Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Third Quarter Report
September 30, 2018

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

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Statement of Management Responsibility by Senior Officials

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with *IAS* 34, *Interim Financial Reporting* and for such internal controls as management determines are necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the interim condensed consolidated financial statements.

Based on our knowledge, these unaudited interim condensed consolidated financial statements present fairly, in all material respects, the financial position, the financial performance and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed consolidated financial statements.

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

Michael Carter
Executive Vice-President

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

Toronto, Ontario
November 26, 2018

Management Discussion and Analysis of Results – for the period ended September 30, 2018

The public communications of Canada Development Investment Corporation ("CDEV"), including this interim report, may include forward-looking statements that reflect management's expectations regarding CDEV's objectives, strategies, outlooks, plans, anticipations, estimates and intentions.

By their nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. In particular, any predictions, forecasts, projections or other elements of forward-looking statements may not be achieved. A number of risks, uncertainties and other factors could cause actual results to differ materially from what we currently expect.

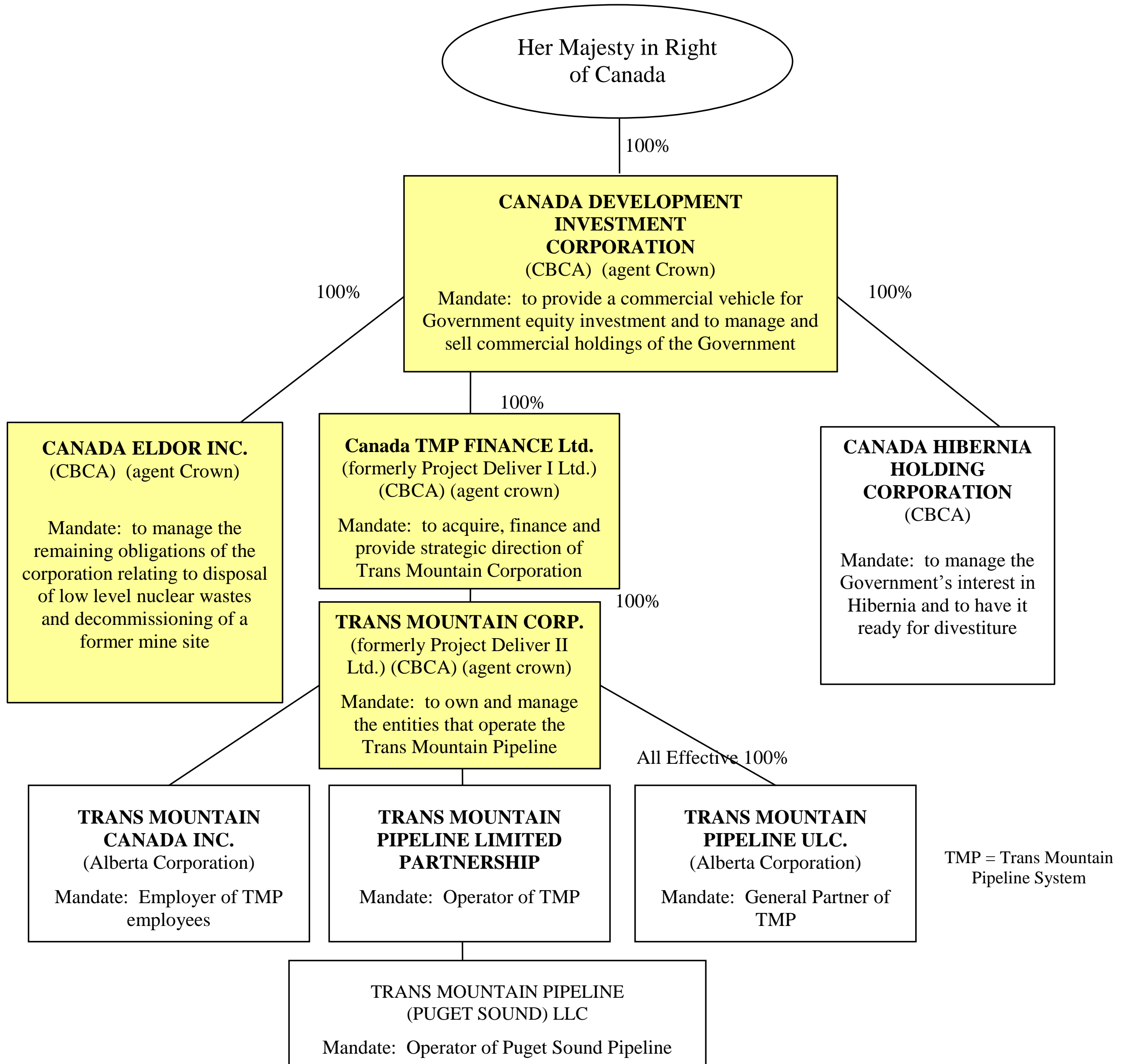
This Management Discussion and Analysis of Results should be read in conjunction with CDEV's unaudited interim condensed consolidated financial statements for the period ended September 30, 2018 and CDEV's Annual Report for the year ended December 31, 2017.

Corporate Overview

CDEV, a federal Crown corporation, was incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government. CDEV's primary objective is to carry out its activities in the best interests of Canada, operating in a commercial manner. During the fiscal period ended September 30, 2018 the operations of CDEV changed significantly with the acquisition of Trans Mountain Pipeline System's operating entities on August 31, 2018. Other operations of CDEV were primarily the same as those described in the 2017 Annual Report of CDEV, available on our website, www.cdev.gc.ca. CDEV consolidated these subsidiaries during the period: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), Canada TMP Finance Ltd. ("TMP Finance") and Trans Mountain Corporation ("TMC") and its operating subsidiaries as discussed in note 1 of the interim condensed consolidated financial statements for the period ended September 30, 2018.

