dividends (note 12)	-	(1,123,233)
Balance, end of year	603,294	603,294
Accumulated deficit		
Balance, beginning of year	(150,141)	(255,545)
Profit	60,441	2,246,297
Dividends	(51,000)	(2,140,893)
Balance, end of year	(140,700)	(150,141)
Accumulated other comprehensive income		
Balance, beginning of year	-	1,848,138
Gain on sale of investment in common shares transferred to profit or loss (note 9)	-	(2,130,987)
Change in fair value of investment in common shares	-	282,849
Balance, end of year	-	-
Total shareholder's equity	\$ 462,595	\$ 453,154

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)

	2016	2015
Cash provided by (used in):		
Operating activities:		
Profit	\$ 60,441	\$ 2,246,297
Adjustments for:		
Depletion and depreciation	50,800	28,697
Income tax expense	28,654	20,788
Defined benefits paid in excess of expenses	(81)	(100)
Interest income from Consolidated Revenue Fund (note 6)	(534)	(601)
Unwind of discount on provisions	2,639	2,557
Net foreign exchange gain	-	(33,452)
Gain on sale of investment in common shares (note 9)	-	(2,130,987)
Change in provision for site restoration	(1,233)	(1,146)
Provisions settled	(2,430)	(2,700)
Income taxes paid	(9,151)	(14,017)
	129,105	115,336
Change in non-cash working capital (note 13)	(16,080)	6,568
	113,025	121,904
Financing activities:		
Dividends paid	(51,000)	(3,731,115)
	(51,000)	(3,731,115)
Investing activities:		
Proceeds on sale of investment in common shares	-	3,287,671
Purchase of property and equipment (note 13)	(65,282)	(44,451)
Change in cash and cash equivalents held for future obligations	(12,000)	-
Change in cash and cash equivalents held in escrow	(9,624)	1,366
	(86,906)	3,244,586
Change in cash and cash equivalents	(24,881)	(364,625)
Cash and cash equivalents, beginning of year	244,795	609,420
Cash and cash equivalents, end of year	\$ 219,914	\$ 244,795
Supplementary disclosure of cash flow from operating activities:		
Amount of interest received during the year	\$ 2,753	\$ 2,495
Amount of dividends received during the year	\$ -	\$ 28,102

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.

An account is maintained on behalf of the working interest owners of each the Hibernia Development Project and the Hibernia Southern Extension Unit (“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.

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 HSE Unit. CHHC’s initial unit working interest was 5.08% and was adjusted to 5.73% effective December 1, 2015 pursuant to the first interim reset as provided for in the Unit Agreement.

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, 2016, GEN no longer holds any investments in GM and has minimal activity.

2. Basis of preparation:

a) Statement of compliance:

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 3, 2017.

b) Basis of measurement:

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:

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

d) Use of estimates and judgments:

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 interim reset occurred in 2015 and the final redetermination is expected to be complete in 2024.

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, 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.

2. Basis of preparation: (continued)

d) Use of estimates and judgments: (continued)

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, 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:

The following accounting standard amendments, issued by the International Accounting Standards Board ("IASB"), are effective for the first time in the current financial year and have been adopted prospectively effective January 1, 2016 in accordance with the applicable transitional provisions:

- Amendments to IFRS 11, *Joint Arrangements: Accounting for acquisitions of interests in joint operations*
The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, by applying IFRS 3, *Business Combinations* and other IFRSs. The adoption of this amended standard had no impact on the Corporation's consolidated financial statements.
- Amendments to IAS 1, *Presentation of Financial Statements: Disclosure Initiative*
The amendments are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements and where and in what order information is presented in the financial disclosures, and includes guidance on how to apply the concepts of materiality and aggregation in practice. The adoption of this amended standard had no material impact on the Corporation's consolidated financial statements.

