CANADA DEVELOPMENT INVESTMENT CORPORATION

ANNUAL REPORT

2018

CDEV

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CORPORATE ADDRESS

CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

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DIRECTORS AND OFFICERS AS AT MARCH 6, 2019

MINISTER RESPONSIBLE FOR CDEV

The Honourable William Francis Morneau
Minister of Finance

BOARD OF DIRECTORS

Stephen Swaffield, MBA [2]
Acting Chair
President
CarbEx Consulting Inc.
Whistler, British Columbia

Darlene Halwas, CFA, ICD.D [1] [3]
Director
Calgary, Alberta

Jennifer Reynolds, ICD.D [1] [3]
President and CEO
Toronto Finance International
Toronto, Ontario

Mary Ritchie, FCPA, FCA [1] [2]
CEO
Richford Holdings Ltd.
Edmonton, Alberta

Sandra Rosch, MBA [2] [3]
Executive Vice-President and Director
Labrador Iron Ore Royalty Corporation
Toronto, Ontario

OFFICERS

Michael Carter
Executive Vice-President

Andrew Stafl, CPA, CA
Vice-President, Finance

Zoltan Ambrus, CFA, LLB
Vice-President

Noreen E. Flaherty, BA, LLB
Legal Counsel and Corporate Secretary

COMMITTEES OF THE BOARD

(1) Audit Committee
(2) Nominating and Governance Committee
(3) Human Resources and Compensation Committee

REPORT TO THE MINISTER

THE HONOURABLE WILLIAM FRANCIS MORNEAU
MINISTER OF FINANCE

Dear Minister Morneau:

This has been an eventful and successful year for Canada Development Investment Corporation.

At your request, in the spring of 2018 we hired financial, legal and other technical expert consultants to provide evaluations and to assist with due diligence on Kinder Morgan's Canadian subsidiaries. Following your successful negotiation of a purchase agreement on May 29th, we incorporated two new subsidiaries and prepared for ownership of the Trans Mountain Pipeline assets and the related expansion project ("TMC"). This involved working with Export Development Canada ("EDC") on structuring the financing of the purchase, negotiating tankage and transition agreements with Kinder Morgan and working with Trans Mountain's Canadian management team to identify management changes that would be required to allow TMC to operate independently.

You provided us with guidance in your letter of expectations a portion of which states "There are three primary elements of protecting the public interest during the period that CDEV owns the Trans Mountain Assets. The first is to pursue the development of the expansion project in a commercial manner in order to protect the value of the Government's investment. The second is to ensure full compliance with applicable laws and rules, particularly environmental protection and worker health and safety requirements. The third is to operate in a manner consistent with Canada's commitment to advance reconciliation with Indigenous peoples".

You further stated "It is not the intention of the Government of Canada to be a long term owner of the Trans Mountain assets…. The Government expects that CDEV will maintain readiness on an ongoing basis to divest the Trans Mountain Assets, taking into account the optimal timing for divestiture relative to project risks. CDEV should also consider ways for Indigenous groups to participate in the divestiture on commercial terms. Given the foregoing, the Government expects CDEV to ensure that the Trans Mountain assets are in a state of readiness to be divested".

In order to carry out our mandate we have appointed a highly qualified independent Board for TMC tasked with the primary oversight of its operations. We have worked with TMC management and Board to assess the readiness of management to undertake the expansion if and when it is approved and we are putting into place a governance and oversight system that will minimize the risk to the project's schedule and cost to the extent possible. We do not believe that we should take any active steps to divest this asset at present.

Canada Hibernia Holding Corporation ("CHHC") had another successful year generating $76 million of profit as the Hibernia field produced 113 thousand barrels of oil per day in 2018. This was down from 145 thousand in 2017 as the field is in a gradual decline and had a 34 day planned maintenance shut down in 2018. CHHC paid dividends of $108 million to CDEV during the year.

CDEV has also been active in managing the planned sale of Ridley Terminals, on behalf of Transport Canada; extensive consultations and negotiations have taken place with Indigenous groups and we believe the transaction has their support. A sale process is now underway and we plan to recommend a sale transaction to the Government in the spring of this year.

We paid dividends to the Government of $114 million this year. TMP Finance, our subsidiary borrowed $5.3 billion during the year from the Canada Account, administered by EDC, to finance the acquisition and ongoing expansion of TMC. We did not receive appropriations during the year.

We note that in the Report on Other Legal and Regulatory Requirements section of the joint auditor's opinion for 2018 regarding the appointment of an officer-director, the auditors express an opinion that our Executive Vice-President ("EVP") is performing the duties of a chief executive officer ("CEO"). The auditors have therefore concluded that CDEV is not in compliance with the *Financial Administration Act* ("FAA") because the EVP has not been appointed by the Governor in Council. CDEV's Board of Directors has consulted with its external legal counsel and unanimously disagrees with the opinion of the joint auditors that CDEV is not in compliance with the FAA. Our shareholder has chosen since 1987 not to appoint a CEO. The Board of Directors of CDEV has the authority to appoint an EVP, which it has done. Prior to the acquisition of Trans Mountain Corporation, it had determined that CDEV's needs were adequately served by the part-time EVP. The Board has determined that given the increased operations of the Corporation following the acquisition of Trans Mountain Corporation, they plan to seek a Governor in Council appointed CEO as soon as is practical.

In June, Mike Mackasey resigned as Chair of our Board. We would like to thank him for his hard work and insight.

On behalf of the Board of Directors

Stephen Swaffield
Acting Chair
Canada Development Investment Corporation

March 6, 2019

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.

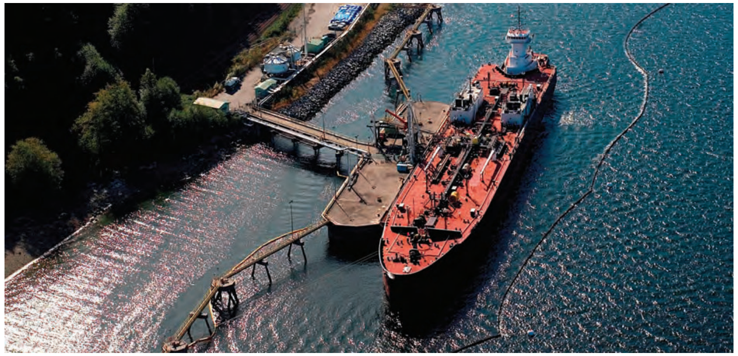
2018 HIGHLIGHTS

- CDEV helped manage the due diligence activity and executed the purchase of the entities of the Trans Mountain Pipeline for $ 4.4 Billion.
- In the four months of ownership Trans Mountain Pipeline generated $48 million in Earnings before Interest, Taxes and Depreciation under IFRS accounting standards.
- Canada Hibernia Holding Corporation generated a profit of $76 million in 2018 on net crude oil revenue of $179 million from sales volume of 3.0 million barrels.
- CDEV declared dividends of $114 million to the Government in 2018.

Top: Westridge dock

Bottom Left: Burnaby terminal

Bottom Right: Hibernia vessel



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 four other directors. The members of the Board bring significant public and private experience, skills and expertise to their roles. The Chair of the Board assesses the effectiveness of the Board and its committees with input from all of the directors. All members of the Board are independent of CDEV management.

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

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

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

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

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

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

CANADIAN ENVIRONMENTAL ASSESSMENT ACT COMPLIANCE

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 2017 or 2018 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.

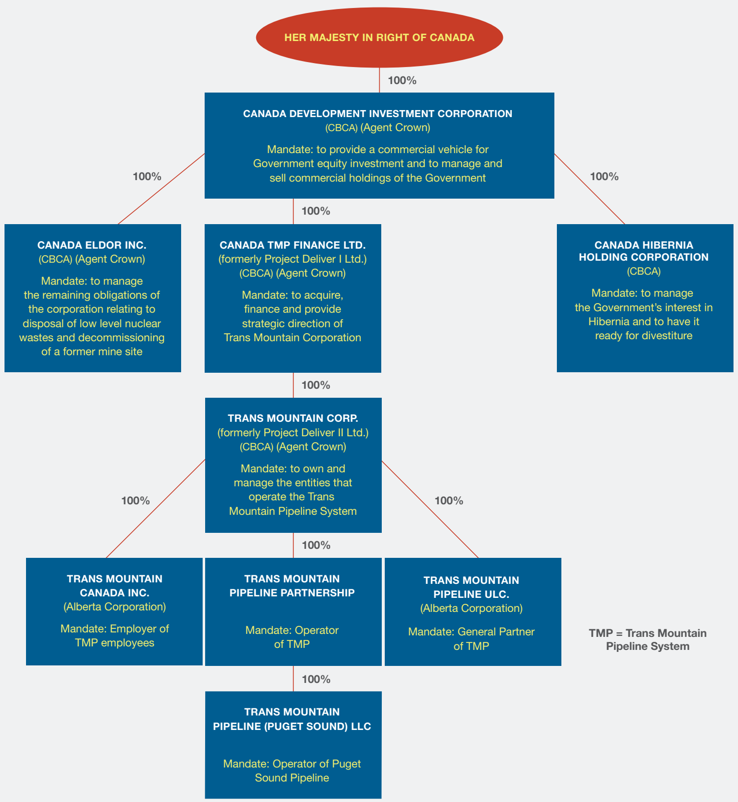
By their nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. In particular, any predictions, forecasts, projections or other elements of forward-looking statements may not be achieved. A number 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 four primary wholly-owned subsidiaries for which we are responsible: Canada Hibernia Holding Corporation ("CHHC"), Canada Eldor Inc. ("CEI"), Canada TMP Finance Limited ("TMP Finance") and its subsidiary Trans Mountain Corporation ("TMC"). 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. TMP Finance's primary responsibility is to provide financing to TMC. TMC has a mandate to operate the existing Trans Mountain Pipeline and to complete the Trans Mountain Expansion Project ("TMEP") in a timely and commercially viable manner.

Since CDEV's inception in 1982, we have been effective in the management and divestiture of corporate interests of the Crown. The assets sold on behalf of the Crown by CDEV through 2017 include Canadair Limited, de Havilland Aircraft of Canada Limited, Teleglobe Canada, Fishery Products International Limited, Canada Development Corporation, Nordion International Inc., Telesat Canada, shares of Cameco Corporation, interests in Chrysler and common and preferred shares of General Motors. Cash proceeds to the Crown from these divestment activities totaled approximately $8.1 billion through 2018. In addition, CHHC has paid a total of $2.2 billion in cumulative dividends from operations.

CDEV has a management team based in Toronto headed by the Executive Vice-President, whose role is to work closely with external consultants, contractor specialists and the Board to ensure the effective functioning of CDEV and its subsidiaries. CHHC has a management team based in Calgary that is experienced in the oil industry which provides expertise in technical operations, marketing, transportation and finance. TMC has a corporate structure with over 350 employees and over 250 contractors led by a seasoned executive team.



CORPORATE PERFORMANCE

Key Objectives from the 2018 Corporate Plan:

- Manage our working interest in the Hibernia oil field through our subsidiary CHHC and ensure that this asset is ready for sale when deemed appropriate.
- Continue to oversee the management of CEI's obligations.
- Continue to manage other issues which may arise and to remain prepared to assume management and divestiture of any other interests of Canada assigned to us for divestiture, in a commercial manner.
- Continue our involvement in the analysis or potential sale of government assets as requested by the Minister of Finance.
- Maintain our ability to perform all tasks given to us in an efficient manner.
- Remain available and prepared to address the needs of the Government for any future endeavour that is suitable given our capabilities and expertise.

PERFORMANCE

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

In 2018 CDEV launched a sales process to sell, on behalf of the Government, Ridley Terminals Inc. a federal Crown corporation that owns and operates a coal terminal in Prince Rupert, British Columbia.

The most significant activity for CDEV in 2018 was to manage the due diligence and subsequent purchase of the Trans Mountain Pipeline assets from Kinder Morgan. After the execution of a sale and purchase agreement on May 29, 2018, CDEV was mandated to undertake the acquisition of the TMC assets and negotiate financing from the Canada Account to complete the purchase. CDEV received a letter of expectations from the Minister to manage the TMC assets in a commercial manner through acquisition, ownership, operation and development, and future divestiture. Three primary elements to protect the public interest are also expected, including: to pursue the TMC expansion project to protect the government's investment, ensure compliance with applicable laws and rules, and thirdly to operate in a manner consistent with Canada's commitment to advance reconciliation with Indigenous peoples.

We declared dividends of $114 million in 2018. These dividends were funded by dividends received from CHHC. We retain suitable levels of cash and cash equivalents and short-term investments to remain prepared to undertake future activities and to fund potential contingencies. We funded due diligence activities of $5 million for the TMC acquisition from cash on hand.

CANADA HIBERNIA HOLDING CORPORATION

CHHC's after-tax profit of $76 million in 2018 was almost the same as the $75 million recorded in 2017.

Net crude oil revenue, calculated as crude oil sales less marketing fees, royalties and net profits interest ("NPI"), decreased by 2% or $4 million to $179 million in 2018 from $183 million in 2017. A $23 million increase in crude oil sales driven by higher oil prices was more than offset by a $27 million increase in royalty and NPI expenses. Gross Hibernia production averaged 112,500 barrels per day in 2018, lower than 145,300 barrels per day in 2017 due to an increase in scheduled and unscheduled downtime and the maturation of HSE Unit wells resulting in reduced oil production rates. Scheduled downtime related primarily to the triennial platform turnaround during which all production was shut-in to conduct maintenance activities, and unscheduled downtime was due primarily to an adverse weather event.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The price of Dated Brent crude increased 31% to average US $71.07 per barrel from US $54.26 per barrel in 2017 and CHHC realized a small price discount to Dated Brent in both years. CHHC's realized oil price in Canadian dollars similarly increased by 31% to $91.58 per barrel in 2018 from $69.68 per barrel in 2017.

During 2018, capital investments were primarily directed toward drilling and work-over activities in the Hibernia Main Field. In the near term, Hibernia owners plan to focus on drilling activities and new development projects in the Ben-Nevis Avalon reservoir and the northwest portion of the field.

CANADA ELDOR INC.

There was no significant change in the management of CEI's liabilities. In 2018, the liability for site restoration decreased $1.9 million primarily due to the settlement of $1.9 million in obligations. 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 five years. CEI holds cash and cash equivalents and funds within the Consolidated Revenue Fund totaling $19 million to pay for CEI's total estimated liabilities of $12 million.