On August 31, 2018, as per the Share and Unit Purchase Agreement dated May 29, 2018, Trans Mountain Corporation, which was set up to acquire the operating entities of the Trans Mountain Pipeline System ("TMPS"), purchased these entities from Kinder Morgan Cochin ULC. The preliminary purchase price for the entities was $4.427 billion after adjusting for estimated working capital acquired. The final purchase price will be determined before year end. The purchase price is allocated as follows: $4.3 billion to property, plant and equipment, including $1.2 billion to construction work in process costs on the Trans Mountain Expansion Project ("TMEP") incurred prior to acquisition, and $1.1 billion in goodwill. The goodwill is related to the economic benefits of the assets acquired and to deferred income taxes. Further details are provided in the notes to the interim condensed consolidated financial statements.

On November 7, 2018 CDEV appointed a new board of directors of TMC. For more details on TMC please refer to the TMC website at www.transmountain.com. Please see organization chart below as at September 30, 2018 to identify the entities of CDEV:



Corporate Performance

Our year-to-date performance as compared to our key objectives is as follows:

Key Objectives:

- To manage our investments in the Hibernia oilfield, and continue to oversee the management of CEI's obligations.
- To continue to manage reviews of government assets assigned to us.
- To continue to manage other issues which may arise and to remain prepared to assume management and divestiture of any other interests of Canada assigned to us for divestiture, in a commercial manner.

Performance

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

- CHHC recorded an after-tax profit of $61 million during the first nine months of 2018. Dividends to CDEV of $40 million were paid during the same period.
- There was no significant change in the management of CEI's liabilities.
- CDEV did not pay dividends to the Government during the first nine months of 2018. A dividend of $44 million was paid subsequent to period end.
- We prepared for the launch of a sales process for Ridley Terminals Inc., with CDEV acting as agent for the government. The process commenced in November.
- During the period March to August, we carried out a due diligence process on the Trans Mountain Pipeline assets. This included retaining consultants to prepare reports and financial analysis. On August 31, we completed the purchase of the pipeline entities.

Trans Mountain Corporation

The period ended September 30, 2018 includes the month of September's operations of the TMPS. Total TMC revenues were $33 million, $27 million of which was from pipeline transportation tolls. Operating income before deducting interest costs, taxes and depreciation ("EBITDA") was $15 million. To finance the TMPS entities acquisition, TMP Finance borrowed $5.2 billion from the government's Canada Account administered by Export Development Canada ("EDC"). $500 million of these borrowings were used to backstop a letter of credit in satisfaction of a National Energy Board requirement for TMC to have suitable financial resources to pay for any potential environmental damages. Of the remaining $4.7 billion in borrowings, $4.427 billion was paid to Kinder Morgan and the balance was used to fund working capital requirements. TMC continues to prepare for the potential restart of construction of TMEP once the required approvals are received.

Canada Hibernia Holding Corporation

Net crude oil revenue, after deducting marketing fees, royalties and net profits interest, declined 3% to $40 million in the third quarter of 2018 from $42 million in the comparative quarter, as higher oil prices were more than offset by lower sales volumes and increased royalty and net profits interest expenses. Sales volumes of 0.67 million barrels in the quarter were 23% lower than 0.87 million barrels sold in the third quarter of 2017, due to a 31% decrease in CHHC's net share of Hibernia daily average production volumes combined with cargo sale timing differences. Gross daily average production volumes for the Hibernia field declined 33% to 91,300 barrels per day from 135,900 barrels per day in the comparative quarter, due to a planned platform shutdown for repair and maintenance activities, and natural declines. CHHC has two different working interests in the Hibernia field which means that changes in CHHC's net share of Hibernia production will differ from changes in total Hibernia gross field production.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The average price of Dated Brent crude increased 44% to US $75 per barrel in the quarter from US $52 per barrel in the comparative quarter of 2017. The increase in US prices combined with positive exchange rate impacts of a weaker Canadian dollar resulted in a 48% increase in CHHC's average realized sales price to $98 per barrel from $66 per barrel in the third quarter of 2017. CHHC does not enter into fixed price commodity (or exchange rate) contracts and sells its oil at market prices.

Canada Eldor Inc.

There was no significant change in the management of CEI's liabilities. In the first three quarters of 2018, the liability for site restoration decreased due to the settlement of $1.6 million in obligations, a $0.4 million decrease in estimated costs and a change in the discount rate during the period. CEI continues to pay for costs relating to the decommissioning of former mine site properties in Saskatchewan and for retiree benefits of certain former employees. A plan is in place that should allow for the eventual transfer of the mine site properties to the Institutional Control Program of the Province of Saskatchewan within six years. CEI holds cash and cash equivalents as well as funds within the Consolidated Revenue Fund totaling $19 million to pay for CEI's total estimated liabilities of $12 million.

Analysis of External Business Environment

The ongoing management of our holdings will depend on overall market and economic conditions as well as factors specific to the underlying company or investment. No material changes have been identified in the existing businesses held at December 31, 2017 as described in the 2017 Annual Report. The market and economic conditions of the oil 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.

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 significant and are discussed in the notes to the financial statements. CDEV's subsidiary TMP Finance is a borrower of over $5 billion dollars which has increased CDEV's financial risk. No material changes in risks and contingencies have been identified since December 31, 2017 as described in the 2017 Annual Report affecting CDEV entities, other than TMC and TMP Finance.