3. Significant accounting policies: (continued)

b) Basis of consolidation:

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:

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 5.73% working interest in the HSE Unit development. This unit interest ownership increased to 5.73% effective December 1, 2015 from the previous initial 5.08% working interest pursuant to the first interim reset provisions of the Unit Agreement, and is subject to further change as a result of future resets and redeterminations (see note 2). Associated with the first interim reset was an adjustment required to reflect certain historical HSE Unit capital expenditures at the higher working interest, also effective December 1, 2015. This incremental capital expenditure, totaling \$11,858, was included in accounts payable and accrued liabilities at December 31, 2015 and paid in early 2016.

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:

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:

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 accounts payable and accrued liabilities 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:

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. The Corporation has grouped its development and production assets into one CGU. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate components within the 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 proved 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. These estimates 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:

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:

(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. Derivatives are also classified as fair value through profit or loss unless they are designated as hedges. 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)

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 financial year. Classification of held-to-maturity occurs only when the Corporation has the intention and ability to hold the asset to maturity. Cash equivalents held in escrow are classified as held-to-maturity.

Loans and receivables

Loans and receivables, comprised of cash and cash equivalents and accounts receivable, 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 accounts payable and accrued liabilities and dividend payable.

(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:

(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. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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.

3. Significant accounting policies: (continued)

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.

(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:

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:

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 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 the statement of financial position as part of property and equipment. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

3. Significant accounting policies: (continued)

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.

l) Income taxes:

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:

Revenue from the sale of crude oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue from the sale of crude oil is recognized when the bill of lading for a shipment is obtained. The bill of lading transfers the significant risks and rewards of ownership to the buyer. Net crude oil revenue is presented net of marketing fees, royalties and net profits interest.

Dividend income is recognized when the shareholder's right to receive payment is established.

n) Finance costs and income:

Finance costs comprise unwinding of the discount on decommissioning obligations, unwinding of the discount on provision for site restoration and impairment losses recognized on financial assets. 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.

Amendments to IAS 7, *Statement of Cash Flows Disclosure Initiative* (“IAS 7”)

In January 2016, the IASB issued amendments to IAS 7 requiring entities to provide disclosures about changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). The narrow-scope amendments are to be applied prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted. The Corporation does not expect the amendments to have any impact on its consolidated financial statements.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. Related amendments to IFRS 7, *Financial Instruments: Disclosures* are to be applied simultaneously with IFRS 9. The Corporation continues to evaluate the potential impact of IFRS 9 on its consolidated financial statements, therefore the impact is not known at this time.

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

IFRS 15 was issued in May 2014 and provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. In April 2016, the IASB issued amendments to IFRS 15 which clarified how the underlying principles of the standard should be applied and included two additional reliefs to reduce cost and complexity for an entity when it first applies the standard. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. The Corporation continues to evaluate the potential impact of IFRS 15 on its consolidated financial statements therefore the impact is not known at this time.

IFRS 16, *Leases* (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 *Leases* (“IAS 17”), and it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early application permitted for companies that also apply IFRS 15. The Corporation continues to evaluate the potential impact of IFRS 16 on the financial statements, therefore the impact is not known at this time.

5. Cash and cash equivalents:

Cash and cash equivalents on the consolidated statement of financial position include cash, term deposits and bankers' acceptances. Interest revenue arising on cash and cash equivalents was earned at interest rates ranging from 0.3% to 1.2% for 2016 (2015 - 0.6% to 1.4%). The details are as follows:

		2016		2015
Bank balances	\$	52,407	\$	55,436
Short term investments		167,507		189,359
Cash and cash equivalents	\$	219,914	\$	244,795

6. Cash on deposit in the Consolidated Revenue Fund:

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:

		2016		2015
CRF balance, beginning of year	\$	119,462	\$	118,861
Allocated interest		534		601
CRF balance, end of year	\$	119,996	\$	119,462
Short term investments	\$	12,000	\$	-
	\$	131,996	\$	119,462
Represented by:				
Current portion	\$	3,159	\$	3,578
Non-current portion		128,837		115,884
	\$	131,996	\$	119,462

At December 31, 2016, 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 \$21,726 held for CEI and \$98,270 held for CHHC and short term investments of \$12 million 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 non-current portion in the CRF has been allocated by CEI to provide for non-current liabilities and other potential future liabilities related to site restoration obligations.