CANADA TMP FINANCE LIMITED

Canada TMP Finance Limited ("TMP Finance") was created to acquire and own TMC and its entities. In 2018 TMP Finance entered into Credit Agreements with the government of Canada's Canada Account administered by Export Development Canada ("EDC"), a federal Crown corporation. To finance the acquisition of TMC and fund some of TMC's capital expenditures, TMP Finance provided funding to TMC at a ratio of 45% equity and 55% debt. The loan from TMP Finance to TMC charges an interest rate of 5.0%. TMP also borrowed $500 million from the Canada Account and lent this amount to TMC to allow TMC to issue a letter of credit to Kinder Morgan to satisfy Financial Requirements imposed by the National Energy Board ("NEB"), as regulator of the Trans Mountain Pipeline. It is anticipated that this $500 million will be repaid if the NEB accepts a proposal whereby an undrawn credit facility of TMP Finance would provide the necessary Financial Requirements.

TRANS MOUNTAIN CORPORATION

TMC purchased the entities of the Trans Mountain Pipeline on August 31, 2018 for $4.4 billion, as described in note 5 of the accompanying financial statements. To finance the acquisition TMC borrowed $2.52 billion and received equity contributions of $2.06 billion from TMP Finance. In the period September 1 to December 31, 2018 TMC borrowed $91 million and received $74 million in equity contributions from TMP Finance primarily to fund construction expenditures.

In the four months of 2018 that CDEV owned TMC entities, TMC generated $129 million in revenue and $48 million in earnings before interest, taxes, and depreciation ("EBITDA"). We note that under TMC's continuing use of US GAAP, revenue was $138 million and EBITDA was $60 million. For details see note 30. In the same period TMC spent approximately $160 million on the TMEP. Given the Federal Court of Appeal decision issued on August 30, the construction activity of the TMEP has been stopped. Certain development activities including engineering and permit acquisition have continued at a measured pace.

SUMMARY OF 2018 OPERATIONAL METRICS (EXCLUDING TMC)

$ Millions (unless noted otherwise)	2018 Plan	2018 Actual	2017 Actual	Y/Y Change **	Explanation of changes Year/Year
Net crude oil revenue	143.1	179.1	183.2	(2.2%)	31% higher C$ oil prices; 17% lower sales volume, higher royalties and NPI
Oil Sales Volume (million barrels)	3.2	3.0	3.6	(17%)	Production shutdown for 34 days in 2018 for planned maintenance
Realized Oil Sale Price ($US/barrel)	50.0	71.0	53.6	32.5%	World oil prices increased overall in 2018
Realized Oil Sale Price ($C/barrel)	60.0	91.6	69.7	31.4%	Driven by higher USD oil prices
Oil Operating Expense	29.9	30.0	24.9	38%	Incremental maintenance costs associated with the planned platform shutdown in 2018
Oil Capital Expenditures	37.2	20.7	24.2	(14%)	Activity was focused on lower cost projects.
Professional Fees and Administration Expenses *	13.2	16.9	11.3	50%	Professional fees increased due to TMC acquisition and RTI sales activity costs

* Includes professional fees, salaries and benefits and other expenses.
** Percentages may differ due to rounding

ANALYSIS OF EXTERNAL BUSINESS ENVIRONMENT

The ongoing management of our holdings will depend on overall market and economic conditions as well as factors specific to the underlying company or investment.

The market and economic conditions of the oil and petroleum products business do not have significant impact on the operations of TMC since the transportation revenue is derived from tolls set by a regulator and shipper volumes are expected to be fairly constant and limited by pipeline capacity for the near term and are not expected to vary significantly based on economic conditions. TMC operating expenses do not vary significantly based on market or economic conditions. The majority of costs are recovered through current and future tolls. The external business environment for the construction of the TMEP is unpredictable with a number of potential difficulties which may have significant impact on the completion schedule and cost of the project. The loans payable have fixed interest rates and are not impacted by economic conditions that may affect interest rates.

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

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

RISKS AND CONTINGENCIES

The risks inherent to the operation of an oil pipeline include operating risks typical in the industry such as worker and other safety and security risks, physical pipeline and facility integrity, and environmental management. TMC has an established operational risk management process which adheres to National Energy Board standards and scrutiny. The risks related to TMEP development are discussed in the notes to the financial statements. At this time, TMC does not have the authority to proceed with construction of the TMEP and any significant and continued delay in receiving this authority may impact the value of the assets of TMC as it delays the cash flows to be received on completion.

CDEV's subsidiary TMP Finance is a borrower of over $5 billion dollars which has increased CDEV's financial risk. As the loans are from the Government, this risk is assessed as low. We note that refinancing risk exists as the TMEP requires financing if and when construction commences on the project and such ability to finance would affect the value of TMC.

As with any oil development project, CHHC's interest in the Hibernia project faces geological and production risks. These risks arise due to the drilling of more complex wells and development of Ben-Nevis Avalon resources. 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 $2.0 million ($2.6 million in 2017). 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 of decommissioning and abandonment of the Hibernia wells and facilities of $142 million is estimated based on known regulations, procedures and costs today for undertaking the decommissioning, the majority of which is projected to be incurred in the year 2056. It is possible that these costs may change materially before decommissioning due to regulatory changes, technological changes and inflation among other variables. CHHC has set aside funds totaling $137 million ($100 million deposited in the Consolidated Revenue Fund and $37 million in short-term investments) to specifically provide for decommissioning and abandonment costs.

The present value cost for decommissioning and abandonment of the TMC pipeline of $388 million is estimated based on the current expected costs to abandon the pipeline at the end of its economic life in 100 years. There is significant variability in this cost estimate and in determining the economic life of the asset. TMC retains restricted investments deposited in a Trust specifically set up to fund future abandonment activities.

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 increased to 1.3642 at December 31, 2018 from 1.2545 at December 31, 2017, a 9% devaluation in the CAD.

CHHC bears credit risks on relatively large cargo sales. CHHC deals primarily with purchasers with established credit history and utilizes credit risk mitigation tools when necessary. TMC bears credit risk with its customers. The terms of TMPL's tariff allow it to require potential customers to provide reasonable financial assurance, which greatly mitigates TMC's exposure to credit risk. There exists some concentration risk where one customer represents approximately 27% of consolidated revenues, however it has an investment grade credit rating.

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

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

The 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.

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The consolidated financial statements for the year ended December 31, 2018 with comparative figures for 2017, have been prepared in accordance with International Financial Reporting Standards ("IFRS").

TMC prepares its financial statements in accordance with US GAAP, rate regulated standards. To read the US GAAP 2018 TMC financial statements please go to www.transmountain.com. US GAAP is the typical accounting method used by TMC's Canadian peer rate-regulated companies. Note 30 shows TMC financial results in US GAAP, adjustments made to the statements to convert these results to IFRS and the TMC financial results in IFRS as consolidated into CDEV. The most significant differences in accounting treatment include:

- Under US GAAP TMC recognizes revenue ratably over time based on TMC's annual revenue requirement whereas IFRS recognizes revenue based on volume shipped. The IFRS adjustment for 2018 is to reduce revenue by $8 million.
- Under US GAAP TMC recognizes an Allowance for Funds Used During Construction ("AFUDC") where a regulated return on capital and regulated amounts of debt interest are added to the total cost of an asset under construction. Capital return is added to income and capitalized debt interest reduces interest cost. Under IFRS no AFUDC for capital return is added to the asset value nor income and only actual debt interest incurred can be capitalized. The IFRS adjustment in 2018 was to increase net finance costs by $34 million.
- IFRS requires that a provision for decommissioning obligations be recognized. Under US GAAP such an obligation is not required to be recognized as a result of the significant uncertainty as to the timing and scope of cash outflows. The IFRS adjustment is to increase non-current liabilities by approximately $388 million at December 31, 2018 primarily due to a corresponding increase to goodwill upon acquisition of $219 million and subsequent re-measurement of $164 million recorded as an increase to property, plant and equipment.

Consolidated revenue for the year ended December 31, 2018 was $308 million, compared to revenue of $183 million in the prior year. The increase is due to the inclusion of $129 million in TMC revenues. These consist primarily of revenues derived from pipeline operations. TMC also earned $20 million from leasing storage tanks that it owns. The $4 million decrease in net crude oil revenue is primarily due to an increase in royalty and NPI payments.

Total expenses for the year excluding finance costs were $208 million, compared to $93 million in the prior year. The increase is due to the inclusion of $116 million in expenses of TMC. Crude oil production and operating costs increased $5 million due primarily to the incremental maintenance costs associated with the planned platform shutdown in 2018.

Profit before income taxes in 2018 declined significantly from the prior year primarily due to interest expense of $82 million. Income taxes increased significantly as a percentage of profit before tax due to a significant portion of the interest expense being incurred by a non-taxable entity.

Cash and cash equivalents as at December 31, 2018 increased to $345 million compared to $176 million at December 31, 2017 largely due to the $169 million in cash held by TMC which was funded by increased debt and retaining cash. Total restricted cash increased by $543 million to reflect the $500 million deposited by TMC to backstop a letter of credit to satisfy regulatory requirements of TMC to operate its pipeline.

Accounts receivable increased by $137 million at December 31, 2018, due to the inclusion of $143 million in TMC trade receivables.

Property, plant and equipment increased by $4.7 billion due to the acquisition of TMC entities on August 31, 2018. This includes $1.3 billion in construction work in progress, $1.1 billion of which were acquired as part of the TMC acquisition. As part of the acquisition, TMC recognized $1.0 billion in goodwill which represents the excess of the consideration paid for the identifiable TMC assets less liabilities assumed. Of the $1.0 billion in goodwill, $0.6 billion is related to the deferred income tax liability recorded on acquisition and $0.4 billion due to economic benefits associated with the TMEP. Upon acquisition TMC also recognized a decommissioning obligation of $0.2 billion. For more details see note 5 of the financial statements. The consideration for the acquisition was $4.447 billion which compares to $4.427 billion disclosed in CDEV's third quarter 2018 financial report. The difference reflects the inclusion of $57 million in net debt assumed in the cash consideration, less a $37 million working capital adjustment that reduced the purchase price.

Current liabilities increased $344 million due to the inclusion of $120 million in loans payable from a credit facility that expires in August 2019, $121 million in trade payables of TMC and $109 million in other current liabilities of TMC which include $95 million in dock premiums that will be repaid to shippers.

Loans payable of $5.3 billion relate to the financing of the TMC acquisition, draws to fund construction costs of TMC and $500 million to backstop a letter of credit.

Deferred income taxes increased by $563 million due to the recognition that the tax bases of TMC's net assets acquired are lower than their fair value.

The provision for decommissioning obligations increased $397 million primarily due to the recognition of $388 million in decommissioning obligations of TMC.

The defined benefit obligation increased $75 million with the recognition of net obligations of TMC including $55 million related to the pension plan and $18 million related to other post-employment benefits.

Other non-current liabilities increased by $172 million which includes $156 million in dock premiums received by TMC that will eventually be paid back to shippers.

CDEV paid dividends of $114 million to the Government in 2018. In 2017 we paid dividends to the Government of $91 million.

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 6, 2019. The consolidated financial statements have been prepared by the Corporation in accordance with International Financial Reporting Standards. The financial statements of the Corporation's 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 joint 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 joint auditors, the Auditor General of Canada and PwC, 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, 2018, and financial performance and cash flows for the year ended December 31, 2018.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

March 6, 2019

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

CONSOLIDATED FINANCIAL STATEMENTS OF CANADA DEVELOPMENT INVESTMENT CORPORATION

YEAR ENDED DECEMBER 31, 2018

CDEV

Office of the Auditor General of Canada | Bureau du vérificateur général du Canada

pwc

TO THE MINISTER OF FINANCE

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Canada Development Investment Corporation and its subsidiaries (the Corporation), which comprise the consolidated statement of financial position as at 31 December 2018, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of Canada Development Investment Corporation for the year ended 31 December 2017, were audited by the Auditor General of Canada and another auditor who expressed an unmodified opinion on those consolidated financial statements on 26 March 2018.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON COMPLIANCE WITH SPECIFIED AUTHORITIES

Qualified Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Canada Development Investment Corporation and its wholly owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are 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*.

In our opinion, except for the matter described in the *Basis for Qualified Opinion* section of our Report on Compliance with Specified Authorities, the transactions of Canada Development Investment Corporation and its wholly owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act,* we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Basis for Qualified Opinion

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

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Canada Development Investment Corporation and its wholly owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Canada Development Investment Corporation and its wholly owned subsidiaries to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

Vicki Clement

Vicki Clement, CPA, CA
Principal
for the Auditor General of Canada
Ottawa, Canada
6 March 2019

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31
(THOUSANDS OF CANADIAN DOLLARS)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents (note 6)	$ **344,857**	$ 176,357
Restricted cash (note 9)	**500,683**	-
Short-term investments (note 6)	**-**	30,169
Trade and other receivables (note 28)	**158,979**	22,246
Income taxes recoverable (note 19)	**3,497**	1,857
Other current assets (note 8)	**18,743**	4,514
Investments held for future obligations (note 7)	**2,518**	3,272
	1,029,277	238,415
Non-current assets:		
Property, plant and equipment (note 11)	**4,854,621**	197,555
Goodwill (note 14)	**1,016,582**	-
Investments held for future obligations (note 7)	**151,233**	136,603
Restricted cash (note 9)	**56,660**	14,227
Restricted investments (note 10)	**54,783**	-
Other assets (note 12)	**46,328**	-
Deferred tax asset (note 19)	**17,735**	16,101
	6,197,942	364,486
	$ **7,227,219**	$ 602,901
Liabilities and Shareholder's Equity		
Current liabilities:		
Current portion of loans payable (note 17)	$ **120,000**	$ -
Trade and other payables (note 20)	**133,520**	16,176
Current portion of provision for decommissioning obligations (note 15(a))	**3,141**	4,627
Current portion of provision for site restoration (note 15(c))	**2,329**	3,066
Other current liabilities (note 13)	**109,010**	200
	368,000	24,069
Non-current liabilities:		
Loans payable (note 17)	**5,170,000**	-
Deferred income taxes (note 19)	**560,966**	-
Provision for decommissioning obligations (note 15(a), (b))	**526,000**	128,771
Provision for site restoration (note 15(c))	**7,809**	9,014
Defined benefit obligation (note 16)	**78,390**	1,527
Other non-current liabilities (note 18)	**171,903**	-
	6,515,068	139,312
Shareholder's equity:		
Share capital (note 21)	**1**	1
Contributed surplus (note 21)	**603,294**	603,294
Accumulated deficit	**(269,902)**	(163,775)
Accumulated other comprehensive income	**10,758**	-
	344,151	439,520
Commitments (note 25)		
Contingencies (note 26)		
Events after the reporting period (note 32)		
	$ **7,227,219**	$ 602,901