Financial Statements for the Period Ended September 30, 2018

The interim condensed consolidated financial statements for the period ended September 30, 2018 and comparative figures, have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

Consolidated revenue for the three months ended September 30, 2018 was $73 million, compared to revenue of $42 million in the comparative period of the prior year. This change is mainly attributable to the inclusion of $33 million in TMC pipeline and other revenues. There is no comparable revenue amount for TMC since the entity was not owned in the comparative period. Net crude oil revenue decreased by 3% in the third quarter of 2018 to $40 million from $42 million in the third quarter of 2017. Gross crude oil revenue increased by 13%,

however, royalty and net profits interest expenses were significantly higher in the period due to proportionately lower eligible cost deductions, and increased royalty rates on a portion of HSE Unit production.

Total expenses for the quarter excluding finance costs were $49 million compared to total expenses of $22 million in the third quarter of 2017. The increase is mainly due to the $27 million in expenses of TMC in September. Depletion and depreciation expenses increased by $7 million in the quarter due to lower production volumes and inventory adjustments net of the addition of $10 million in TMC depreciation. Production and operating expenses increased to $7 million in the third quarter of 2018 from $6 million in the comparative quarter due to incremental repairs and maintenance associated with the planned shutdown at Hibernia. Salaries and benefits increased by $5 million due to the addition of TMC salaries. Professional fees in the quarter increased to $4 million compared to $2 million in the comparative quarter, due mainly to activity related to the Trans Mountain Pipeline acquisition. Interest expense during the quarter was $21 million payable on the loans from the government's Canada Account administered by EDC. The interest rate paid on the loans is 4.7% per annum.

Consolidated revenue for the nine months ended September 30, 2018 increased to $169 million, compared to $144 million in the prior year-to-date period, due to the inclusion of $33 million of TMC revenues. Year-to-date net crude oil revenue was $137 million, a 6% decrease from $144 million in the prior year period due to an 8% increase in gross crude oil revenue being more than offset by higher royalty and NPI expenses.

Year-to-date expenses increased to $91 million compared to $69 million in the prior year-to-date period. The increase is due to $21 million in interest expense and $27 million in TMC expenses that were not included in the comparative period. Depletion and depreciation costs increased to $42 million from $40 million in the nine months ended September 30, 2017, due mainly to the inclusion of $10 million in depreciation of TMC assets net of decreased depletion at CHHC due to lower sales volumes. Salaries and benefits increased by $5 million due to the addition of TMC salaries. Professional fees in the year-to-date period increased to $9 million from $4 million primarily due to costs related to the Trans Mountain Pipeline acquisition.

Profit before income taxes for the period declined significantly due primarily to interest expense of $21 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 September 30, 2018 increased to $446 million compared to $207 million (including short-term investments) at December 31, 2017. The increase is primarily due to the inclusion of $174 million in cash held at TMC and TMP Finance combined with net cash flow from CHHC operations of $74 million. Current restricted cash of $500 million is related to cash on deposit to backstop a letter of credit related to TMC operations with nil balance at December 31, 2017.

Trade and other receivables increased by $72 million to $94 million at September 30, 2018 compared to December 31, 2017 due to the inclusion of $87 million in TMC receivables, net of decreases in CHHC receivables.

Trade and other payables increased by $126 million as at September 30, 2018 to $142 million compared to December 31, 2017 due to the inclusion of $137 million in accounts payable of TMC, primarily due to the TMEP capital expenditures incurred but not paid.

Current loan payable of $530 million was drawn to fund the current restricted cash and construction costs.

Non-current loan payable of $4.7 billion was drawn to finance TMC's acquisition of the TMPS entities. Loans payable at December 31, 2017 were nil.

Non-current decommissioning obligations increased to $454 million from $129 million at December 31, 2017 due to the inclusion of $333 million in decommissioning obligations related to the TMPS.

CDEV paid no dividends to the Government during the first nine months of 2018 or the comparative period in 2017. Subsequent to September 30, 2018 CDEV paid a dividend to the government of $44 million.

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three and nine months ended September 30, 2018

(Unaudited)

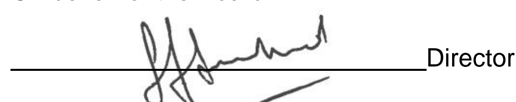
CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 446,122	$ 176,357
Restricted cash (note 5)	500,000	-
Short-term investments	-	30,169
Trade and other receivables (note 19)	94,341	22,246
Income taxes recoverable	1,465	1,857
Other current assets (note 7)	25,384	4,514
Cash and cash equivalents held for future obligations	2,510	3,272
	1,069,822	238,415
Non-current assets:		
Property and equipment (note 8)	4,670,445	197,555
Goodwill (note 6)	1,096,144	-
Cash and cash equivalents held for future obligations	138,655	136,603
Restricted cash and investments (note 5)	114,590	14,227
Other assets (note 9)	69,793	-
Deferred tax asset	18,456	16,101
	6,108,083	364,486
	$ 7,177,905	$ 602,901
Liabilities and Shareholder's Equity		
Current liabilities:		
Loan payable (note 12)	$ 530,000	$ -
Trade and other payables	142,458	16,176
Interest payable	21,560	-
Current portion of provision for decommissioning obligation (note 11)	4,617	4,627
Current portion of provision for site restoration (note 11)	2,317	3,066
Other current liabilities (note 10)	109,164	200
	810,116	24,069
Non-current liabilities		
Loan payable (note 12)	4,670,000	-
Deferred income taxes (note 16)	620,832	-
Provision for decommissioning obligations (note 11)	453,986	128,771
Provision for site restoration (note 11)	7,912	9,014
Post-employment benefits	66,796	1,527
Other non-current liabilities	68,318	-
	5,887,844	139,312
Shareholder's equity:		
Share capital	1	1
Contributed surplus	603,294	603,294
Accumulated deficit	(122,931)	(163,775)
Accumulated other comprehensive loss	(419)	-
	479,945	439,520
Commitments (note 17)		
Contingencies (note 18)		
Subsequent event (note 21)		
	$ 7,177,905	$ 602,901