CHHC has deposited cash in the CRF and short term investments to provide for future abandonment of the Hibernia facility and to provide for security against future risks. CHHC has reduced certain of its third party insurance coverage as a result of the risk fund.

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 0.45% during the year (2015 - 0.51%). The interest is retained in the CRF, and there were no deposits to or withdrawals from the CRF during 2016 (2015 - nil). Access to these funds is unrestricted.

7. Cash and cash equivalents 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, totalling \$14,227 at December 31, 2016 (2015 - \$2,550). 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 \$8,550). The cash in escrow account of \$2,550 in 2015 associated with the former legislation was closed and the funds were returned to CHHC's operating account.

The letter of credit outstanding with the C-NLOPB at December 31, 2015 in the amount of \$2,053 with respect to outstanding research and development obligations was cancelled during 2016, as it was determined that CHHC fulfilled its research and development obligations. The associated escrow account was closed and the cash amount of \$2,053 was returned to CHHC's operating account.

8. Property and equipment:

	Oil development assets and production facilities	
Cost		
Balance at December 31, 2014	\$	342,182
Additions for the year		62,502
Decommissioning adjustments		33,340
Balance at December 31, 2015		438,024
Additions for the year		50,556
Decommissioning adjustments		(4,453)
Balance at December 31, 2016	\$	484,127
Accumulated depletion and depreciation		
Balance at December 31, 2014	\$	182,588
Depletion and depreciation		31,330
Balance at December 31, 2015		213,918
Depletion and depreciation		49,091
Balance at December 31, 2016	\$	263,009
Carrying amounts:		
At December 31, 2015	\$	224,106
At December 31, 2016	\$	221,118

At December 31, 2016, costs subject to the calculations of depletion and depreciation excluded the cost of equipment and facilities currently under construction of \$10,086 (2015 - \$19,998) and included future development costs of \$512,334 (2015 - \$832,000). Oil development assets and production facilities include \$109,342 at December 31, 2016 (2015 - \$113,795) of capitalized costs relating to decommissioning obligations, which will be depreciated over the life of the asset.

An assessment of indicators of impairment was conducted at December 31, 2016 for CHHC's cash generating unit (CGU). In performing the review, management determined that a reduction in the Company's proved plus probable reserves resulting from a reduction in the Hibernia Project operator's capital budget was a potential indicator of impairment for the Company's CGU.

8. Property and equipment: (continued)

For the purposes of determining whether impairment of assets has occurred, and the extent of any impairment or its reversal, management exercises judgment in estimating future cash flows (as described in note (2d)) for the recoverable amount, being the higher of fair value less costs of disposal and value in use. The recoverable amount was estimated based on the value-in-use methodology using discounted pre-tax cash flows of proved plus probable reserves using forward prices and cost estimates, consistent with CHHC's independent qualified reserves evaluators. Future cash flows were estimated using an inflation rate of 2% (2015 - 2%) and discounted using a rate of 10% (2015 - 10%). Based on the impairment test performed, there was no impairment of property and equipment for the year ended December 31, 2016 (2015 - nil).

The impairment test incorporates pricing forecasts prepared by the Company's independent reserves evaluator. The table below summarizes the forecast benchmark prices and exchange rates used in the 2016 test, which are a key assumption in determining the recoverable amount:

		Brent oil price (\$US per barrel)	Foreign exchange (\$US/\$CDN)
2017	\$	52.00	0.77
2018		59.00	0.80
2019		66.00	0.80
2020		72.00	0.80
2021		77.00	0.80
2022		82.00	0.80
2023		87.00	0.80
2024		91.00	0.80
2025		95.00	0.80
2026		97.52	0.80
Thereafter (percentage annual inflation)		2%	0.80

9. Sale of Investments:

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

	2016	2015
Net change in fair value of available-for-sale assets (in Other Comprehensive Income):		
Common shares of GM		
Gain on sale of investment in common shares transferred to profit or loss	-	(2,130,987)
Change in fair value of investment in common shares	-	282,849
	\$ -	\$ (1,848,138)

The investment in the common shares of GM was designated as available-for-sale financial assets. The GM common shares were measured at fair value with any changes recorded in other comprehensive income.

