Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

First Quarter Report
March 31, 2019

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 May 23, 2019.

Michael Carter
Executive Vice-President

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

Toronto, Ontario
May 23, 2019

Management Discussion and Analysis of Results – for the period ended March 31, 2019

The public communications of Canada Development Investment Corporation ("CDEV"), including this quarterly 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 is as of May 23, 2019 and should be read in conjunction with CDEV's unaudited interim condensed consolidated financial statements for the period ended March 31, 2019 and CDEV's Annual Report for the year ended December 31, 2018.

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 while protecting the government's investment, ensuring compliance with applicable laws and rules, and operating in a manner consistent with Canada's commitment to advance reconciliation with Indigenous peoples.

Canada Development Investment Corporation

CDEV management is working closely with the board and management of TMC to continue the transition of the company from a subsidiary of Kinder Morgan to being a Crown corporation. This included additions to management, establishing risk assessment structures, setting up procedures to monitor the management of the TMEP if that is approved, arranging necessary financing and producing meaningful financial information. CDEV is progressing a 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.

Trans Mountain Corporation

In the three months ended March 31, 2019 TMC generated $100 million in revenue and $49 million in earnings before interest, taxes, and depreciation ("EBITDA"). As TMC was not owned by CDEV in the comparative period there are no comparative figures. We note that under TMC's continuing use of US GAAP, revenue and EBITDA were approximately the same as under IFRS in the period. For details see notes 12 and 17.

In the same period TMC spent approximately $129 million on the TMEP, on top of the $160 million spent in 2018 under CDEV ownership. 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.

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 Governor in Council (“GIC”) of the federal government approve the TMEP subject to 156 conditions, which are measures that the NEB can enforce upon the Trans Mountain Pipeline (“TMPL”) and the TMEP under its authority as regulator. Management believes the conditions recommended by the NEB are reasonable and TMC 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 any new conditions and measures.

For further details please see the TMC Q1 2019 financial report at www.transmountain.com.

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. TMP Finance 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 TMPL. The $500 million was repaid in the quarter and the Financial Requirements are provided to TMC through a continuing, undrawn NEB credit facility.

Canada Hibernia Holding Corporation

CHHC’s after-tax profit of $17 million in the period ended March 31, 2019 was 29% lower than the comparative period due mainly to lower net crude oil revenue.

Net crude oil revenue, calculated as crude oil sales less royalties and net profits interest (“NPI”), decreased by 16% or $9 million to $45 million in Q1 2019 from $54 million in the comparative period. The decrease was driven by a 15% decrease in oil sales volume and 2% CAD sales price decrease. The sales volume decrease was the result of the timing of oil tanker cargo sales, and not directly related to production fluctuations. Gross Hibernia production averaged 130,363 barrels per day in Q1 2019, slightly lower than the 133,365 barrels per day in the comparative period. CHHC’s net share of production increased by 3% due to a higher increase in main field production, where CHHC has a higher ownership interest. Royalty and NPI costs fell commensurate with lower crude oil sales.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The price of Dated Brent crude decreased 5% to average US $63.18 per barrel from US $66.81 per barrel in Q1 2018 and CHHC realized a small price discount to Dated Brent in the period compared to a small premium to Dated Brent in the comparative period.

During the period ended March 31, 2019, capital investment was $5 million.

Canada Eldor Inc.

There was no significant change in the management of CEI’s liabilities. $0.5 million was spent on site restoration efforts and there was no change in the estimated cost for site restoration in the period.

Analysis of External Business Environment

The ongoing management of our holdings will depend on overall market and economic conditions as well as factors specific to the underlying company or investment. No material changes have been identified since December 31, 2018 as described in the 2018 Annual Report.

Risks and Contingencies

The potential development of TMEP faces several legal and regulatory challenges. In the first quarter of 2019 the government indicated that at the earliest, the government will respond to the NEB reconsideration report issued February 22, 2019 by June 2019. A significant delay in the receiving the required authorization to proceed with TMEP would increase the risk of an uneconomic return associated with developing TMEP.