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

On behalf of the Board:


Director

Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Revenue:				
Net crude oil revenue (note 14(a))	$ 40,453	$ 41,554	$ 136,800	$144,022
Transportation revenue (note 15)	27,481	-	27,481	-
Lease revenue (note 15)	5,059	-	5,059	-
Other revenue (note 15)	143	-	143	-
	73,136	41,554	169,483	144,022
Expenses:				
Depletion and depreciation (note 8)	18,879	12,017	41,918	40,265
Pipeline operating	11,577	-	11,577	-
Production and operating (note 14(c))	6,429	5,162	17,697	15,726
Salaries and benefits	5,965	732	7,566	2,607
Professional fees	3,671	1,670	9,163	4,011
Foreign exchange losses	1,060	1,116	1,903	3,989
Other expenses	854	326	1,405	786
Change in estimate of provision for site restoration	480	1,082	(425)	1,204
	48,915	22,105	90,804	68,588
Finance expenses (income):				
Interest expense	21,265	-	21,265	-
Interest income	(3,868)	(1,001)	(6,377)	(2,076)
Foreign exchange gains	(462)	(114)	(3,704)	(1,310)
Unwind of discount on decommissioning obligations (note 11)	1,477	794	2,914	2,117
Unwind of discount on provision for site restoration (note 11)	39	30	118	90
	18,451	(291)	14,216	(1,179)
Profit before income taxes	5,770	19,740	64,463	76,613
Income taxes: (note 16)				
Current	8,265	6,991	27,940	26,780
Deferred	(2,637)	(841)	(4,321)	(4,448)
	5,628	6,150	23,619	22,332
Profit	142	13,590	40,844	54,281
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss:				
Currency translation adjustment	(419)	-	(419)	-
	(419)	-	(419)	-
Comprehensive income (loss)	$ (277)	$ 13,590	$ 40,425	$ 54,281

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholder's Equity
(Unaudited) (Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Share capital				
Balance, beginning and end of period	$ 1	$ 1	$ 1	$ 1
Contributed surplus				
Balance, beginning and end of period	603,294	603,294	603,294	603,294
Accumulated deficit				
Balance, beginning of period	(123,073)	(100,009)	(163,775)	(140,700)
Profit	142	13,590	40,844	54,281
Balance, end of period	(122,931)	(86,419)	(122,931)	(86,419)
Accumulated other comprehensive loss				
Balance, beginning of period	-	-	-	-
Other comprehensive loss	(419)	-	(419)	-
Balance, end of period	(419)	-	(419)	-
Total shareholder's equity	$ 479,945	$ 516,876	$ 479,945	$ 516,876

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(Unaudited) (Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Profit	$ 142	$ 13,590	$ 40,844	$ 54,281
Adjustments for:				
Depletion and depreciation	18,879	12,017	41,918	40,265
Income tax expense	5,628	6,150	23,619	22,332
Defined benefits paid in excess of expenses	54	(25)	(18)	(150)
Interest income	(3,868)	(1,001)	(6,377)	(2,076)
Change in provision for site restoration	480	1,082	(425)	1,204
Unwind of discount on provisions	1,516	824	3,032	2,207
Interest received	3,868	1,001	6,377	2,076
Provisions settled	(50)	(1,472)	(3,577)	(3,933)
Income taxes paid	(9,445)	(9,788)	(27,548)	(39,200)
	17,204	22,378	77,845	77,006
Change in non-cash working capital (note 13)	86,059	(5,461)	78,325	(303)
	103,263	16,917	156,170	76,703
Investing activities:				
Purchase of property and equipment	(65,129)	(856)	(79,813)	(18,480)
Acquisition, net of cash acquired (note 6)	(3,924,341)	-	(3,924,341)	-
Sale of short term investments	-	-	30,169	-
Change in restricted cash and investments	(551,212)	(218)	(551,212)	4,447
Change in cash and cash equivalents held for future obligations	(487)	-	(1,290)	-
	(4,541,169)	(1,074)	(4,526,487)	(14,033)
Financing activities:				
Debt issuance	5,200,000	-	5,200,000	-
Debt repayment	(559,816)	-	(559,816)	-
	4,640,184	-	4,640,184	-
Effects of FX translation on cash	(102)	-	(102)	-
Change in cash and cash equivalents	202,176	15,843	269,765	62,670
Cash and cash equivalents, beginning of period	243,946	266,741	176,357	219,914
Cash and cash equivalents, end of period	$ 446,122	$ 282,584	$ 446,122	$ 282,584
Represented by:				
Cash	$ 236,915	$ 78,129	$ 236,915	$ 78,129
Cash equivalents	209,207	204,455	209,207	204,455
	$ 446,122	$ 282,584	$ 446,122	$ 282,584

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

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1. Reporting entity:

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

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

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

During the nine months ended September 30, 2018, the Corporation consolidated its wholly-owned subsidiaries: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), Canada TMP Finance Ltd. ("TMP Finance"), previously called Project Deliver I, and its subsidiary Trans Mountain Corporation ("TMC") and until June 29, 2018, Canada GEN Investment Corporation ("GEN").