In the second quarter of 2015, the Corporation sold its remaining holdings of 73,389,831 common shares of GM. In the first quarter of 2015, GEN received \$28,102 in dividends on the GM common shares.

10. Provisions:

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

	Decommissioning obligations		Site restoration	
Balance at December 31, 2015	\$	130,914	\$	16,466
Additional provisions		9,874		946
Changes in estimates		(9,669)		(1,988)
Obligations settled		(62)		(2,368)
Changes in discount rate		(4,658)		(191)
Unwind of discount		2,535		104
Balance at December 31, 2016	\$	128,934	\$	12,969
Current		2,811		2,993
Non-current		126,123		9,976
Provisions	\$	128,934	\$	12,969

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, 2016:

	One percent increase		One percent decrease	
Discount rate	\$	(32,626)	\$	47,698
Inflation rate	\$	47,327	\$	(32,963)

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 \$273,869 at December 31, 2016 (2015 - \$253,006). 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, 2016 using an inflation rate of 2.00% (2015 - 2.00%) and was discounted using an average risk-free rate of 2.11% (2015 - 2.15%).

In 2016, CHHC concluded it was appropriate to classify a portion of the decommissioning obligations to a current liability on the statement of financial position, being the portion expected to be settled within one year of the date of statement of financial position. In prior years, the decommissioning obligations were reported as a single amount within non-current liabilities. To conform to the current year presentation, the prior year comparative figures have been reclassified whereby \$1,848 has been reported as a current liability. This reclassification had no other impact on the financial statements, with the exception of the prior year comparative figure for working capital disclosed in note 13 which was reduced by \$1,848.

10. Provisions: (continued)

b) Provision for site restoration:

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 (2015 – 2023). The future estimate of costs for site restoration has been discounted at a rate of 1.11% (2015 – 0.73%) and an inflation rate of 2.0% (2015 – 2.0%) was used to calculate the provision at December 31, 2016. The current estimate for costs and the amount accrued as at December 31, 2016 is \$12,969 (2015 - \$16,466).

11. Income taxes:

CDEV, CEI and GEN are not subject to income tax in Canada. CHHC is subject to income tax. Dividends received by GEN are not subject to income tax within the United States.

a) Income tax expense:

The components of income tax expense are as follows:

	2016		2015	
Current tax expense				
Current period	\$	29,646	\$	17,122
Adjustment related to prior periods		1,251		1,242
Investment tax credit		(156)		(173)
	\$	30,741	\$	18,191
Deferred tax expense				
Origination and reversal of temporary differences		(1,423)		4,062
Adjustment related to prior periods		(737)		(1,404)
Changes in tax rates applied to temporary differences		73		(61)
	\$	(2,087)	\$	2,597
Total income tax expense	\$	28,654	\$	20,788

11. Income taxes: (continued)

b) Reconciliation of effective tax rate

The statutory combined federal and provincial income tax rates applicable to CHHC remained stable at 28.4% in both 2016 and 2015. A reconciliation of the amount recorded for income tax expense from the expected amount by applying the Company's combined federal and provincial income tax rate to profit before income tax is as follows:

	2016		2015	
Net profit for the year (see note 20)	\$	63,235	\$	53,616
Total income tax expense		28,654		20,788
Profit before income tax	\$	91,889	\$	74,404
Income tax using CHHC's combined federal and provincial Canadian tax rate of 28.4% (2015 - 28.4%)	\$	26,096	\$	21,146
Non-deductible expenses and other		(29)		(15)
Investment tax credits		(156)		(174)
(Over) Under-provided in prior periods		82		(128)
Revisions and reassessments to prior years' tax returns		2,401		(287)
Differences attributed to rate differences and other		260		246
	\$	28,654	\$	20,788

Unrecognized deferred tax assets:

At December 31, 2016, 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 the recoverability of these credits is uncertain. Unrecognized tax assets totaled \$1,384 at December 31, 2016 and 2015.