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)

		2018		2017
Revenue:				
Net crude oil revenue (note 23)	$	**179,137**	$	183,170
Transportation revenue (note 24)		**107,732**		-
Lease revenue (note 24)		**20,417**		-
Other revenue (note 24)		**1,011**		-
		308,297		183,170
Other income:				
Facility use and processing fees, net of incidental net profits interest		**2,062**		3,183
Foreign exchange gain		**5,713**		2,238
		316,072		188,591
Expenses:				
Depletion and depreciation (note 8, 11)		**78,303**		50,655
Pipeline operating expenses (note 24)		**53,077**		-
Crude oil production and operating expenses (note 23)		**29,995**		24,866
Foreign exchange loss		**2,071**		4,224
Professional fees		**12,855**		5,318
Salaries and benefits		**26,979**		4,938
Change in estimates of provision for site restoration (note 15)		**(177)**		1,403
Other administrative expenses		**5,299**		1,096
		208,402		92,500
Finance expenses (income):				
Interest expense (note 17)		**82,484**		-
Interest income		**(11,098)**		(3,189)
Unwind of discount on decommissioning obligations (note 15)		**5,607**		2,809
Unwind of discount on provision for site restoration (note 15)		**157**		119
		77,150		(261)
Net income before income taxes		**30,520**		96,352
Income taxes (note 19):				
Current		**35,916**		31,062
Deferred		**(13,269)**		(2,635)
		22,647		28,427
Net income		**7,873**		67,925
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Currency translation adjustment		**12,977**		-
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit obligations (note 16)		**(2,219)**		-
Total Other comprehensive income		**10,758**		-
Comprehensive income	$	**18,631**	$	67,925

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)

		2018		2017
Share capital				
Balance, beginning and end of year	$	**1**	$	1
Contributed surplus				
Balance, beginning and end of year		**603,294**		603,294
Accumulated deficit				
Balance, beginning of year		**(163,775)**		(140,700)
Net income		**7,873**		67,925
Dividends		**(114,000)**		(91,000)
Balance, end of year		**(269,902)**		(163,775)
Accumulated other comprehensive income				
Balance, beginning of year		**-**		-
Other comprehensive income		**10,758**		-
Balance, end of year		**10,758**		-
Total shareholder's equity	$	**344,151**	$	439,520

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)

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income	$ 7,873	$ 67,925
Adjustments for:		
Depletion and depreciation	78,303	50,655
Income tax expense	22,647	28,427
Net change in defined benefits	3,545	(142)
Interest income	(11,098)	(3,189)
Unwind of discount on provisions	5,764	2,928
Change in provision for site restoration	(177)	1,403
Interest received	11,096	3,019
Provisions settled	(6,096)	(5,060)
Income taxes paid	(35,686)	(46,587)
	76,171	99,379
Change in non-cash working capital (note 22)	142,553	9,125
Total cash provided by operating activities	218,724	108,504
Financing activities:		
Proceeds from loan issuance	5,290,000	-
Dividends paid	(114,000)	(91,000)
Total cash provided (used) for financing activities	5,176,000	(91,000)
Investing activities:		
Acquisition, net of cash acquired (note 5)	(4,484,372)	-
Purchase of property, plant and equipment (note 22)	(211,068)	(23,183)
Sale (Purchase) of short-term investments	30,169	(29,999)
Purchase of restricted investments	(4,843)	-
Purchase of investments held for future obligations	(13,876)	(7,879)
Change in restricted cash	(542,901)	-
Total cash used in investing activities	(5,226,891)	(61,061)
Effects of FX translation on cash	667	-
Change in cash and cash equivalents	168,500	(43,557)
Cash and cash equivalents, beginning of year	176,357	219,914
Cash and cash equivalents, end of year	$ 344,857	$ 176,357

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018
(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

1. REPORTING ENTITY:

The Corporation is comprised of its parent, Canada Development Investment Corporation ("CDEV") and its wholly-owned subsidiaries: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), Canada TMP Finance Ltd. ("TMP Finance"), Trans Mountain Corporation ("TMC") and, Canada GEN Investment Corporation ("GEN").

Parent

Canada Development Investment Corporation ("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.

Subsidiaries

i. During the year, two new wholly-owned subsidiaries, Trans Mountain Corporation and Canada TMP Finance Ltd. were incorporated under the provisions of the *Canada Business Corporations Act*. The companies are subject to the *Financial Administration Act* and TMC is also subject to the *Income Tax Act*.

On August 31, 2018, TMC acquired entities from Kinder Morgan Cochin ULC that own and operate the Trans Mountain pipeline system ("TMPL"), the Puget Sound pipeline system ("Puget Sound") as well as certain rights, designs and construction contracts related to the expansion of the TMPL known as the Trans Mountain Expansion Project ("TMEP"). Details of the acquisition are in note 5.

TMPL has operated since 1953, and in its current configuration transports approximately 300,000 barrels per day of crude oil and refined petroleum from Edmonton, Alberta to Burnaby, British Columbia. Subject to the Government's approval and if completed as currently anticipated, the TMEP would increase the capacity of the TMPL to 890,000 barrels per day. The Puget Sound pipeline interconnects with TMPL at the international border near Sumas, British Columbia, and transports products to refineries in Washington State.

The National Energy Board ("NEB") regulates TMC's operations. The NEB exercises statutory authority over matters such as construction and operation of facilities, rates and ratemaking, and accounting practices for Canadian pipelines crossing a provincial or international border. Puget's operations are regulated by the United States Federal Energy Regulatory Commission ("FERC") and the US Department of Transportation Office of Pipeline Safety ("US DOT").

TMP Finance is the parent company of TMC. It also provides debt and equity financing to TMC funded by loans from Her Majesty in Right of Canada, administered by Export Development Canada ("EDC"). See note 17 for loan details.

ii. 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.

iii. 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 and the Hibernia Southern Extension Unit ("HSE Unit"), collectively known as the ("Hibernia Project"). The Hibernia Project is an oil development and production project located offshore Newfoundland and Labrador.

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 holds an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"), which operates the Hibernia Development Project.

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

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

iv. GEN was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act*. Until April 6, 2015, GEN held common shares of General Motors Company ("GM"). At December 31, 2017, GEN no longer held any investments in GM and had minimal activity. On June 29, 2018, in accordance with Governor in Council approval, GEN was dissolved pursuant to section 210(3) of the *Canada Business Corporations Act* and therefore ceased to be a wholly owned subsidiary of CDEV.

2. BASIS OF PREPARATION:

a) Statement of compliance:

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 6, 2019.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency:

Unless otherwise noted, amounts are presented in Canadian dollars, which is the functional currency of the Corporation's operations, except for Puget Sound which uses the U.S. dollar as its functional currency.

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 standards, issued by the International Accounting Standards Board ("IASB"), and set out in the CPA Canada Handbook, are effective for the first time in the current financial year and have been adopted effective January 1, 2018 in accordance with the applicable transitional provisions.

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 replaces the existing guidance in International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement* and as a result, the Corporation changed its accounting policy for financial instruments as detailed below. The Corporation has adopted IFRS 9 using the modified retrospective approach, whereby comparative figures are not restated and the cumulative effect of initially applying the standard, if any, is recognized in the opening retained earnings at January 1, 2018. Related amendments to IFRS 7, *Financial Instruments: Disclosures* have been applied simultaneously with IFRS 9. The adoption of IFRS 9 had no impact on the consolidated financial statements, other than additional disclosures set out below and in note 27.

i. Classification

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

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

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

The Corporation classifies its financial assets as at amortized cost if both of the following criteria are met: (i) the asset is held within a business model whose objective is to collect the contractual cash flows, and (ii) the contractual terms give rise to cash flows that are solely payments of principal and interest.

- The Corporation's financial assets, comprised of cash and cash equivalents, short-term investments, restricted cash and trade and other receivables have all been classified as measured at amortized cost.
- Investments held for future obligations that were previously classified and measured as FVTPL, are now classified and measured at amortized cost under IFRS 9. Despite this change in classification, there was no change to the carrying amount of the financial asset.
- Restricted investments are classified and measured at FVTPL under IFRS 9.
- Financial liabilities: There was no impact on the classification and measurement of the Corporation's financial liabilities, as the new requirements only affect financial liabilities that are designated at FVTPL and the Corporation does not have any such liabilities. The Corporation's financial liabilities, comprised of trade and other payables and loans payable, continue to be classified and measured at amortized cost using the effective interest method.

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

ii. Measurement

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

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

Financial Instrument	Original classification under IAS 39	New classification under IFRS 9 (1)
Financial assets:		
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Restricted cash	Held-to-maturity	Amortized cost
Investments held for future obligations	FVTPL	Amortized cost
Financial liabilities:		
Trade and other payables	Other financial liabilities	Amortized cost

(1) There were no adjustments to the carrying amounts of financial instruments on transition at January 1, 2018 as a result of the change in classification from IAS 39 to IFRS 9.

iii. Impairment of financial assets

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

IFRS 9 requires the Corporation to record expected credit losses on its financial assets measured at amortized cost, either on a 12-month or lifetime basis. For the Corporation's financial assets (which do not contain a significant financing component), a simplified approach is used, and the loss allowance is measured at the estimate of the lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. The Corporation uses a combination of historical, present and forward-looking information to determine the appropriate loss allowance provision. The Corporation does not have any financial assets that contain a financing component.

An earlier recognition of losses as a result of moving to the ECLs model did not impact the Corporation's estimated loss provision on trade and other receivables at January 1, 2018, due to the high credit quality of customers. While cash and cash equivalents, restricted cash and short-term investments, restricted investments and investments held for future obligations are also subject to the impairment requirements of IFRS 9, no impairment loss was identified due to the nature of underlying investments and cash balances. Therefore, no adjustment was required.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

a) Changes in accounting policies (continued):

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

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

The unit of account under IFRS 15 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods and services) or a series of distinct goods or services provided over a period of time. IFRS 15 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

The Corporation has adopted IFRS 15 using the modified retrospective approach whereby comparative figures are not restated and the cumulative effect of initially applying the standard, if any, is recognized in the opening retained earnings of fiscal 2018. The adoption of IFRS 15 had no impact on the Corporation's consolidated financial statements, other than additional disclosures as set out below and in notes 23 and 24. There were no changes to the recognition and measurement of the Corporation's revenue from contracts with customers.

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

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

b) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the parent and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by CDEV. CDEV 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.

c) Undivided working interests:

The Hibernia Project activities are conducted jointly with other parties, and the Corporation has determined this relationship to be one of undivided working interests. CHHC accounts for its undivided working interests by recognizing its proportionate share of the assets, liabilities, revenues and expenses of the Hibernia Project in its financial statements.

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.

CHHC has an 8.5% undivided working interest in the original Hibernia Project area and a 5.63% undivided working interest in the HSE Unit development, as described in note 1. CHHC records in its financial statements its proportionate share of the assets, liabilities, revenues and expenses of the Hibernia Project.

HMDC, the operator of the Hibernia Development Project, has been determined to be an associate. An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Because all assets, liabilities, revenues and expenses of the Hibernia Project are proportionately owned by the project's owners, HMDC holds no beneficial interest in the joint property and has nil assets, liabilities, revenues and expenses of its own. Accordingly, there are no amounts recognized in the Corporation's consolidated financial statements related to its equity ownership in HMDC.

d) Business combinations:

The acquisition method of accounting is used to account for business combinations. Net assets acquired and the liabilities assumed are recorded at fair value. Any excess of the purchase price over the fair value of the net assets acquired is recorded as goodwill. The operating results of the acquired business are reflected in the Corporation's consolidated financial statements after the acquisition date. Acquisition-related costs are expensed as incurred and included in professional fees.

e) Goodwill:

Goodwill is the excess of the consideration paid in excess of the net identifiable assets acquired and liabilities assumed. Goodwill is not amortised but it is tested for impairment annually, or if events or conditions indicate there is a risk of impairment, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing (see note 14 for details).

f) Cash and cash equivalents:

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

g) Restricted cash:

Cash and cash equivalents that are restricted as to withdrawal or usage are presented as restricted cash on the consolidated statement of financial position. Restricted cash consists of cash held as security for letters of credit. See note 9.

h) Investments held for future obligations:

The Corporation's investments held for future obligations are comprised of cash balances and short-term investments with original maturities of three months or less, and are held primarily for funding future decommissioning obligations. Although the nature of the underlying investments is short-term and highly liquid, the funds have been classified outside of cash and cash equivalents since they are not held for the purpose of meeting short-term cash commitments. There is no external restriction on the use of the investments.

i) Restricted Investments:

Restricted investments are long-term investments held in the Trans Mountain Pipeline Reclamation Trust (the "Trust") that is to be used to satisfy the NEB's directives on future abandonment costs. The assets of the Trust are consolidated by TMC. The NEB sets Land Matters Consultation Initiative ("LMCI") tolls to collect cash for investment in the Trust. The restricted assets are measured at fair value with offsetting adjustments recorded to deferred revenue.

j) 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 trade and other payables at fair market value. CHHC follows the first-in, first-out basis of accounting for inventories.

The cost of pipeline inventory which consists of materials and supplies held for TMC's own consumption, is determined using weighted-average cost. The inventories are periodically reviewed for physical deterioration and obsolescence.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k) Property, plant and equipment:

i. Recognition and measurement:

Items of property, plant and equipment, which include oil development and production assets, and oil pipeline 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 ("CGUs") for impairment testing. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components within the CGU. The Corporation has grouped its development and production assets into one CGU and oil pipeline assets into another CGU.

Property, plant and equipment is recorded at historical cost. Expenditures are capitalized for construction, expansion, major renewals and betterments. Maintenance and repair costs are expensed as incurred. Expenditures are capitalized for project development if they are expected to have future benefit.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant 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, plant and equipment are recognized as oil interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil interests represent costs incurred in developing proven and/or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

iii. Depletion and depreciation:

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

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

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

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

Depreciation on pipeline assets is on a straight-line basis over the useful life of the asset as follows:

	Useful Life in Years
Pipelines	30-64
Tanks and Station Equipment	5-45
Other	5-40

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.

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.

l) Leases:

A lease is classified at the inception date as a finance lease or an operating lease. 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 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.

Leases where the Corporation is the lessor and retains substantially all of the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognized as lease revenue in the consolidated statements comprehensive income.

m) Financial instruments:

(i) Recognition:

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.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition 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.

Financial assets are derecognised 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:

Financial instruments comprise financial assets (cash and cash equivalents, restricted cash and investments, investments held for future obligations and trade and other receivables) and financial liabilities (trade and other payables and loans payable).