During the quarter ended June 30, 2018, two new wholly-owned subsidiaries, Canada TMP Finance Ltd. and Trans Mountain Corporation, were incorporated under the provisions of the *Canada Business Corporations Act* and were acquired by the Corporation. 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 that own and operate the Trans Mountain pipeline system and the Trans Mountain Expansion Project (TMEP) in Alberta and British Columbia from Kinder Morgan Cochin ULC. The acquisition was at a preliminary purchase price of $4.5 billion cash consideration, subject to customary purchase price adjustments as provided in the purchase agreement and was financed by a loan to TMP Finance from the Government. The Trans Mountain pipeline system has operated since 1953, and in its current configuration transports approximately 300,000 bpd of crude oil and refined petroleum from Edmonton, Alberta to British Columbia and Washington State.

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

1. Reporting entity (continued):

debt by the Government in 1995, CEI is left with the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI's remaining obligations include site restoration and retiree defined benefit obligations.

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

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

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

On June 29, 2018, in accordance with Governor in Council approval, GEN was dissolved pursuant to section 210(3) of the *Canada Business Corporations Act* and therefore ceased to be a wholly owned subsidiary of CDEV.

2. Basis of preparation:

a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting.* These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2017.

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

b) Basis of measurement:

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- inventory is measured at the lower of cost to produce or net realizable value

2. Basis of preparation (continued):

c) Functional and presentation currency:

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. For the purposes of presenting these interim condensed consolidated financial statements, the assets and liabilities of foreign operations are translated to Canadian dollars, CDEV's functional currency, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the weighted-average exchange rates prevailing during the period. Any differences resulting from exchange rate differences are recognized in other comprehensive income and accumulated in the foreign currency translation reserve.

d) Use of estimates and judgments:

The preparation of the Corporation's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Critical judgments and key sources of estimation uncertainty are the same as those disclosed in note 2(d) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of new accounting policies, which are described in note 3 below.

As a result of the acquisition of TMC, additional estimates are also made surrounding the purchase price allocation ("PPA"), goodwill, decommissioning liabilities, and pension plans. Estimates include consideration for factors such as future estimated cost, prevalent market discount rate, timing of cash flows, and indicators of impairment.

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of application as those presented in note 3 of the annual audited consolidated financial statements for the year ended December 31, 2017, except for those policies which have changed as a result of the adoption of new accounting standards or interpretations effective January 1, 2018, as described below. In addition, income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss. Lastly, due to the recent acquisition, the Corporation had to adopt several new policies as described below.

3. Significant accounting policies (continued):

New Accounting Policies as a Result of the Acquisition

Dock Premiums

To facilitate the management of dock capacity on the Trans Mountain pipeline system, the National Energy Board (the “NEB”) ordered TMC to auction capacity to the highest bidder each month. The funds collected through this process in a given year, as per NEB’s determination, were to be returned to the shippers in a phased, multi-year refund in the form of reduced tolls for service for all shippers.

The premiums collected do not result in revenue, and are recorded as other liabilities because they are fully refundable to shippers in future periods through tariff reductions. The timing of such tariff reductions vary depending on the toll filing which is agreed with the shippers and approved annually by the NEB, but is generally one year or more.

Firm 50 Contracts

The NEB also approved for 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. We typically promise 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 the these contracts is recognized in the period the service is provided.

Redirect fees

In some instances, shippers may redirect dock volumes to an alternative delivery point for a redirect fee. Under the current Incentive Toll Settlement, TMC is required to share redirect fees with the shippers. TMC’s share of these fees is recognized as revenue in the period charged and the shippers’ portion is recognized as a liability as the amount will be refunded to shippersthrough future tolls.

Leasing

Within TMC’s leasing operations, leases are evaluated and classified as either operating or capital leases for financial reporting purposes. Capital leases which transfer substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capital leases are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Pension

The cost of pensions and other retirement benefits earned by employees of TMC are actuarially determined with gains or losses recognized immediately in other comprehensive income.

3. Significant accounting policies (continued):

Business Combination

The acquisition method of accounting is used to account for the business combination with TMC. 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 CDEV's interim condensed consolidated financial statements after the acquisition date.

Restricted Investments

Restricted investments are long-term investments in Canadian government and Federal agency bonds held in the 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 Land Matters Consultation Initiative ("LMCI") liabilities.. The restricted assets are measured at fair value with offsetting adjustments recorded to the LMCI liabilities. Fair values for the restricted asset 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. Such techniques represent a Level 2 fair value measurement.

Goodwill

Goodwill is the excess of the consideration paid in excess of the net identifiable assets acquired and liabilities assumed. Goodwill arising from the acquisition of TMC is allocated to the appropriate cash generating unit (CGU) and will be tested for impairment on an annual basis or as events or conditions indicate there is a risk of impairment.

Depreciation (Pipeline)

TMC records depreciation on a straight-line basis over the useful life of the asset. Construction in progress does not commence depreciating until the assets are available for their intended use.

Changes in accounting policies:

The following accounting standards issued by the International Accounting Standards Board ("IASB"), are effective for the first time in the current financial period and have been adopted in accordance with the applicable transitional provisions:

3. Significant accounting policies (continued):

IFRS 9, Financial Instruments ("IFRS 9")

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

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

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

(a) Classification and measurement

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

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

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

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

- Loans are initially measured at fair value and subsequently carried at amortized cost.