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, 2015	\$ (901)	\$ (28,100)	\$ 37,454	\$ 2,926	\$ 11,379
Credited/ (charged) to the statement of comprehensive income	492	2,706	(811)	(300)	2,087
At December 31, 2016	\$ (409)	\$ (25,394)	\$ 36,643	\$ 2,626	\$ 13,466

12. Share capital and contributed surplus:

	2016	2015
Share Capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares (2015 - 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. In 2015, a dividend of \$1,123,233 was paid from contributed surplus from the sale of GM common shares representing the proportionate value of the asset initially received as contributed surplus.

13. Supplemental cash flow disclosure:

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

	2016	2015
Change in accounts receivable	\$ (23,535)	\$ 18,240
Change in inventory	1,086	(1,910)
Change in prepaid expenses	(39)	37
Change in accounts payable and accrued liabilities	(8,318)	8,252
Change in non-cash working capital items	\$ (30,806)	\$ 24,619
Relating to:		
Operating activities	\$ (16,080)	\$ 6,568
Investing activities	(14,726)	18,051
Change in non-cash working capital items	\$ (30,806)	\$ 24,619

Property and equipment expenditures comprise the following:

	2016	2015
Property and equipment additions (note 8)	\$ (50,556)	\$ (62,502)
Change in non-cash investing working capital	(14,726)	18,051
Cash used for property and equipment expenditures	\$ (65,282)	\$ (44,451)

For the year ended December 31, 2016, the non-cash working capital relating to investing activities has been netted with property and equipment additions in the statement of cash flows to better reflect the cash used for property and equipment expenditures. To conform to the current year presentation, the prior year comparative figures have been reclassified, whereby \$18,051 of change in non-cash working capital related to investing activities has been netted with property and equipment additions. This reclassification had no net impact on cash used in investing activities, and no other impact on the financial statements.

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

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

	2016		2015	
Gross crude oil revenue	\$	224,284	\$	168,484
Less: marketing fees		(531)		(386)
Less: royalties		(40,248)		(31,306)
Less: net profits interest		(9,239)		(9,030)
Net crude oil revenue	\$	174,266	\$	127,762

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 2016 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 2016, total royalties averaged 18% of gross revenue (2015 - 19%).

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 Project owners. The NPI payment is based on 10% of net revenue (gross revenue adjusted for eligible transportation, operating and capital costs). In 2016, NPI payments averaged 4% of gross revenue (2015 - 5%).

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

	2016		2015	
Hibernia joint account production and operating expense	\$	22,314	\$	20,617
Crude oil transportation		5,443		5,884
Facility use fees net of incidental net profits interest		(2,099)		(1,654)
Total production and operating expense	\$	25,658	\$	24,847

15. Commitments:

CHHC's commitments at December 31, 2016 are summarized in the table below and include crude oil transportation and transshipment commitments, CHHC's share of Hibernia Project contract commitments (drilling, well and related services including helicopters and support vessels) and operating leases for its office premises and its share of HMDC's office premises.

	2017	2018-2021	Thereafter	Total
Crude oil transportation and transshipment services (i)	\$ 5,339	\$ 18,361	\$ 34,776	\$ 58,476
Hibernia Project contracts	9,470	22,408	–	31,878
Office premises	559	955	–	1,514
Total Commitments	\$ 15,368	\$ 41,724	\$ 34,776	\$ 91,868

(i) On June 1, 2015, CHHC entered into a long term commitment for 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 fifteen years 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. This contrasts with CHHC's previous fixed 25% time charter and capital lease arrangement specifically for the Mattea shuttle tanker, which was novated to Teekay on June 1, 2015. The commitment cost includes an estimate for fuel costs, which can fluctuate.

In conjunction with the BWTTS, CHHC also amended and extended its Reserved Capacity Services agreement at the Newfoundland Transshipment Ltd. terminal effective June 1, 2015 for a fifteen year term.

While CHHC's costs for the fifteen year COA commitment 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.