For the comparative period prior to the adoption of IFRS 9 as described in note 3(a), financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs.

Subsequent to initial recognition, financial instruments are measured as described below:

Financial instruments at FVTPL:

An instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at 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 risk management or investment strategy. Upon initial recognition, all applicable transaction costs are recognized in profit or loss when incurred.

Financial instruments at FVTPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised in profit or loss. The Corporation designated its restricted investments as fair value through profit or loss.

Other financial instruments:

Other financial instruments, such as cash and cash equivalents, short-term investments, trade and other receivables and trade and other payables were measured at amortized cost using the effective interest method, less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

n) Impairment:

(i) Financial assets:

The Corporation recognises a loss allowance for expected credit losses on lease receivables, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Corporation recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Corporation's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Corporation recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Corporation measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

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.

Previous financial asset impairment under IAS 39

In the prior year, the Corporation assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset was 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. Individually significant financial assets were tested for impairment on an individual basis. The remaining financial assets were assessed collectively in groups that share similar credit risk characteristics. The impairment of trade receivables was based on the incurred loss model. An impairment loss in respect of a financial asset measured at amortized cost was 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.

(ii) Non-financial assets:

Goodwill

Goodwill is tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Other 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, assets are grouped 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 ("VIU") and its fair value less costs of disposal to sell ("FVLCD"). FVLCD is defined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

The Corporation calculates FVLCD for its oil CGU by reference to the after-tax cash future cash flows expected to be derived from production of proven and probable reserves, less estimated selling costs. The estimated after-tax future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For its pipeline CGU the recoverable amount is calculated using an income-based approach based on discounted cash flows under different expected scenarios for the development of its asset base.

In assessing VIU, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. VIU 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 in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For non-financial assets other than goodwill, 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.

o) 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 translated using exchange rates prevailing at the end of each reporting period. Non-monetary items which are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items that are measured at a revalued amount 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 unless they are from the consolidation of a foreign operation where foreign currency differences arising on translation are recognized in other comprehensive income.

p) 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 Corporation recognizes a decommissioning provision for dismantling, decommissioning and site disturbance remediation obligations related to the Hibernia Project and the pipeline system. The amount recognized is the present value of the estimated future expenditures to settle the present obligation, determined in accordance with local conditions and requirements.

Decommissioning costs are based on management's best estimates, considering current regulations and technology. The discount rate used in the calculation of the decommissioning provision is a risk-free rate based on the applicable time horizon of the underlying cash flows. When a provision for a decommissioning cost is recognized, a corresponding amount is recognized to increase the related property, plant and equipment and is subsequently depreciated as part of the costs of the property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p) Provisions and contingencies (continued):

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

Environmental expenditures are capitalized or expensed, as appropriate. Certain environmental expenditures required in obtaining rights-of-way, regulatory approvals or permitting as part of construction are capitalized. Environmental costs that relate to an existing condition caused by past operations, which do not contribute to current or future revenue generation are accrued and expensed. Generally environmental liabilities are not discounted to a net present value and are recorded as environmental liabilities when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, recording of these accruals coincides with completion of a feasibility study or commitment to a formal plan of action. Receivables are recognized for anticipated associated insurance recoveries when such recoveries are deemed to be virtually certain. Environmental liabilities assumed in a business combination are recorded at estimated fair value, where appropriate.

Reviews of potential environmental issues and claims that could impact the Corporation's assets or operations are routinely conducted. These reviews assist in identifying environmental issues and estimating the costs and timing of remediation efforts. Environmental liabilities are also routinely adjusted to reflect changes in previous estimates. In making environmental liability estimations, the material effect of environmental compliance, pending legal actions against the Corporation, and potential third-party liability claims are considered. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in income in the period in which they are reasonably determinable.

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.

q) Defined benefit obligation:

The defined benefit obligation includes pension and other post-employment benefits for employees and retirees of TMC and post-employment benefit obligations of CEI. For further details of these plans see note 16.

The Corporation's net obligation in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in Other Comprehensive Income ("OCI").

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

r) 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.

s) Revenue recognition:

Crude oil sales:

Nature of contracts with customers:

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

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

Revenue recognition:

Revenue is recognized when control of the crude oil is transferred to a customer, which is generally when title passes from CHHC to the customer, at contractual delivery points. Each sale represents one performance obligation, and CHHC normally satisfies its performance obligation upon delivery of crude oil, which occurs at a point in time. The crude oil is considered delivered upon loading to a vessel or alternatively upon reaching the customer's destination point, depending on the delivery terms. The delivery terms and title transfer location are stated in each contract.

Revenue is measured at the transaction price, which is the amount of consideration to which the Company expects to be entitled. The consideration specified in CHHC's contracts with customers includes a component of variable consideration. The variable consideration reflects floating sales prices based on benchmark crude oil prices at future dates, thus the transaction price is not known at the time the contract is signed.

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

CHHC presents net crude oil revenue after deducting marketing fees, royalties and net profits interest ("NPI"). Royalties and NPI are measured according to the terms of the various agreements and reflect the provincial and federal government's interests in Hibernia Project resources. Royalties and NPI are collected and remitted by CHHC on behalf of the governments. Accordingly, revenue is presented net of these amounts to appropriately reflect the economic benefits that flow to CHHC.

In the comparative period, revenue was similarly recognized when title passed to a customer at contractual loading or delivery points and was measured at the fair value of the consideration received or receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

s) Revenue recognition (continued):

Pipeline services:

Nature of contracts with customers:

TMC provides crude oil and refined petroleum transportation and storage services. The regulated tariffs for TMPL and Puget Sound are designed to provide revenues sufficient to recover the costs of providing transportation and storage services to shippers, including a return on invested capital. TMPL and Puget Sound are common carrier pipelines, generally providing services on a non-firm basis.

Non-firm, interruptible ("spot") transportation and storage services are provided on TMPL and the Puget Sound pipeline when and to the extent that it is determined capacity is available in these pipeline systems. The shippers typically pay a per-unit rate for actual quantities of product injected into/withdrawn from storage and/or transported.

TMC also leases space in storage tanks under long-term contracts. While the NEB does not economically regulate these tank leases like the transportation services, the lease rates are designed to recover the operating costs of the tanks and to provide a return on invested capital.

The customer service contracts primarily include transportation service contracts. Generally, for the majority of these contracts: (i) the promise is to transfer (or stand ready to transfer) a series of distinct integrated services over a period of time, which is a single performance obligation; (ii) the transaction price includes fixed and/or variable consideration, which amount is determinable at contract inception and/or at each month end based on the right to invoice at month end for the value of services provided to the customer that month; and (iii) the transaction price is recognized as revenue over the service period specified in the contract (which can be a day, including each day in a series of promised daily services, a month, a year, or other time increment, including a deficiency makeup period) as the services are rendered using a time-based (passage of time) or units-based (units of service transferred) method for measuring transfer of control of the services and progress towards satisfying the performance obligation, based on the nature of the promised service (e.g., firm or non-firm) and the terms and conditions of the contract (e.g., contracts with or without makeup rights).

Firm services (also called "uninterruptible services") are services that are promised to be available to the customer at all times during the period(s) covered by the contract, with limited exceptions. The firm service contracts are typically structured with take-or-pay or minimum volume provisions, which specify minimum service quantities a customer will pay for even if it chooses not to receive or use them in the specified service period. The transaction price is recognized as revenue in the specified service period as the promised units of services are transferred to the customer.

Non-firm services (also called "interruptible services") are the opposite of firm services in that such services are provided to a customer on an "as available" basis. Generally, there is no obligation to perform these services until a customer's periodic request for service is accepted. For the majority of the non-firm service contracts, the customer will pay only for the actual quantities of services it chooses to receive or use, and the transaction price is typically recognized as revenue as those units of service are transferred to the customer in the specified service period (typically a daily or monthly period).

Reclamation Trust surcharges collected from shippers are recorded as deferred revenue (see note 18). As the use of funds is restricted to pay future abandonment costs, the deferred surcharges collected are retained in the Trust as Restricted Cash and Restricted Investments and will be recognized as revenue when the funds in the Trust are used for future abandonment activities.

Firm 50 Contracts

The majority of TMC's transportation services are non-firm, however, in 2010 the NEB approved TMC to enter into 10-year, take-or-pay contracts with 5 shippers, allowing the shippers fixed capacity per day at a fixed premium per barrel in addition to the standard per-unit tariff rates. TMC typically promises to transport on a stand-ready basis the shipper's minimum volume commitment amount. The shipper is obligated to pay for the fixed premium amount, regardless of whether or not it flows quantities on the pipeline. Revenue related to these contracts is recognized in the period the service is provided. These contracts terminate on the earlier of a 10-year term or the in-service date of the TMEP.

t) Other liabilities:

Redirect fees

In some instances, shippers may redirect dock volumes to an alternative delivery point for a redirect fee. These fees do not result in revenue, because they are collected on behalf of the shippers merely as a means of organizing scheduling and are not compensation for providing services. Redirect fees collected are recorded as a liability at the time of collection as they are fully refundable to shippers in future periods through tariff reductions.

Dock Premiums

To facilitate the management of dock capacity on the Trans Mountain pipeline system, through NEB's directive the dock capacity is auctioned to the highest bidder each month. The funds collected through this process in a given year are to be returned to the shippers in the form of reduced tolls for service for all shippers. The amounts collected are recorded as a liability at the time of collection, and the liability is reduced in subsequent periods as toll surcredits are issued. The timing of such tariff reductions varies depending on the toll filing which is agreed with the shippers and approved annually by the NEB, but is generally one year or more.

u) Finance expenses and income:

Finance expenses comprise unwinding of the discount on decommissioning obligations and the provision for site restoration and interest expense on loans payable. Financing costs are capitalized, net of interest received on cash drawn down yet to be expended when they are directly attributable to the acquisition, contribution or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other financing costs are expensed in the period in which they are incurred and reported in finance expenses.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

v) 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 oil 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. The depletion and depreciation expenses for the current period are disclosed in note 11.

Pursuant to the Unit Agreement dated February 16, 2010, HSE unit interest ownership is subject to change as a result of revised tract factor allocations. These tract factors are subject to interim resets once oil production and water injection wells have been drilled and completed and sustained production has been established. All production adjustments from interim resets are prospective in nature. The agreement also has provisions for a first and a final redetermination of the HSE Unit working interests. These redeterminations call for adjustments of historical oil production to be settled on a prospective basis, as well as operating costs. Historical capital costs will be adjusted at the time of each reset and redetermination if a threshold level of adjustment is attained. The first and second interim resets occurred in 2015 and 2017, respectively, and there will be no further interim resets. The first and final redeterminations are expected to be complete in 2020 and 2023, respectively. Estimates of ultimate recovery of reserves and the impact of those estimates on eventual redetermination of tract factors are used to estimate CHHC's working interest reserves in the HSE Unit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

v) Use of estimates and judgments (continued):

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 a risk-free rate, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

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

In addition, the Corporation has recognized a provision for decommissioning obligations associated with future removal and site restoration costs of TMC's assets. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected pipeline abandonment cost and the expected timing of those costs. However, the actual timing and the nature and extent of abandonment activities that will ultimately be required to comply with regulations at the end of the pipelines' life in future is uncertain and these estimates may change significantly as new information becomes available. See note 15 for details of decommissioning obligations.

Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which TMC and CHHC operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Details related to the Income tax expense and the reconciliation of effective tax rate are disclosed in note 19.

Business combinations

Accounting for business combinations requires significant judgment, estimates and assumptions at the acquisition date. Management uses valuation techniques when determining the fair values of certain assets and liabilities acquired in a business combination. Estimates include consideration for factors such as future estimated cost of the TMEP expansion, prevalent market discount rate, timing of construction and future cash flows, and indicators of impairment. See note 5 for details of the TMC acquisition.

Impairment of Goodwill

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future discounted cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. The key assumptions used to determine the recoverable amount for the CGU including a sensitivity analysis, are disclosed in note 14.

Defined benefit obligation

The cost of the defined benefit obligation is determined using actuarial valuations which involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details about pension obligations are provided in note 16.

Critical judgments in applying accounting policies:

Undivided working interests

CHHC's Hibernia Project activities are conducted jointly with other parties. Judgment is involved in determining whether the Hibernia Project represents a joint arrangement pursuant to IFRS 11, *Joint Arrangements* ("IFRS 11"), which is an arrangement over which two or more parties involved have joint control.

CHHC has determined that the Hibernia Project arrangement is not jointly controlled, because unanimous consent is not required among all parties involved and no single group of parties has joint control over the relevant activities. Joint activities where control can be achieved through agreement between more than one combination of involved parties are considered to be outside the scope of IFRS 11. CHHC considers the Hibernia Project relationship as being one of "undivided working interests" rather than as a joint arrangement pursuant to IFRS 11. CHHC recognizes its proportionate share of the assets, liabilities, revenues and expenses of the Hibernia Project in its financial statements. Currently there are no differences in CHHC's accounting for undivided working interests whether classified as a joint arrangement in scope of IFRS 11 or not.

Revenue

The Corporation uses judgment in determining when control of crude oil transfers to a customer in a contract, its performance obligations in its contracts with customers, and the level of disaggregation of revenue for disclosure purposes.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE:

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

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

In January 2016, the IASB issued IFRS 16. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17 *Leases*. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Transition to IFRS 16

The Corporation plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach whereby the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to opening retained earnings at January 1, 2019, with no restatement of comparative information.

The Corporation plans to apply the practical expedient to grandfather the definition of a lease on transition and apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4. The Corporation will elect to use the exemptions on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Corporation has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During the year, the Corporation performed a detailed assessment of the impact of the new standard, including a review and analysis of its operating leases and other contracts. Since lease assets and liabilities must be recognized by the customer in the lease contract, CHHC also evaluated whether the working interest owners are jointly considered to be the customer in the various lease contracts applicable to Hibernia operations, or whether the Hibernia Project operator is the customer.

4. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE (CONTINUED):

On initial application of IFRS 16, for all leases (except as noted below), the Corporation will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, measured at the present value of the future lease payments (discounted using the Corporation's incremental borrowing rate);

b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*, replacing the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), a lease expense is recognised on a straight-line basis.

The Corporation has presently identified leases where it is a lessee and will be required to recognize right-of-use assets and lease liabilities including its office premises leases, and various leases entered into by the Hibernia Project where CHHC will recognize its proportionate working interest share. TMC is evaluating its leases which include its premises, vehicles and office equipment. The Corporation has identified certain low-value leases (mainly for office equipment) where recognition exemptions may be applied. The Corporation is currently in the process of evaluating the financial impact of IFRS 16 on its consolidated financial statements. No significant impact is expected for leases in which the Corporation is a lessor.