3. Significant accounting policies (continued):

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

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

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

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

(b) Impairment

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

3. Significant accounting policies (continued):

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

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

TMC has applied a similar model as CHHC to analyze and determine ECLs on its trade and other receivables, cash and cash equivalents and restricted cash and investments. The resulting loss was immaterial due to the high credit quality of customers and the nature of underlying investments and cash balances.

(c) Estimates and judgments

The Corporation uses considerable judgment in determining the ECLs estimate which incorporates current estimates and forward-looking information.

(d) Transition

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

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

3. Significant accounting policies (continued):

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

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

The Corporation has adopted IFRS 15 using the modified retrospective approach. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard, if any, is recognized in the opening retained earnings of fiscal 2018. The 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 reviewed its sources of revenue and contracts with customers using the five-step model and other guidance found in IFRS 15 and determined that the adoption of IFRS 15 had no impact on its consolidated financial statements, other than additional disclosures as set out below and in note 14. There were no changes to the recognition and measurement of the Corporation's revenue from contracts with customers compared to existing practice.

Nature of contracts with customers:

Crude oil sales:

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

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

3. Significant accounting policies (continued):

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

Pipeline services:

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.

Revenue recognition

Crude oil sales:

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

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

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.

3. Significant accounting policies (continued):

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

Pipeline services:

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).

Estimates and judgments

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

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

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

4. Recent accounting pronouncements issued but not yet effective:

A number of new accounting standards and amendments to existing standards are not yet effective for the period ended September 30, 2018 and have not been applied in preparing these interim condensed consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not intend to early adopt any of the following standards.

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

In January 2016, the IASB issued IFRS 16. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted.

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

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

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

5. Restricted cash and investments:

As at September 30, 2018, TMC holds $500 million as restricted cash to backstop the $500 million letter of credit issued to Kinder Morgan Inc. that secures the $500 million line of credit issued to Trans Mountain Pipeline ULC. The long-term portion of restricted cash balance also includes $14 million and $51 million used to collateralize letters of credit associated with Hibernia Project and TMC, respectively, and $49 million of restricted investments.

Restricted investments of 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 LMCI liablilities.

6. Acquisition:

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 approximately $4.5 billion, subject to certain adjustments.

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:

Purchase price	(In millions)
Cash consideration	$ 4,427
Total purchase price	4,427
Identified net assets acquired at fair value:	
Cash and cash equivalents	502
Restricted cash	1
Accounts receivable	76
Other current assets	23
Property, plant and equipment (excluding construction in progress)	3,059
Construction in progress	1,190
Other non-current assets	98
Intangible assets – right of way	100
Accounts payable	(91)
Other current liabilities	(110)
Credit facilities	(560)
Retirement and post-employment benefits	(65)
Other deferred credits	(44)
Decommissioning obligations	(225)
Deferred tax liability	(623)
Identifiable net assets acquired	3,331
Goodwill	1,096
Total purchase consideration	$ 4,427

The purchase price allocation above is preliminary and reflects management's estimate of the fair value of the assets and liabilities as at August 31, 2018. Adjustments to these estimates may be required and could be material.

6. Acquisition (continued):

Goodwill arising from the acquisition amounting to $473 million relates to 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 $623 million 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 determination of decommissioning obligations was based on a total undiscounted future liability of $439 million. 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 2.41%. 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 8).

TMC is exposed to significant risks as an oil pipeline operator such as operating risks, environmental risks, and security risks. We acquired TMC with the assumption that a significant part of the purpose is to build TMEP and $1.2 billion of construction in progress and a portion of allocated goodwill accrue to the purchase price. There is significant risk surrounding the completion of TMEP as the Appeal Court of Canada has halted construction and directed the National Energy Board to conduct additional hearings as well as the Government to conduct additional consultations with Indigenous people affected by TMEP. There is no certainty 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 probability of hostile demonstrations. Fair value for the pipeline assets and goodwill on acquisition was determined using a discounted cash flow model using a scenario approach to incorporate the above risks noted in relation to timing of project approval and potential delays in construction timing.

The TMC acquired entities contributed $33 million in revenues and operating income (defined as revenue less pipeline operating costs other than depreciation, salaries and benefits) of $15 million from September 1, 2018 to September 30, 2018. If the acquisition date had been on January 1, 2018, management estimates that consolidated revenue would have been $234 million higher, and operating income would have been $143 million higher for the nine months ended September 30, 2018. 1, 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.

7. Other current assets:

	September 30, 2018	December 31, 2017
Prepaid expenses	$ 9,444	$ 260
Inventory		
Crude oil	5,692	4,254
Pipeline – spare parts	5,814	-
Other	4,434	-
	$ 25,384	$ 4,514

See note 6 for details of other current assets related to the acquisition.

8. Property and equipment:

	Construction work in progress	Pipeline	Oil development assets and production facilities	TOTAL
Cost				
Balance at December 31, 2017	$ -	$ -	$ 512,664	$ 512,664
Acquisition	1,190,000	3,159,243	-	4,349,243
Additions for the period	48,919	-	17,439	66,358
Impact of foreign currency	(325)	-	-	(325)
Decommissioning adjustments	-	107,083	(7,514)	99,569
Balance at September 30, 2018	$ 1,238,594	$ 3,266,326	$ 522,589	$ 5,027,509
Accumulated depletion and depreciation				
Balance at December 31, 2017	$ -	$ -	$ 315,109	$ 315,109
Depletion and depreciation	-	9,508	32,447	41,955
Balance at September 30, 2018	$ -	$ 9,508	$ 347,556	$ 357,064
Carrying amounts:				
At December 31, 2017	$ -	-	$ 197,555	$ 197,555
At September 30, 2018	$ 1,238,594	$ 3,256,818	$ 175,033	$ 4,670,445

At September 30, 2018, costs subject to the calculations of depletion and depreciation included future development costs of $473,350 ($491,000 - December 31, 2017).