16. Contingencies:

The Corporation or its subsidiaries, in the normal course of its operations, may become subject to a variety of legal and other claims against the Corporation. Where it is probable that a past event will require an outflow of resources to settle the obligation and a reliable estimate can be made, management accrues its best estimate of the costs to satisfy such claims.

CHHC is a party to a contractual dispute, the outcome of which is subject to confidential dispute resolution proceedings with a related court proceeding scheduled to occur in March 2017. CHHC is not disclosing its estimate of the financial effect, if any, of the dispute as such disclosure would prejudice CHHC. Based on information presently available and after consultation with external legal counsel, management believes that the probable resolution will be favorable to CHHC, and thus no amount has been recognized in the financial statements.

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, 2016.

17. Capital management:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of \$462,595 (2015 - \$453,154), 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.

18. 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 accounts receivable, 67% (2015 – 68%) relates to accounts receivable from the marketer, which has all been collected subsequent to year end. Remaining receivables at December 31, 2016 consist primarily of input tax credits (GST/HST) receivable and cash calls receivable, which represent funds advanced to the operator of the Hibernia Project for capital and operating activities. These receivables will draw down as the funds are expended by the operator.

The carrying amount of cash and cash equivalents, accounts receivable, cash and cash equivalents 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, 2016 and 2015 and did not provide for any doubtful accounts during 2016 or 2015. As at December 31, the following amounts were included in accounts receivable:

		2016		2015
Outstanding under 120 days	\$	43,043	\$	19,508
Outstanding greater than 120 days		777		777
Total accounts receivable	\$	43,820	\$	20,285

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

18. Risks to the Corporation: (continued)

(b) Liquidity risk:

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. Accounts payable and accrued liabilities 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 balance at December 31, 2016 of \$219,914 (2015 - \$244,795), 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:

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, interest rate risk and other price 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 \$1,215 decrease to the Corporation's profit for the year ended December 31, 2016 (2015 - \$936), 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, 2016 or 2015.

(ii) Commodity price risk:

CHHC's financial performance is closely linked to crude oil prices (including 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, 2016 or 2015. It is estimated that a 10% decrease in realized oil price would result in a \$12,149 decrease to CHHC's comprehensive income for the year ended December 31, 2016 (2015 - \$9,361), 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:

The Corporation's only financial asset carried at fair value is cash and cash equivalents held for future obligations of \$131,996 (\$119,462 - December 31, 2015) and the fair value measurement is a Level 1 (quoted prices in active markets) at December 31, 2016 and 2015.

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

19. 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, 2016 in the amount of \$51,000 (2015 - \$3,731,115, of which \$1,123,233 was paid from contributed surplus).

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, termination benefits or share-based payment.

	2016	2015
Key management personnel compensation comprised of:		
Salaries, other short-term benefits, director fees	\$ 2,732	\$ 2,721

b) Other related party transactions affecting Profit:

	2016	2015
CRF Interest income	\$ 534	\$ 601

c) Items affecting Statement of Financial Position

	2016	2015
Cash on deposit in the CRF	\$ 119,996	\$ 119,462

20. Supplementary information:

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

	2016		2015	
Statement of Financial Position:				
Assets:				
Current	\$	161,535	\$	172,948
Non-current		359,081		337,921
		520,616		510,869
Liabilities:				
Current		43,263		37,808
Non-current		126,123		129,066
		169,386		166,874
Shareholder's Equity		351,230		343,995
	\$	520,616	\$	510,869
Statement of Comprehensive Income:				
Revenue:				
Net crude oil revenue	\$	174,266	\$	127,762
Other income		381		5,899
Expense:				
Total expenses		(82,758)		(59,257)
Income taxes		(28,654)		(20,788)
Comprehensive income	\$	63,235	\$	53,616
Statement of Cash Flows:				
Cash provided (used) by:				
Operating activities	\$	117,663	\$	96,392
Financing activities		(56,000)		(30,000)
Investing activities		(85,606)		(41,825)
Increase in cash and cash equivalents	\$	(23,943)	\$	24,567



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