IFRIC 23, *Uncertainty Over Income Tax Treatments* ("IFRIC 23")

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

IAS 12, *Income Taxes* ("IAS 12")

Minor amendments to IAS 12 were issued in December 2017 to clarify that an entity must recognize all income tax consequences of dividends in profit or loss, other comprehensive income ("OCI") or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend. The amendment is effective for annual periods beginning on or after January 1, 2019. The Corporation has not determined what, if any, impact the amendment will have on its consolidated financial statements.

5. ACQUISITION OF SUBSIDIARY:

On August 31, 2018, in culmination of an agreement executed on May 29, 2018 between Her Majesty in Right of Canada and Kinder Morgan, Trans Mountain Corporation ("TMC") acquired 100 percent ownership of certain entities held by Kinder Morgan Cochin ULC, including the Trans Mountain pipeline system and related expansion project, for cash consideration of $4.4 billion, after customary purchase price adjustments as provided in the purchase agreement. Acquisition costs related to the transaction of $5 million were expensed and are included in professional fees.

During the fourth quarter, goodwill decreased by $80 million due to the finalization of the fair value measurements on the net assets acquired and finalization of the purchase price including a working capital adjustment. The deferred income tax liability decreased by $49 million, primarily due to finalization of the fair value allocation amongst the components of property, plant, and equipment. The fair values of the assets and liabilities recognized are estimates and are subject to change within the measurement period, which is up to one year following the Acquisition date.

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The transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value. The consideration has been allocated as follows:

$ Millions		
Purchase price		
Cash consideration, net of cash acquired and debt assumed	$	4,447
Total purchase price		4,447
Identified net assets acquired at fair value:		
Accounts receivable		76
Other current assets		23
Property, plant and equipment (excluding construction in progress)		2,910
Construction in progress		1,130
Other non-current assets		91
Land		309
Accounts payable		(91)
Other current liabilities		(110)
Retirement and post-employment benefits		(70)
Other deferred credits		(44)
Decommissioning obligations		(219)
Deferred tax liability		(574)
Identifiable net assets acquired		3,431
Goodwill (note 14)		1,016
Total purchase consideration, net of cash acquired and debt assumed	$	4,447

The purchase price allocation above reflects management's estimate of the fair value of the assets and liabilities as at August 31, 2018.

Goodwill arising from the acquisition amounting to $442 million relates to expected economic benefits associated with the completion of the Trans Mountain Expansion Project ("TMEP"), including the direct economic benefits that the completion of the TMEP creates for the existing pipeline system, and the assumption of a decommissioning obligation. The balance of the goodwill recorded of $574 million primarily relates to a deferred income tax liability which is recorded on acquisition on an undiscounted basis rather than its fair value. The deferred income tax liability arose as the tax bases of the net assets acquired were lower than their fair values. The goodwill is not expected to be deductible for tax purposes. At the date of acquisition, the present value of the obligations was calculated using a credit-adjusted risk-free rate, calculated using a credit spread of 0.50% added to a risk-free rate of 2.25%. The decommissioning obligations associated with the acquired properties are subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in decommissioning obligations and property, plant and equipment (see note 11 and 15).

The Corporation acquired the TMC entities on the basis that a significant part of the purpose is to build TMEP and $1.2 billion of related construction in progress and a portion of allocated goodwill accrue to the purchase price. There is risk surrounding the completion of TMEP as the Federal Court of Appeal has halted construction and directed the NEB to conduct additional hearings, and the Government to conduct additional consultations with Indigenous people affected by TMEP. There is uncertainty as to when permission may be granted to continue construction. In addition, the construction of TMEP when resumed will be faced with difficult terrain, risks of cost overruns and the potential for additional legal challenges or other impediments to construction.

5. ACQUISITION OF SUBSIDIARY (CONTINUED):

Fair value for the pipeline assets on acquisition was determined using a discounted cash flow model using a scenario approach and discount rate to incorporate the risks TMC is exposed to as an oil pipeline operator including operating risks, environmental risks, security risks and risks noted in relation to timing of project approval and potential delays in construction.

The acquired TMC entities contributed $129 million in revenues and $48 million in operating income (defined as revenue less expenses other than depreciation) from September 1, 2018 to December 31, 2018. If the acquisition date had been on January 1, 2018, management estimates that consolidated revenue would have been $287 million higher, and operating income would have been $164 million higher for the year ended December 31, 2018. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2018. Pro forma information is provided for informational purposes only and does not necessarily reflect the actual results that would have occurred, nor is it indicative of future results of operations.

6. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:

a) Cash and cash equivalents:

Cash comprises bank balances. Cash equivalents include short-term highly liquid investments including banker's acceptances and GICs. Interest revenue arising on cash and cash equivalents was earned at interest rates ranging from 0.75% to 2.50% for 2018 (2017 - 0.3% to 1.6%). The details are as follows:

		2018		2017
Bank balances	**$**	**251,306**	$	43,224
Cash equivalents		**93,551**		133,133
Cash and cash equivalents	**$**	**344,857**	$	176,357

b) Short-term investments:

As at December 31, 2018, the Corporation did not have any short-term investments. In 2017, the balance of $30,169 was comprised of highly liquid deposit notes bearing yields of 1.4% which matured on July 12, 2018.

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7. INVESTMENTS HELD FOR FUTURE OBLIGATIONS:

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

		2018		2017
CRF balance, beginning of year	$	**115,685**	$	119,996
Allocated interest		**1,394**		689
Withdrawals		**-**		(5,000)
CRF balance, end of year	$	**117,079**	$	115,685
Short-term investments	$	**36,672**	$	24,190
	$	**153,751**	$	139,875

		2018		2017
Represented by:				
Current portion	$	**2,518**	$	3,272
Non-current portion		**151,233**		136,603
	$	**153,751**	$	139,875

At December 31, 2018, the balance of investments 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 $17,034 held for CEI and $100,045 held for CHHC (2017 - $16,830 and $98,855 respectively) and short-term investments of $36,672 held by CHHC (2017 - $24,190).

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

CHHC has deposited cash in the CRF and in short-term investments to provide for future abandonment of the Hibernia facility and to provide for security against future risks. CHHC has reduced a portion of its third party insurance coverage as a result of the risk fund. The short-term investments are comprised of term deposits of three months or less and earned interest income at interest rates ranging from 1.58% to 2.50% during the year (2017 – 1.11% to 1.65%).

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 1.20% during the year (2017 - 0.59%). The interest is retained in the CRF. Access to these funds is unrestricted.

8. OTHER CURRENT ASSETS:

		December 31, 2018		December 31, 2017
Prepaid expenses	$	**5,676**	$	260
Inventory				
Crude oil		**3,797**		4,254
Pipeline – spare parts		**6,048**		-
Other		**3,222**		-
	$	**18,743**	$	4,514

Depletion expense of $633 was included in crude oil inventories during the period (2017- ($1,445)).

9. RESTRICTED CASH:

		2018		2017
Restricted cash – NEB letter of credit	$	**500,000**	$	-
Restricted cash – TMC held for future abandonment costs		**683**		-
Restricted cash – TMC letters of credit		**48,160**		-
Restricted cash – CHHC letters of credit		**8,500**		14,227
	$	**557,343**	$	14,227
Represented by:				
Current portion	$	**500,683**	$	-
Non-current portion		**56,660**		14,227
	$	**557,343**	$	14,227

The current portion of restricted cash balance includes $500 million to backstop for 12 months a $500 million letter of credit issued to Kinder Morgan Inc. that secures the $500 million line of credit issued to Trans Mountain Pipeline ULC to satisfy the financial resources requirements specified by the NEB. Restricted cash of $0.7 million consists of cash in the Trust that is to be used to satisfy future abandonment costs.

The long-term portion of restricted cash balance includes $8.5 million and $48 million used to collateralize letters of credit associated with the Hibernia Project and TMC, respectively.

In the granting of operations and drilling authorizations associated with Hibernia Project, the C-NLOPB requires evidence of financial responsibility pursuant to the *Energy Safety and Security Act*. To comply with this legislation, CHHC has provided a letter of credit to the C-NLOPB of $8,500 (2017 - $14,227), representing its proportionate share of the evidence required by the Hibernia Project as at December 31, 2018. 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 letter of credit is scheduled to expire in April 2020.

TMC holds a $26 million letter of credit to support the defined benefit plan and the remaining letters of credit are related to utilities and government authorities.

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10. RESTRICTED INVESTMENTS:

Restricted investments of $54.8 million held at TMC are long-term investments in Canadian government and Federal agency bonds held in trust. The restricted long-term investments by the Trust are to be used solely for the purposes of satisfying future abandonment costs under the NEB's directives. The interest is retained in the Trust and the Corporation does not have access to it until it performs approved abandonment activities.

11. PROPERTY, PLANT AND EQUIPMENT:

	Construction work in progress	Pipeline	Oil development assets and production facilities	Total
Cost				
Balance at December 31, 2016	$ -	$ -	$ 484,127	$ 484,127
Additions for the year	-	-	24,233	24,233
Decommissioning adjustments	-	-	4,304	4,304
Balance at December 31, 2017	$ -	$ -	$ 512,664	$ 512,664
Acquisition	1,130,070	3,219,174	-	4,349,244
Additions for the period	178,373	-	20,747	199,120
Transfers	(31,087)	31,087	-	-
Decommissioning adjustments	-	164,123	9,376	173,499
Balance at December 31, 2018	$ 1,277,356	$ 3,414,384	$ 542,787	$ 5,234,527
Accumulated depletion and depreciation				
Balance at December 31, 2016	$ -	$ -	$ 263,009	$ 263,009
Depletion and depreciation	-	-	52,100	52,100
Balance at December 31, 2017	$ -	$ -	$ 315,109	$ 315,109
Depletion and depreciation	-	34,468	43,202	77,670
Balance at December 31, 2018	$ -	$ 34,468	$ 358,311	$ 392,779
Impact of foreign currency	-	12,873	-	12,873
Carrying amounts:				
At December 31, 2017	$ -	-	$ 197,555	$ 197,555
At December 31, 2018	$ 1,277,356	$ 3,392,789	$ 184,476	$ 4,854,621

At December 31, 2018, costs subject to the calculations of depletion and depreciation – oil included future development costs of $571,000 (2017 - $491,000). Oil development assets and production facilities include $123,022 at December 31, 2018 (2017 - $113,647) of capitalized costs relating to decommissioning obligations, which will be depreciated over the life of the asset.

At December 31, 2017 and 2018, an assessment of indicators of impairment was conducted for the Corporation's CGUs. No indicators were noted and accordingly an impairment test was not required.

During the year ended December 31, 2018 capitalized interest of $1,043 was included in the cost of property, plant and equipment – pipeline (2017- nil).

12. OTHER ASSETS:

	December 31, 2018	December 31, 2017
Prepaid construction advances	**$ 18,893**	$ -
Payments to be recovered through tolls	**24,567**	-
Other	**2,868**	-
	$ 46,328	$ -

Payments to be recovered through tolls includes $24,567 relating to the Bulk Oil Cargo Fee ("BOCF") which provides the Western Canada Marine Response Corporation ("WCMRC") with funds for spill response and is collected from shippers based on volume of commodities moved through WCMRC's marine response area. BOCF related to TMEP is to be recovered from shippers after TMEP in-service. The BOCF is recorded in Other current assets to the extent the amount paid to WCMRC exceeds the amount collected from shippers or in Other current liabilities to the extent that the amount collected from shippers exceeds the BOCF payable.

13. OTHER CURRENT LIABILITIES:

	December 31, 2018	December 31, 2017
Dock premiums	**$ 95,338**	$ -
Environmental accrual	**4,018**	-
Defined benefit obligation (note 16)	**476**	200
Other	**9,178**	-
	$ 109,010	$ 200

Please see note 3(t) for a description of Dock premiums.

14. GOODWILL:

a) The movements in the net carrying amount of goodwill are as follows:

Balance at January 1, 2018	$ -
Acquired through business combination	1,015,862
Effect of foreign exchange	720
Balance at December 31, 2018	$ 1,016,582

b) Impairment test:

For the purposes of impairment testing, goodwill has been allocated to TMC's CGU.

The recoverable amount of this CGU was based on the fair value of the reporting unit which was estimated using the expected cash flows. The estimate of fair value required the use of significant unobservable inputs representative of a Level 3 fair value measurement, including assumptions related to timing of TMEP project approval and potential delays in construction timing.

A goodwill impairment test was performed as of December 31, 2018 and did not result in an impairment charge. The recoverable amount or valuation of the reporting unit was estimated using an income-based approach based on the discounted cash flows. The estimate of fair value required the use of significant unobservable inputs representative of a Level 3 fair value measurement, including assumptions related to timing of TMEP project approval and potential delays in construction timing, discount rate, and changes in cost estimates. The estimate of discounted cash flows was determined using a discount rate of approximately 9% which reflects the time value of money based on the risks associated with the Corporation's assets that have not otherwise been incorporated in the cash flow estimates. The estimate of discounted cash flows also considered probability-weighted scenarios of various in-service dates for the TMEP ranging from 2023 to 2026, including potential scenarios where TMEP would not be put in service due to construction not being completed.

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Sensitivity analysis:

Changes in these key assumptions would impact the fair value of the reporting unit TMC and could result in impairment:

Impact on expected discounted cash flows of TMC:	Increase	Decrease
Discount rate change of 0.25%	($360 million)	+$440 million
10% Change in TMEP capital expenditures	($235 million)	
One-year delay in construction and operation of TMEP	($300 million)	

15. PROVISIONS:

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

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

	Decommissioning Obligations			
	Pipeline	Wells & Facilities	Total	Site restoration
Balance at December 31, 2017	$ -	$ 133,398	$ 133,398	$ 12,080
Additional provisions/acquisition	219,318	-	219,318	-
Additional provisions	-	-	-	835
Changes in estimates	-	6,287	6,287	(966)
Obligations settled	-	(4,174)	(4,174)	(1,922)
Changes in discount rate- acquisition (1)	138,475	-	138,475	-
Changes in discount rate	25,649	3,089	28,738	(46)
Effect of foreign exchange	1,492	-	1,492	-
Unwind of discount	2,676	2,931	5,607	157
Balance at December 31, 2018	$ 387,610	$ 141,531	529,141	$ 10,138
Current	$ -	$ 3,141	3,141	2,329
Non-current	387,610	138,390	526,000	7,809
Provisions at December 31, 2018	$ 387,610	$ 141,531	$ 529,141	$ 10,138

(1) Decommissioning obligations acquired as part of a business combination are initially measured at fair value using a credit adjusted risk-free rate to discount estimated future cash outflows. The revaluation of obligations acquired using the risk-free rate following acquisition results in an increase in the present value of the obligation reported in the consolidated balance sheet.