During the three and nine months ended September 30, 2018 capitalized interest of $70 was included in the cost of property and equipment – pipeline (2017-nil).

At September 30, 2018 an assessment of indicators of impairment was conducted for CHHC and TMC's cash generating units. No indicators were noted and accordingly an impairment test was not required.

9. Other assets:

	September 30, 2018	December 31, 2017
Prepaid construction advances	$ 39,654	$ -
Other - payments to be recovered through tolls	30,139	-
	$ 69,793	$ -

10. Other current liabilities:

	September 30, 2018	December 31, 2017
Dock premiums	$ 95,338	$ -
Other	13,826	-
	$ 109,164	$ -

11. Provisions:

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

	Decommissioning Obligations		
	Pipeline	Wells & Facilities	Site restoration
Balance at December 31, 2017	$ -	$ 133,398	$ 12,080
Additional provisions/acquisition	224,754	-	986
Changes in estimates	-	(1,570)	(1,202)
Obligations settled	-	(2,033)	(1,544)
Changes in discount rate	107,084	(5,944)	(209)
Unwind of discount	666	2,248	118
Balance at September 30, 2018	$ 332,504	$ 126,099	$ 10,229
Total decommissioning obligations		$ 458,603	
Current	$ -	$ 4,617	2,317
Non-current	332,504	121,482	7,912
Provisions	$ 332,504	$ 126,099	$ 10,229

a) Provision for decommissioning obligations of CHHC:

The provision for decommissioning obligations is based on CHHC's net ownership interest in wells and facilities and management's estimate of costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred. CHHC estimates the total future undiscounted liability to be $266,905 at September 30, 2018 ($268,401 - December 31, 2017). Estimates of decommissioning obligation costs can change significantly based on factors such as operating experience and changes in legislation and regulations.

11. Provisions (continued):

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 September 30, 2018 using an inflation rate of 2.00% (2.00% - December 31, 2017) and was discounted using an average risk-free rate of 2.39% (2.16% - December 31, 2017).

b) Provision for site restoration of CEI:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to the sale of assets to Cameco. Provision for site restoration as at the date of the interim condensed consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The future estimate of costs for site restoration has been discounted at a rate of 2.24% (December 31, 2017 – 1.73%) and an inflation rate of 2.0% was used to calculate the provision at September 30, 2018 (December 31, 2017 – 2.0%).

c) Provision for decommissioning obligations of TMC:

The provision for decommissioning obligations for the pipeline properties is based on TMC management's estimate of costs to abandon which is estimated to be $332,503 at September 30, 2018, discounted at a risk free rate of 2.41%. The undiscounted decommissioning liability is estimated to be $439,000, with an inflation rate of 2.0% and an expected remaining useful life of 80 years.

12. Loan payable:

On August 29, 2018, TMP Finance entered into a Credit Agreement with Her Majesty in Right of Canada. The facility is part of the Canada Account of the government, administered by Export Development Canada. The terms of the agreement allow TMP Finance to borrow up to $5 billion for the acquisition of the Trans Mountain Pipeline entities and $1 billion under the Construction Facility to finance the construction of the TMEP. A third facility, the NEB Facility for $500,000, allows TMP Finance to borrow funds for the purpose of providing financial assurance for the Trans Mountain Pipeline as required by the National Energy Board. The Acquisition Facility and NEB Facility expire in 2023 and the Construction Facility expires in August 2019. Borrowings incur interest costs of 4.7% per annum. Undrawn committed amounts incur standby fees of 0.065% per annum on the Acquisition and Construction Facilities and 0.3% on the NEB Facility. At September 30, 2018 the amounts outstanding were: Acquisition Facility $4,670,000, Construction Facility $30,000, NEB Facility $500,000. At September 30, 2018 the available committed credit amounts were $330,000 on the Acquisition facility and $970,000 on the Construction Facility. Total interest expense for the three and nine-month periods ended September 30, 2018 was $21,265.

13. Supplemental cash flow disclosure:

Changes in non-cash working capital balances include the following:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Change in trade and other receivables	$ 11,549	$ 4,254	$ 4,254	$ 16,205
Change in inventory	(1,122)	(138)	(1,401)	1,018
Change in other current assets	4,621	426	3,498	(381)
Deferred charges and other assets	(21,750)	-	(21,750)	-
Change in trade and other payables	37,627	(6,381)	35,190	(17,015)
Interest payable and other current liabilities	21,560	-	21,560	-
Other deferred credits	23,519	-	23,519	-
Change in non-cash working capital items	$ 76,004	$ (1,839)	$ 64,870	$ (173)
Relating to:				
Operating activities	$ 86,059	$ (5,461)	$ 78,325	$ (303)
Investing activities	(10,055)	3,622	(13,455)	130
	$ 76,004	$ (1,839)	$ 64,870	$ (173)

Property and equipment expenditures comprise the following:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Property and equipment additions (note 8)	$ (55,074)	$ (4,478)	$ (66,358)	$ (18,610)
Change in non-cash investing working capital	(10,055)	3,622	(13,455)	130
Cash used for property and equipment expenditures	$ (65,129)	$ (856)	$ (79,813)	$ (18,480)

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

a) Net crude oil revenue is comprised as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Gross crude oil revenue	$ 65,315	$ 57,567	$ 211,227	$ 196,311
Less: marketing fees	(73)	(88)	(329)	(364)
Less: royalties	(19,495)	(13,319)	(57,779)	(40,912)
Less: net profits interest	(5,294)	(2,606)	(16,319)	(11,013)
Net crude oil revenue	$ 40,453	$ 41,554	$ 136,800	$ 144,022

b) Gross crude oil revenue, disaggregated by geographical market, is comprised as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Europe	$ 22,480	$ –	$ 74,208	$ 18,067
Canada	13,871	51,395	50,303	93,739
United States	28,964	6,172	52,324	72,867
South America	–	–	17,521	–
Asia	–	–	16,871	11,638
	$ 65,315	$ 57,567	$ 211,227	$ 196,311

c) Production and operating expenses for the periods ended September 30 are comprised as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Hibernia joint account production and operating	$ 5,405	$ 4,274	$ 14,845	$ 13,002
Crude oil transportation	1,476	1,514	4,594	5,247
Facility use fees net of incidental net profits interest	(452)	(626)	(1,742)	(2,523)
Total production and operating	$ 6,429	$ 5,162	$ 17,697	$ 15,726

15. Revenue and operating expenses from pipeline operations:

For the month of September, pipeline revenues from TMC's operations, disaggregated by revenue source and type of revenue, is comprised as follows:

	September 30, 2018
Transportation revenue	$ 27,481
Leases and other revenue	$ 5,202
Total	$ 32,683
Operating expenses excluding interest and depreciation	$ 17,260

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

16. Income Taxes:

CHHC and TMC are subject to income tax in Canada. CDEV, CEI and TMP Finance are not subject to income tax and this has an impact on the effective tax rate on consolidated net income as interest expense incurred in those entities is not deductible.

Upon acquisition of TMC, a deferred tax liability of $623 million was recorded. (see note 6)

17. Commitments:

CDEV's commitments at September 30, 2018 are summarized in the table below and include crude oil transportation and transshipment commitments, CHHC's share of Hibernia Project contract commitments (well and related services including helicopters and support vessels), 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"):

	2018	2019-2022	Thereafter	Total
Crude oil transportation and transshipment services	$ 1,413	$ 17,592	$ 28,606	$ 47,611
Hibernia Project contracts	1,425	22,873	–	24,298
Pipeline PPE	98,093	6,227	–	104,320
TMC leasing	1,091	16,931	97,224	115,246
Office premises	143	392	–	535
Total Commitments	$102,165	$ 64,015	$ 125,830	$ 292,010

18. 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 defense against the action is unsuccessful, is currently not determinable.

In March 2015, CDEV received notice of a lawsuit filed in 2014 in the Republic of Panama against Multidata Systems International Inc., Nordion Inc., and CDEV. The lawsuit alleges that the defendants are liable for injuries to the plaintiffs as a result of overexposure to radiation from equipment during treatments received at a clinic in Panama. Management believes that it is not probable there will be an outflow of resources in relation to this lawsuit and thus no accrual has been recorded on the interim condensed consolidated financial statements as at September 30, 2018.

TMC is party to a number of legal actions to which hearings are set for early 2019, with a decision issued in the second or third quarter of the same year. It is unclear at this time the outcome of these proceedings and therefore no accrual has been made.

19. Risks to the Corporation:

Overview:

The nature of CDEV's consolidated operations expose the Corporation to risks arising from its financial instruments that may have a material effect on cash flows, profit and comprehensive income (loss). The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; they should be read in conjunction with the Corporation's annual consolidated financial statements as at December 31, 2017. There have been no changes in the Corporation's financial risk management objectives, policies and processes for measuring and managing these risks since year end.

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

19. Risks to the Corporation (continued):

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. This is generally in the form of guarantees from credit worthy parties or letters of credit from highly rated financial institutions. Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from trade and other receivables. The composition of trade and other receivables is as follows:

	Nine-months ended September 30, 2018	Year-ended December 31, 2017
Contracts with pipeline shippers	$ 79,181	$ -
Contracts with crude oil customers	-	18,328
Hibernia joint arrangement	5,255	1,661
HST/GST input tax credits	1,358	1,439
Other	8,547	818
Trade and other receivables	$ 94,341	$ 22,246
Amount outstanding greater than 90 days	$ 778	$ 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 September 30, 2018 is not material for recognition purposes. The ECLs for TMC receivables has been calculated and is not significant.

The Corporation's cash and cash equivalents (including those held in escrow and held for future abandonment and risk fund) are exposed to investment-grade Canadian banks and financial institutions and the Government of Canada, accordingly the ECLs provision at September 30, 2018 related to cash and cash equivalents is not material for recognition purposes.

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

Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, interest and loans payable approximate fair value because of the short-term nature of these items.

19. Risks to the Corporation (continued):

The carrying amount of cash and cash equivalents held for future obligations and loans payable is a reasonable approximation of fair value. The restricted assets are measured at fair value. Fair values for the restricted asset 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. Such techniques represent a Level 2 fair value measurement. There were no movements between levels in the fair value hierarchy during the period.

20. Related party transactions:

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

CDEV paid no dividends to the Government of Canada during the three and nine months ended September 30, 2018 or September 30, 2017.

CDEV received loans from the Canada Account of the government administered by EDC to fund TMC's purchase of the Trans Mountain pipeline system and TMEP in the amount of $5.2 billion which bears interest at 4.7%.

21. Subsequent event:

On October 12, 2018, the Corporation's Board of Directors declared a dividend payable to the government of $44,000 which was paid on October 19, 2018.

22. Reclassification:

Certain prior period comparative figures have been reclassified to conform to the current period's presentation. This reclassification had no impact on the Corporation's financial position, income before income taxes or comprehensive income.