Sensitivity Analysis:

Changes to the discount rate or the inflation rate would have the following impact on the provision for decommissioning obligations of the Corporation at December 31, 2018:

	One percent increase	One percent decrease
Discount rate	$ (278,735)	$ 702,933
Inflation rate	$ 717,968	$ (283,990)

15. PROVISIONS (CONTINUED):

a) Provision for decommissioning obligations of wells and facilities:

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 $291,928 at December 31, 2018 (2017 - $268,401). 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, 2018 using an inflation rate of 2.00% (2017 - 2.00%) and was discounted using an average risk-free rate of 2.15% (2017 – 2.16%).

b) Provision for decommissioning obligations of pipeline:

The provision for decommissioning obligations for the pipeline properties is based on management's estimate of costs to abandon which is estimated to be $387,610 at December 31, 2018 (2017 - nil) discounted at a risk-free rate of 2.18%. The undiscounted decommissioning liability is estimated to be $3.3 billion, with an inflation rate of 2.0% and an expected remaining useful life of 100 years.

The decommissioning provision reflects the discounted cash flows expected to be incurred to decommission TMC's pipeline system. The estimated economic life of assets covered by the decommissioning is estimated at 100 years. The estimated economic life is used to determine the undiscounted cash flows at the time of decommissioning and is reflective of the expected timing of economic outflows relating to the provision.

c) 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 (2017 – 2023). The future estimate of costs for site restoration has been discounted at a rate of 1.88% (2017 – 1.73%) and an inflation rate of 2.0% (2017 – 2.0%) was used to calculate the provision at December 31, 2018. The current estimate for costs and the amount accrued as at December 31, 2018 is $10,138 (2017 - $12,080).

16. DEFINED BENEFIT OBLIGATION:

	December 31, 2018	December 31, 2017
TMC (see detailed schedule below):		
- Pension plan	$ **59,598**	$ -
- Other post-employment benefits	**17,623**	-
CEI retiree benefits	**1,645**	1,727
Net defined benefit obligation	$ **78,866**	$ 1,727
Current [(a)]	$ **476**	$ 200
Non-current [(b)]	**78,390**	1,527
Net defined benefit obligation	$ **78,866**	$ 1,727

(a) Amounts included in Other current liabilities on the consolidated balance sheet (see note 13).
(b) Amounts included in Retirement and post-employment benefits on the consolidated balance sheet.

Trans Mountain Canada Inc. ("TMCI"), a subsidiary of TMC, sponsors pension plans covering eligible Canadian employees and retirees (the Legacy and TMCI plans). Legacy plans are closed to new participants. The plans include registered defined benefit pension plans (the Legacy plan includes a defined contribution component and is included in the following disclosures), and supplemental unfunded arrangements (which provide pension benefits in excess of *Income Tax Act* limits). Post-employment benefits other than pension are also provided for qualified retired employees.

Retirement benefits under the defined benefit plans are based on employees' years of credited service and pensionable earnings. Contributions for the defined benefit component of the plans are based on independent actuarial valuations. The most recent actuarial valuation for the defined benefit pension plans for funding purposes was completed as of December 31, 2018. Contributions for the defined contribution component of the Legacy plan were based on pensionable earnings.

Certain employees are eligible to receive supplemental benefits under the defined benefit plans. The supplemental plans provide pension benefits in excess of *Income Tax Act* limits, but consistent with the plan formula. The TMCI supplemental plan is unfunded and the Legacy supplemental plan is secured by a letter of credit.

Other post-employment benefits ("OPEB") are provided to current and future retirees and their dependents, including depending on circumstance, supplemental health, dental and life insurance coverage. Medical benefits under those OPEB plans may be subject to deductibles, co-payment provisions, dollar caps and other limitations on the amount of employer costs, and the Corporation reserves the right to change these benefits. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determination, considering, among other factors, health care cost escalation. The most recent actuarial valuation for accounting purposes was completed as of December 31, 2018.

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for defined benefit obligations related to certain retirees. These benefits include life insurance and health and dental benefits.

16. DEFINED BENEFIT OBLIGATION (CONTINUED):

Benefit Obligation, Plan Assets, and Funded Status

The following table provides information about TMC's pension and OPEB plans at December 31, 2018:

(In thousands of Canadian dollars)	Pension	OPEB	TOTAL
Change in defined benefit obligation			
Defined benefit obligation at end of prior year			
Benefit obligation from Acquisition	256,380	18,122	
Current service cost	2,516	141	
Past service cost	2,544		
Interest expense	2,937	206	
Benefit payments from plan assets	(2,715)		
Benefit payments from employer	(408)	(275)	
Participant contributions	790		
Effect of changes in demographic assumptions		(158)	
Effect of changes in financial assumptions	(4,620)	(413)	
Defined benefit obligation at December 31, 2018	**257,424**	**17,623**	**275,047**
Change in plan assets			
Fair value of plan assets at end of prior year			
Increase due to acquisition	208,070		
Interest income	2,377		
Return on plan assets (excluding interest income)	(8,527)		
Employer contributions	2,791		
Employer direct benefit payments	408	275	
Participant contributions	790		
Benefit payments from plan assets	(2,715)		
Benefit payments from employer	(408)	(275)	
Administrative expenses paid	(231)		
Fair value of plan assets at December 31, 2018	**202,555**		**202,555**
Change in asset ceiling			
Asset ceiling at acquisition date	4,991		
Interest expense	56		
Remeasurements:			
Change in asset ceiling (excluding interest)	(318)		
Asset ceiling at December 31, 2018	**4,729**		**4,729**
Funded status reflected in the statement of financial position:			
Defined benefit obligation	257,424		
Fair value of pension plan assets	202,555		
Funded status	54,869	17,623	72,492
Effect of the asset ceiling from remeasurement	4,729		4,729
Net defined benefit liability at December 31, 2018	**59,598**	**17,623**	**77,221**
Presented as follows:			
Current benefit liability TMC [(a)]	326		
Non-current benefit liability TMC [(b)]	59,272	17,623	
Net defined benefit liability - TMC	**59,598**	**17,623**	**77,221**

(a) Amounts included in Other current liabilities on the consolidated balance sheet.
(b) Amounts included in Defined benefit obligation on the consolidated balance sheet.

The components of defined benefits cost recognized in net income and other comprehensive loss related to the pension and OPEB plans are as follows:

(In thousands of Canadian dollars)	Pension	OPEB
Components of defined benefit cost:		
Service cost		
Current service cost	2,516	141
Past service cost	2,544	-
Total service cost	5,060	141
Net interest cost		
Interest expense on DBO	2,937	206
Interest (income) on plan assets	(2,377)	-
Interest expense of effect of asset ceiling	56	-
Total net interest cost	616	206
Administrative expenses and/or taxes (not reserved within DBO)	207	-
Defined benefit cost included in net income	**5,883**	**347**
Remeasurements (recognized in OCI)		
Effect of changes in demographic assumptions	-	(158)
Effect of changes in financial assumptions	(4,620)	(413)
(Return) on plan assets (excluding interest income)	8,551	-
Changes in asset ceiling (excluding interest income)	(318)	-
Total remeasurements included in OCI	**3,613**	**(571)**
Total defined benefit cost	**9,496**	**(224)**
Net defined benefit liability reconciliation		
1. Net defined benefit liability	**-**	**-**
2. Defined benefit cost included in P&L	5,883	347
3. Total remeasurements included in OCI	3,613	(571)
4. Net transfer in/(out) from business combination, and effect of asset ceiling	53,301	18,122
5. Cash flows		
a. Employer contributions		
b. Employer direct benefit payments	(2,791)	(275)
c. Employer direct settlement payments	(408)	
Net defined benefit liability (asset) as of end of year	**59,598**	**17,623**
Defined benefit obligation by participant status - OPEB		
Actives		6,654
Retirees		10,969
Total		**17,623**

16. DEFINED BENEFIT OBLIGATION (CONTINUED):

Plan Assets

The investment policies and strategies for the assets of the pension plans are established by the Pension Committee (the “Committee”), which is responsible for investment decisions and management oversight of the plans. The stated philosophy of the Committee is to manage these assets in a manner consistent with the purpose for which the plans were established and the time frame over which the plans’ obligations need to be met. The objectives of the investment management program are to (i) meet or exceed plan actuarial earnings assumptions over the long term and (ii) provide a reasonable return on assets within established risk tolerance guidelines and to maintain the liquidity needs of the plans with the goal of paying benefit and expense obligations when due. In seeking to meet these objectives, the Committee recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. In order to reduce portfolio risk and volatility, the Committee has adopted a strategy of using multiple asset classes.

As of December 31, 2018, the target asset allocation for the Legacy plans was 90% fixed income and 10% equity. The target allocation for the TMCI plans were 45% fixed income and 55% equity.

Below are the details of the pension plan assets by class and a description of the valuation methodologies used for assets measured at fair value.

- Level 1 assets’ fair values are based on quoted market prices for the instruments in actively traded markets. Included in this level are cash and exchange traded mutual funds. These investments are valued at the closing price reported on the active market on which the individual securities are traded.

Listed below are the fair values of the pension plans’ assets that are recorded at fair value by class and categorized by fair value measurement as at December 31, 2018:

(In thousands of Canadian dollars)	Pension Assets
Measured within Level 1 of fair value hierarchy	
Cash	5,468
Mutual funds [a]	197,087
	202,555

(a) Mutual funds were invested in 70% fixed income and 30% equity in the period from incorporation on May 28, 2018 to December 31, 2018.

Plan Assets by Asset Category:	
Domestic Equity	12%
International Equity	15%
Domestic Fixed Income	72%
Other	1%
Total	100%

Includes assets for the TMCI RPP and Legacy RPP and excludes assets for the Legacy SPP which is not invested.

Expected Payment of Future Benefits and Employer Contributions

Following are the expected future benefit payments as of December 31, 2018:

(In thousands of Canadian dollars)	Pension	OPEB
Expected employer contributions	9,967	823
Expected total benefit payments		
2019	9,893	823
2020	10,244	847
2021	10,639	865
2022	10,996	880
2023	11,383	897
2024-2028	61,327	4,744

Significant actuarial assumptions

Benefit obligations and net benefit cost are based on actuarial estimates and assumptions. The following table details the weighted-average actuarial assumptions used in determining TMC's benefit obligation and net benefit costs of the pension and OPEB plans as at December 31, 2018:

	Pension	OPEB
Assumptions related to defined benefit obligations:		
Effective discount rate	3.81%	3.82%
Duration	16.48	
Immediate health care cost trend rate		4.96%
Ultimate health care cost trend rate		4.00%
Year rate reaches ultimate trend rate		2040
Assumptions related to benefit costs:		
Discount rate for benefit obligations	3.69%	3.69%
Effective rate for net interest cost	3.51%	3.44%
Discount rate for service cost	3.76%	3.79%
Effective rate for interest on service cost	3.64%	3.76%
Immediate health care cost trend rate		5.55%
Ultimate health care cost trend rate		4.50%
Year rate reaches ultimate trend rate		2035

Sensitivity analysis

Actuarial estimates for the OPEB plan assumed a weighted-average annual rate of increase in the per capita cost of covered health care benefits of 5.56%, gradually decreasing to 4.50% by the year 2035. Assumed health care cost trends have a significant effect on the amounts reported for OPEB plans. A sensitivity analysis was performed for significant assumptions. A one-percentage point change in assumed rates would have the following effects as at December 31, 2018:

(In thousands of Canadian dollars)	OPEB	
Present value of defined benefit obligation	One percent increase	One percent decrease
Health care cost trend rate		
i. Effect on total service cost and interest cost components	50	(37)
ii. Effect on benefit obligation	1,210	(968)
iii. Effect on net benefit periodic cost	50	(37)
Discount rate		
i. Effect on benefit obligation	(2,208)	2,786
ii. Effect on net benefit periodic cost	12	(2)

A sensitivity analysis of the most material assumptions for the Pension plan are as follows:

(In thousands of Canadian dollars)	Pension	
Present value of defined benefit obligation	One percent increase	One percent decrease
Salary scale	266,912	248,856
Discount rate	223,961	299,850

17. LOAN PAYABLE:

On August 29, 2018, TMP Finance entered into three Credit Agreements with Her Majesty in Right of Canada. The facilities are part of the Canada Account of the Government of Canada, administered by EDC.

The purpose of the Acquisition and Construction facilities are to fund the acquisition of the Trans Mountain Pipeline entities and to finance the construction of the TMEP. The available credit on the acquisition facility expires on January 31, 2019. The NEB Facility allows TMP Finance to borrow funds for the purpose of providing financial assurance for the Trans Mountain Pipeline as required by the NEB.

The loans are due on the respective maturity dates and may be repaid early without premium or penalty subject to certain conditions.

Details of the facilities at December 31, 2018 are as follows:

Facility	Total Available Credit	Outstanding Amounts	Interest Rate Disbursed amounts	Standby Fee Undisbursed amounts	Maturity Date
Acquisition	$ 5,000,000	$ 4,670,000	4.7%	0.065%	August 29, 2023
Construction	$ 1,000,000	$ 120,000	4.7%	0.065%	August 29, 2019
NEB	$ 500,000	$ 500,000	4.7%	0.30%	August 29, 2023
		$ 5,290,000			
Current portion		$ 120,000			
Non-current portion		$ 5,170,000			

Total interest expense is comprised of the following:

	December 31, 2018	December 31, 2017
Interest on Loan payables	**$ 83,180**	$ -
Interest capitalized	**(1,043)**	-
Standby fees	**347**	-
	$ 82,484	$ -

18. OTHER NON-CURRENT LIABILITIES:

	December 31, 2018	December 31, 2017
Dock premiums	**$ 156,309**	$ -
Deferred revenue	**12,961**	-
Environmental liabilities	**2,633**	-
	$ 171,903	$ -

Deferred revenue is mainly comprised of approximately $7 million (2017 – nil) of capital improvements paid for in advance by certain customers which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contract as well as $6 million (2017 – nil) paid by customers related to the Trust which will be recognized as revenue when the funds in the Trust are used for future abandonment activities.

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

19. INCOME TAXES:

CHHC is subject to income tax in Canada. TMC is subject to income tax in Canada and one of its subsidiaries is subject to tax in the United States. CDEV, CEI and TMP Finance are not subject to income tax in Canada.

a) Income tax expense:

The components of income tax expense are as follows:

		2018		2017
Current tax expense				
Current period	$	35,916	$	31,315
Adjustment related to prior periods		-		(28)
Investment tax credits		-		(225)
		35,916		31,062
Deferred tax recovery				
Origination and reversal of temporary differences		(13,473)		(1,103)
Adjustment related to prior periods		411		(1,422)
Changes in tax rates applied to temporary differences		(207)		(110)
		(13,269)		(2,635)
Total income tax expense	$	22,647	$	28,427

b) Reconciliation of effective tax rate:

The statutory combined federal and provincial income tax rates applicable to TMC was 27% in 2018. The statutory combined federal and provincial tax rate applicable to CHHC decreased modestly to 29.19% in 2018 from 29.28% in 2017. The blended statutory rate in 2018 was 28.63%.

		2018		2017
Net profit for the year (see note 30)	$	7,873	$	67,925
Total income tax expense		22,647		28,427
Profit (Loss) before income taxes	$	30,520	$	96,352
Income tax using CDEVs blended federal and provincial Canadian tax rate of 28.63% (2017 - 29.28%)		8,736		28,211
Expenses of non-taxable entities		11,974		1,931
Non-deductible expenses and other		441		292
Investment tax credits		-		(249)
(Over) under provided in prior periods		411		(1,713)
Rate differences and other		1,085		(45)
	$	22,647	$	28,427

19. INCOME TAXES (CONTINUED):

Unrecognized deferred tax assets (liabilities):

At December 31, 2018, TMC has no unrecognized deferred tax assets. At December 31, 2018, CHHC has not recognized the tax benefit in respect of investment tax credits, net of tax on utilization, associated with experimental development claims for the 2006 taxation year. The claim for investment tax credits is under dispute with the Canada Revenue Agency and management has determined that the recovery of these credits is uncertain. Unrecognized tax assets totaled $1,384 at December 31, 2018 and 2017.

Recognized deferred tax assets (liabilities):

Upon acquisition of TMC, a deferred tax liability of $574 million was recorded (see note 5).

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 Liability	Non-Capital Losses	Total
At December 31, 2017	(569)	(22,863)	39,447	86	-	16,101
Credited/(charged) to the statement of comprehensive income	611	(53,067)	46,012	1,020	18,694	13,270
Credited/(charged) on business combination	-	(640,373)	45,604	20,498	634	(573,637)
Credited/(charged) to the statement Other Comprehensive Income	-	-	-	821	-	821
Credited/(charged) to CTA		(37)	253	(2)	-	214
At December 31, 2018	42	(716,340)	131,316	22,423	19,328	(543, 231)
Deferred tax asset - CHHC						**17,735**
Deferred income taxes - TMC						**(560,966)**

Expiration Periods for Deferred Tax Assets: As of December 31, 2018, there were non-capital loss carry forwards of $71.6 million, which will start to expire in 2037.

20. TRADE AND OTHER PAYABLES:

		2018		2017
Trade payables and accrued liabilities	$	81,003	$	12,102
Property, plant and equipment accrued liabilities		52,517		4,074
		133,520		16,176

Information about the Corporation's exposure to currency and liquidity risks is included in note 27.

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

21. SHARE CAPITAL AND CONTRIBUTED SURPLUS:

		2018		2017
Share Capital:				
Authorized – unlimited number of common shares				
Issued and fully paid – 101 common shares (2017 – 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.

22. SUPPLEMENTAL CASH FLOW DISCLOSURE:

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

		2018		2017
Trade and other receivables	$	**(23,364)**	$	21,574
Inventory		**(176)**		(358)
Other current assets		**8,243**		35
Deferred charges and other assets		**(4,639)**		-
Trade and other payables		**24,381**		(11,076)
Other current liabilities		**(1,068)**		-
Other deferred credits		**127,228**		-
Change in non-cash working capital items	$	**130,605**	$	10,175
Relating to:				
Operating activities	$	**142,553**	$	9,125
Investing activities		**(11,948)**		1,050
Change in non-cash working capital items	$	**130,605**	$	10,175

Property, plant and equipment expenditures comprise the following:

		2018		2017
Property, plant and equipment additions (note 11)	$	**(199,120)**	$	(24,233)
Change in non-cash investing working capital		**(11,948)**		1,050
Cash used for property, plant and equipment expenditures	$	**(211,068)**	$	(23,183)

23. NET CRUDE OIL REVENUE AND PRODUCTION AND OPERATING EXPENSES:

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

		2018		2017
Crude oil sales	$	**276,922**	$	253,549
Less: marketing fees		**(407)**		(490)
Less: royalties		**(76,376)**		(54,734)
Less: net profits interest		**(21,002)**		(15,155)
Net crude oil revenue	$	**179,137**	$	183,170

b) Crude oil sales represent the entirety of CHHC's revenue generated from contracts with customers.
The following table illustrates the disaggregation of crude oil sales by primary geographical market:

		2018		2017
United States	$	**106,554**	$	92,366
Europe		**84,869**		27,211
Canada		**50,303**		122,334
South America		**18,325**		–
Asia		**16,871**		11,638
	$	**276,922**	$	253,549

c) 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 CHHC's revenue in 2017 was encumbered by a royalty rate of 30% of net transfer revenue. Gross transfer revenue reflects crude oil sales adjusted for eligible transportation costs, while net transfer revenue reflects gross transfer revenue adjusted for eligible operating and capital costs. In 2018, total royalties averaged 28% of crude oil sales (2017 – 22%).

d) Net Profits Interest ("NPI"):
CHHC is also party to an NPI Agreement, which provides for a monthly NPI payment to the Government of Canada by all Hibernia Development Project owners. The NPI payment is based on 10% of net revenue (crude oil sales adjusted for eligible transportation, operating and capital costs). In 2018, NPI payments averaged 8% of crude oil sales (2017 – 6%).

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

		2018		2017
Hibernia joint account production and operating	$	**24,109**	$	17,902
Crude oil transportation		**5,886**		6,964
Total production and operating expense	$	**29,995**	$	24,866

24. REVENUE AND OPERATING EXPENSES FROM PIPELINE OPERATIONS:

For the period September 1 to December 31, revenues and operating expenses from TMC's operations, disaggregated by revenue source and type of revenue, are comprised as follows:

		December 31, 2018
Transportation revenue	$	107,732
Lease revenue		20,417
Other revenue		1,021
Total	$	129,170
Operating and production expenses	$	53,077
Salaries and benefits		23,060
Other general and administration costs		5,077
Total operating expenses excluding finance costs and depreciation	$	81,214

Revenues from TMC pipeline operations are primarily earned in Canada with less than 10% originating outside of Canada.

Revenue Allocated to Remaining Performance Obligations

The contractually committed revenue primarily consists of service customer contracts, which have minimum volume commitment payment obligations. The actual revenue recognized on these customer contracts can vary depending on the service provided and the contractually committed revenue for purposes of the tabular presentation below is generally limited to the minimum revenue committed to under these customer contracts. Based on the following practical expedients that were elected to be applied, the contractually committed revenue amounts generally exclude remaining performance obligations for: (i) contracts with index-based pricing or variable volume attributes in which such variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct service that forms part of a series of distinct services; (ii) contracts with an original expected duration of one year or less; and (iii) contracts for which revenue is recognized at the amount for which there is a right to invoice for services performed.

The following table presents the estimated revenue allocated to remaining performance obligations for contracted revenue that has not yet been recognized, representing the "contractually committed" revenue as of December 31, 2018 that will be invoiced or transferred from contract liabilities and recognized in future periods.

Year	Estimated Revenue
2019	59,307
2020	59,469
2021	59,307
2022	5,232
2023	213
Thereafter	3,778
Total	**187,306**

24. REVENUE AND OPERATING EXPENSES FROM PIPELINE OPERATIONS (CONTINUED):

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. Contract assets are recognized in those instances where billing occurs subsequent to revenue recognition and the right to invoice the customer is conditioned on something other than the passage of time. For the year ended December 31, 2018, there were no contract assets recognized. Contract liabilities are substantially related to capital improvements paid for in advance by certain customers, which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contracts as well as abandonment surcharges collected by customers and recognized as revenue in the future once the abandonment costs are incurred.

The following table presents the activity in contract liabilities for the year ended December 31, 2018:

(In thousands of Canadian dollars)	
Opening balance	-
Acquired on Acquisition	5,037
Additions	6,270
Transfer to Revenues	(197)
Balance as at December 31, 2018	11,110
Presented as:	
Other current liabilities	212
Other deferred credits	10,898
	11,110

25. COMMITMENTS:

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

		2019		2020-2023		Thereafter		Total
Crude oil transportation and transshipment services [(i)]	$	4,452	$	14,620	$	23,742	$	42,814
Hibernia Project contracts		8,506		21,015		13,400		42,921
Pipeline PPE [(ii)]		319,373		–		–		319,373
TMC operating lease		1,415		5,896		95,606		102,917
Office premises	$	4,465	$	8,189	$	169	$	12,823
Total Commitments	$	338,211	$	49,720	$	132,917	$	520,848

(i) CHHC is committed to crude oil transportation services pursuant to a Contract of Affreightment ("COA"), as part of the Basin Wide Transportation and Trans shipment System ("BWTTS") which also involves other East Coast Canada oil producers. Also, in conjunction with the BWTTS, the Company is committed to crude oil transshipment services pursuant to a Reserved Capacity Services agreement with Newfoundland Transshipment Ltd., also for a term of June 1, 2015 to May 31, 2030.

(ii) Pipeline PPE includes commitments for purchases of property, plant, and equipment which consists primarily of commitments related to TMEP.

26. CONTINGENCIES:

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

CEI is co-defendant with the Province of Ontario, the Attorney General of Canada, the Canadian Nuclear Safety Commission and BOC Canada Limited in a proposed class action lawsuit brought by certain residents of the municipality formerly known as Deloro in the County of Hastings, Ontario. The lawsuit is based on the alleged contamination of certain properties. CEI has filed a notice of intent to defend. While no liability is admitted, the financial impact on the Corporation, if defence against the action is unsuccessful, is currently not determinable.

The TMEP has been subject to various legal actions, including Federal Court of Appeal proceedings to challenge the federal government's approval of the TMEP, *Tsleil-Waututh Nation et al. v. Attorney General of Canada et al*. ("Tsleil-Waututh").

On April 25, 2018, the B.C. Lieutenant Governor in Council referred a question to the B.C. Court of Appeal regarding the constitutionality of draft legislation seeking to impose a requirement for a "hazardous substance permit" on all persons having possession, charge or control of a certain volume of "heavy oil" in the course of operating an industry, trade or business. The draft legislation, if enacted, would likely apply to TMEP. On June 18, 2018, the Court granted 20 persons participatory status in the reference matter, including Trans Mountain Pipeline ULC. The Court has scheduled a hearing on the referenced matter to begin on March 18, 2019. As a result of the filing or resolution of this or any related reference matter, among other potential impacts, there may be significant changes to TMEP plans, further obligations or restrictions may be imposed or TMEP may be stopped altogether.

On August 30, 2018, the Federal Court of Appeal ("FCA" or "the Court") released its judgment in the matter of Tsleil-Waututh. In its decision, the Court quashed the Order in Council approving the TMEP and remitted the matter to the Governor in Council to remedy two areas: the scope of the NEB's review, and Phase III consultation of Indigenous peoples. On the scope of the NEB's review, the Court decided that the NEB's review of the TMEP unjustifiably excluded the species at risk impacts from marine shipping and tanker traffic related to the project. The Court determined the Governor in Council must require the NEB to reconsider its recommendation and related conditions. The Government of Canada established a timeline for this review to be completed by February 22, 2019. See note 32 for further details.

On Phase III consultation of Indigenous peoples, the Court determined that the Government of Canada must re-do its Phase III consultation, and that only after that consultation is completed and any accommodation made (if accommodation is deemed necessary) can the TMEP again be submitted to the Governor in Council for approval. It is uncertain, however, if the Governor in Council will grant its approval and issue a new Order in Council or, in the event the Governor in Council issues a new Order in Council, whether that Order in Council will contain additional conditions separate and apart from any conditions imposed by the NEB.

In addition to the judicial reviews of the NEB recommendation report and Governor in Council's order at the Federal Court of Appeal, two judicial review proceedings were commenced at the Supreme Court of B.C. by the Squamish Nation and the City of Vancouver. The petitions alleged a duty and failure to consult or accommodate First Nations, and generally, among other claims, that the Province did not conduct a proper provincial environmental assessment before issuing the Provincial Environmental Assessment Certificate ("EAC"). The Squamish and Vancouver judicial review proceedings were heard in October and November 2017, respectively, and on May 24, 2018, the court dismissed both proceedings. Appeals to the B.C. Court of Appeal ("BCCA") were filed by Vancouver and Squamish respectively on June 22, 2018 and June 25, 2018. The Squamish appeal hearing is scheduled for April 10 and April 11, 2019. The Vancouver appeal hearing has not yet been set, but will likely be heard in Q2 2019. The decisions for both are likely to be issued between Q4 2019 and Q2 2020. It is unclear at this time how the Federal Court of Appeal decision in Tsleil-Waututh will affect these proceedings.

27. CAPITAL MANAGEMENT:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of $344,151 (2017 - $439,520), which is comprised of its share capital, contributed surplus and accumulated deficit and its loan payable of $5,290,000. 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. The Corporation's share capital is not subject to any external restrictions. In 2018 the Corporation added loans payable to its capital structure when TMP Finance entered into a credit agreement with the Government.

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.

TMC targets a capital structure mix of 55% debt, 45% equity, and has two sources of funding: amounts generated from operations, and amounts borrowed from its parent TMP Finance. TMC's capital management strategy is to maintain its target debt/equity ratio, maintain sufficient cash and working capital to self-fund operations and maintenance capital projects, and use funds advanced from TMP Finance to fund construction of the TMEP. Given the significant expenditures expected in connection with the TMEP, TMC will require the continued availability of future financing in order to proceed with the project.

28. RISKS TO THE CORPORATION:

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 and arises primarily from the Corporation's trade and other receivables. A significant exposure to this risk relates to crude oil sales from contracts with customers. CHHC has assessed the risk of non-collection of funds as low, as CHHC shares cargos with its marketing agent, generally contracts with large purchasers with established credit history and utilizes credit risk mitigation tools when necessary. The marketing agent maintains credit surveillance over all pre-approved purchasers. Of the total amount of trade and other receivables, 67% (2017 – 83%) relates to contracts with customers, which was all collected subsequent to year end.

Remaining receivables at December 31, 2018 consist primarily of input tax credits (GST/HST) receivable.

The acquisition of TMC increases CDEV's exposure to credit risk in a new industry in which it operates – the crude oil and refined products transportation industry. TMC limits the exposure to credit risk by requiring shippers who fail to maintain specified credit ratings or a suitable financial position to provide acceptable security.

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

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

The Corporation's allowance for doubtful accounts was insignificant as at December 31, 2018 and 2017. As at December 31, the composition of trade and other receivables is as follows:

		2018		2017
Contracts with pipeline shippers	$	**95,388**	$	-
Contracts with crude oil customers		**10,568**		18,328
Hibernia joint arrangement		**4,186**		1,661
HST/GST input tax credits		**5,430**		1,439
Working Capital Adjustment on Acquisition		**37,019**		-
Other		**6,388**		818
Trade and other receivables	$	**158,979**	$	22,246
Amount outstanding greater than 90 days	$	**8,295**	$	778

The Corporation applies a simplified approach to providing for ECLs, using the lifetime ECLs provision for all trade receivables. To measure the ECLs provision related to trade receivables, the Corporation applies a provision matrix based on the number of days past due. Due to the high credit quality of the Corporation's counterparties, the ECLs provision at December 31, 2018 is insignificant.

The Corporation's cash and cash equivalents (including those held in escrow and investments held for future abandonment and risk fund) are held by investment-grade Canadian banks and financial institutions and the Government of Canada. All cash equivalents and short-term investments are purchased from issuers with a credit rating of R1 High by Dominion Bond Rating Service. Accordingly, the ECLs provision at December 31, 2018 related to cash and cash equivalents and investments is insignificant.

The Corporation realized no actual impairment losses during the years ended December 31, 2018 or 2017.

(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.

We forecast cash requirements to ensure funding is available to settle financial liabilities when they become due. Our primary sources of liquidity and capital resources are funds generated from operations and our credit facilities, see note 17.

Expected future cash flow from the present operations currently exceeds estimated operating expenses and future capital expenditures, aside from TMEP. Given significant expenditures in connection with the TMEP expansion, the Corporation will require the continued availability of future financing in order to proceed with the project. In addition, the Corporation has loan facilities with EDC as disclosed in note 17 for which approximately 2.2% of the Corporation's loans payable will mature in less than one year. Trade and other payables and income taxes payable are generally due within one year from the date of the statement of financial position, see note 19.

28. RISKS TO THE CORPORATION (CONTINUED):

(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, and interest rate risk.

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

(i) Foreign exchange risk:

Foreign exchange risk is the risk that the fair value of assets or liabilities or future cash flows will fluctuate as a result of changes in foreign exchange rates. This risk arises on financial assets and liabilities denominated in U.S. dollars at the end of the period, consisting primarily of U.S. cash and trade receivables balances.

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 $124 decrease to the Corporation's profit for the year ended December 31, 2018 (2017 - $208), with all other variables held constant.

Puget Sound operates in the state of Washington and earns its revenues and incurs most of its expenses in U.S. dollars. Therefore, fluctuations in the U.S. dollar to Canadian dollar exchange rate can affect the earnings contributed by Puget Sound, to our overall results. It is estimated that a 1% strengthening in the Canadian dollar relative to the U.S. dollar on Puget's USD revenues and expenses would result in an immaterial impact to the Corporation's profit for the year ended December 31, 2018.

Our continuing operations had realized foreign exchange gains and (losses) of $3.7 million for the year ended December 31, 2018.

The Corporation did not have any foreign exchange rate contracts in place as at or during the year ended December 31, 2018 or 2017.

(ii) Commodity price risk:

Commodity price risk is the risk that the fair value of assets or liabilities or future cash flows will fluctuate as a result of changes in commodity prices. CHHC's production is sold at spot crude oil prices, however the Company's financial instruments are not sensitive to commodity price risk and the Company does not use derivative instruments.

(iii) Interest rate risk:

Interest rate risk is the risk that the fair value of assets or liabilities or future cash flows will fluctuate as a result of changes in 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.

The Corporation is not exposed to interest rate risk on its debt as interest is payable at a fixed rate. The Corporation does not use derivative instruments to manage its exposure to this risk.

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

(d) Fair value of financial instruments:

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Corporation classifies the fair value of its financial instruments according to the following hierarchy based on the amounts of observable inputs used to value the financial instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 2 valuations are based on inputs which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability 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. There were no movements between levels in the fair value hierarchy during the period.

The carrying amounts of cash and cash equivalents, restricted cash, short term investments, trade and other receivables, investments held for future obligations and trade and other payables are a reasonable approximation of their fair value due to their short term to maturity.

The following table shows the carrying amounts and fair values of restricted investments and loans payable including their levels in the fair value hierarchy:

			Carrying amounts		Fair value	
	Classification	Hierarchy	2018	2017	2018	2017
Financial assets						
Restricted investments	FVTPL	Level 2	54,783	-	54,783	-
Financial liabilities						
Loans payable	Amortized cost	Level 2	5,290,000	-	5,290,000	-

Fair values for the restricted investments are determined based on observable prices and inputs for similar instruments available in the market, utilizing widely accepted cash flow models to value such instruments. The fair value of loans payable is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Corporation for similar financial instruments.

29. 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, 2018 in the amount of $114,000 (2017 - $91,000).

TMP Finance received loans from the Canada Account of the Government of Canada administered by EDC as discussed in note 17.

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.

		2018		2017
Key management personnel compensation comprised of: Salaries, termination, other short-term benefits, director fees and post-employment benefits	**$**	**4,774**	$	2,752

b) Other related party transactions affecting Profit:

		2018		2017
CRF Interest income	**$**	**1,391**	$	689
Interest expense/standby fees paid to the government	**$**	**83,527**		-

c) Items affecting Statement of Financial Position:

		2018		2017
Cash on deposit in the CRF	**$**	**117,079**	$	115,685
Loan from the government (Canada Account)	**$**	**5,290,000**		-

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS UNLESS OTHERWISE STATED)

30. SUPPLEMENTARY INFORMATION:

The consolidated financial statements of the Corporation include 100% of the assets, liabilities, revenues and expenses of TMC, CHHC as follows. CDEV corporate, GEN, CEI and TMP Finance are grouped as Others:

	2018						
	TMC (US GAAP)	IFRS Adjustments	TMC (IFRS)	CHHC	Others	Eliminations	Consolidated
Statement of Comprehensive Income:							
Revenues:							
Transportation revenue	$ 116,365	$ (8,633)[1]	$ 107,732				$ 107,732
Lease Revenue	20,417		20,417				20,417
Net Crude oil revenue				179,137			179,137
Other income/ FX	1,021		1,021	7,765	948	(948)	8,786
	137,803		129,170	186,902	948	(948)	316,072
Expenses:							
Depletion and depreciation	33,615	853[2]	34,468	43,835			78,303
Operating and production	53,077		53,077	29,995			83,072
Salaries and Benefits	19,723	3,337[3]	23,060	1,957	1,962		26,979
Other general and admin	5,077		5,077	3,837	11,273	(139)	20,048
	111,492		115,682	79,624	13,235	(139)	208,402
Finance Costs							
Equity AFUDC	21,241	(21,241)[4]					
Unwind of Discount		(2,676)[4]	(2,676)	(2,931)	(157)		(5,764)
Net Interest (expense)	(34,483)	(12,585)[4]	(47,068)	4,258	(29,385)	809	(71,386)
	(13,242)		(49,744)	1,327	(29,542)	809	(77,150)
Earnings/loss before tax	13,069		(36,256)	108,605	(41,829)		30,520
Taxes (recovery)	3,532	(13,297)[5]	(9,765)	32,412			22,647
Net Income	$ 9,537		$ (26,491)	$ 76,193	$ (41,829)		$ 7,873
Other Comprehensive Income	$ 7,337	$ 3,421[6]	$ 10,758				$ 10,758
Statement of Financial Position:							
Assets:							
Current	842,582	(15,390)[7]	827,192	104,633	98,354	(902)	1,029,277
Non-Current	5,571,376	264,622[8]	5,835,998	347,428	5,512,277	(5,497,761)	6,197,942
	$ 6,413,958	**$ 249,232**	**$ 6,663,190**	**$ 452,061**	**$ 5,610,631**	**$(5,498,663)**	**$ 7,227,219**
Liabilities							
Current liabilities	836,797	-	836,797	12,732	126,623	(608,152)	368,000
Non-current liabilities	3,421,886	281,839[9]	3,703,725	138,390	5,179,303	(2,506,350)	6,515,068
	$ 4,258,683	**$ 281,839**	**$ 4,540,522**	**$ 151,122**	**$ 5,305,926**	**$(3,114,502)**	**$ 6,883,068**
Equity	**$ 2,155,275**	**$ (32,607)[10]**	**$ 2,122,668**	**$ 300,939**	**$ 304,705**	**$(2,384,161)**	**$ 344,151**
	$ 6,413,958	**$ 249,232**	**$ 6,663,190**	**$ 452,061**	**$ 5,610,631**	**$(5,498,663)**	**$ 7,227,219**

30. SUPPLEMENTARY INFORMATION (CONTINUED):

TMC prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). IFRSs require that a parent shall prepare its consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. As a result, TMC adjusted its financial data under US GAAP, to conform to IFRS. These accounting adjustments are presented in the column "Adjustments - IFRS" and are detailed below:

1) Transportation revenue: Under US GAAP, TMC applies the provisions of ASC 980 Regulated Operations under which the timing of recognition and treatment of certain revenues may differ from that otherwise expected under IFRS. Under IFRS, revenue is recognized in accordance with IFRS 15. Under US GAAP TMC recognizes TMPL transportation revenue ratably over time based on TMPL's annual revenue requirement, as adjusted for spending on flow through items included in TMPL's Incentive Toll Settlement ("ITS") agreement. The difference between revenue requirement under the ITS and tolls invoiced leads to an adjustment which will either debit revenue (if tolls invoiced are higher than revenue requirement under the ITS) or credit revenue (if tolls invoiced are lower than revenue requirement under the ITS). In 2018 the adjustment is to lower revenue with the offset to accounts receivable. Under IFRS, revenue is recognized based on volume shipped and tolls invoiced, with no adjustments for over or under-collection of revenue requirement.

2) Depreciation is higher under IFRS due to a higher fixed asset base as a result of the recognition of an asset retirement obligation ("ARO") and the corresponding asset retirement cost. Due to the significant uncertainty around the timing and scope of abandonment, no ARO is recorded under US GAAP, resulting in a correspondingly lower fixed asset base, and lower depreciation under US GAAP.

3) Salaries and benefits expense is higher under IFRS due to differences in the recognition of pension expense under the two accounting frameworks. Under IFRS, remeasurements of plan assets and liabilities are reflected immediately in net income, while under US GAAP certain gains and losses within the plans are recognized in other comprehensive income and amortized into net income over a longer period.

4) Under US GAAP ASC 980, an Allowance for Funds Used During Construction ("AFUDC") is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. AFUDC includes both an interest component and, if approved by the regulator, a cost of equity component which are both capitalized based on rates set out in a regulatory agreement. The interest component of AFUDC results in a reduction in interest expense and the equity component of AFUDC is recognized as finance income. Under IFRS, there is no recognition of AFUDC, and only interest incurred on debt drawn to fund qualifying capital expenditures is capitalized as defined in IAS 23 Borrowing Costs. TMC's 2018 US GAAP net income includes approximately $21 million of equity AFUDC and $15 million of debt AFUDC. An unwind of a discount of the decommissioning obligation under IFRS is also included in finance cost IFRS adjustments. Under US GAAP there is no decommissioning obligation to unwind.

5) Taxes under IFRS are lower due to the adjustments noted above in revenue, depreciation expense, salary and benefit expense, and AFUDC.

6) Other Comprehensive Income under IFRS has been reduced due to different treatment of pension plan adjustments recognized under US GAAP, as discussed in IFRS Adjustment note 3 above.

7) Current assets under IFRS are reduced primarily due to timing differences in the revenue recognition between US GAAP and IFRS.

8) Non-current assets are higher under IFRS primarily due to adjustments to goodwill and property, plant, and equipment. Upon TMC's acquisition, goodwill was recognized for the excess of the fair value of the consideration paid over the estimated fair value of the net assets acquired. There are differences in the fair value of the net assets under US GAAP and IFRS primarily related to ARO, regulatory liabilities, and deferred taxes upon acquisition. Following the acquisition, property, plant, and equipment is higher due to the recognition of the ARO and the corresponding asset retirement cost. TMC also records proceeds from certain contracts (Firm 50 premiums) as contributions in aid of construction under US GAAP ASC980, which reduces fixed assets. These contributions are recognized as revenue under IFRS. In 2018, the goodwill adjustment was approximately $128 million, and the property, plant, and equipment adjustment was approximately $140 million.

9) Non-Current liabilities are higher under IFRS primarily due to the recognition of an ARO. TMC does not record an ARO under US GAAP as the timing and scope of abandonment are indeterminate. There are also adjustments to deferred taxes under IFRS. The differences between US GAAP and IFRS upon acquisition have a related tax effect which results in lower deferred tax on acquisition. Additionally, there is an ongoing difference in deferred income taxes related to differences in net income and the tax expense recognized.

10) The cumulative impact of the IFRS adjustments to net income (adjustments #1 through #5) total $36 million and the adjustment to Other Comprehensive Income is ($3 million).

31. RECLASSIFICATION OF PRIOR PERIOD COMPARATIVE FIGURES:

Certain prior period comparative figures have been reclassified to conform to the current period's presentation. In 2018, the Corporation determined it was appropriate to present interest income of $3,189 under finance expenses (income) on the consolidated statement of comprehensive income because the investments are held to finance future activities. In prior years, these were presented under revenue. These reclassifications had no impact on the Corporation's financial position, income before income taxes or comprehensive income.

32. EVENTS AFTER THE REPORTING PERIOD:

On February 22, 2019, the NEB released its reconsideration report, in which the NEB concluded that the TMEP is in the Canadian public interest. The NEB recommended that the GIC approve the TMEP subject to 156 conditions, which are measures that the NEB can enforce upon TMPL and the TMEP under its authority as regulator. The NEB's report also contained 16 recommendations to the GIC, which relate to items outside the scope of the NEB's authority and beyond the control of TMPL or the TMEP, but within the authority of the GIC. Management believes the conditions are reasonable and the Corporation is working to address the conditions and recommendations included in the report. At this time, it is not possible to determine the financial impact of these conditions and measures.

CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

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