At March 31, 2019 TMP Finance was awaiting approval to extend its construction credit facility beyond August 2019 which increases the financial risk of the Corporation. No other material changes in risks and contingencies have been identified since December 31, 2018 as described in the 2018 Annual Report.

Financial Statements for the Period Ended March 31, 2019

The consolidated financial statements for the three months ended March 31, 2019 with comparative figures for Q1 2018, have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to interim periods, including IAS 34, *Interim Financial Reporting*.

TMC prepares its financial statements in accordance with US GAAP, and applies rate regulated accounting standards. To read the US GAAP Q1 2019 TMC financial statements please go to www.transmountain.com. Note 17 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 are described in note 17.

Consolidated revenue for the year period ended March 31, 2018 was $145 million, compared to revenue of $53 million in the comparative period. The increase is primarily due to the inclusion of $85 million in TMC revenues from pipeline operations and $14 million from merchant tank lease revenue. The $9 million decrease in net crude oil revenue is primarily due to a 15% decrease in sales volume.

Total expenses for the year excluding finance costs were $103 million, compared to $23 million in the comparative period. The increase is due to the inclusion of $77 million in expenses of TMC. Crude oil production and operating costs were $7 million in the quarter, approximately the same as in the comparative quarter.

Interest expense in the period ended March 31, 2019 incurred on the acquisition and construction loans payable was $56 million, and $5 million on the NEB Facility. The NEB facility was drawn until March 28 to back stop a $500 million letter of credit in favour of Kinder Morgan. The letter of credit was cancelled, and the required $500 million in financial resources available to TMC is now provided by an undrawn credit facility of the Canada Account of the Government managed by Export Development Canada. After March 28, TMP Finance no longer pays interest on the NEB Facility loan but instead is charged a standby fee of 0.30% per annum for the undrawn amounts of the $500 million NEB facility. This will reduce interest costs in future periods.

The loss before income taxes for the period ended March 31, 2019 was $15 million, compared to a profit of $34 million in the comparative period primarily due to the $14 million in pre-tax losses of TMC, $23 million in incremental interest costs of TMP Finance, and a $10 million decrease in CHHC pre-tax profit.

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 March 31, 2019 increased to $404 million compared to $345 million at December 31, 2018 largely due to the positive cash flow of TMC of $55 million and $10 million for CHHC in the period. Total restricted cash decreased by $500 million as a result of the $500 million on deposit at year end being used to repay the NEB credit facility.

Accounts receivable decreased by $76 million at March 31, 2019 from year end, due to the increase in receivables of $24 million at CHHC and a $101 million decrease in TMC accounts receivable after year-end accounts receivable were collected.

Property, plant and equipment increased $227 million since year end primarily due to $129 million in capital expenditures on TMEP, net of depreciation, of $34 million for TMC and a net increase of $3 million for CHHC including increases in decommissioning adjustments of $122 million for TMC and $13 million for CHHC due to a decrease in discount rates in the period. Starting in Q1 2019, new accounting rules require leases over one year to be recorded as a right of use asset. Right-of-use assets at March 31, 2019 are $49 million for TMC and $25 million for CHHC with none at December 31, 2018.

Interest payable increased since year end as interest is paid at the end of June and December each year. Other current liabilities increased $79 million due to the increase of $79 million in TMC dock premiums owing.

Loans payable decreased $500 million after the NEB facility loan was repaid.

The provision for decommissioning obligations increased $137 million primarily due to the decrease in average discount rate from 2.15% at December 31, 2018 to 1.86% at March 31, 2019. Other non-current liabilities decreased by $63 million primarily due to a decrease in dock premiums of $68 million.

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three months ended March 31, 2019

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

(Thousands of Canadian Dollars)

		March 31, 2019		December 31, 2018
Assets				
Current assets:				
Cash and cash equivalents	$	404,213	$	344,857
Restricted cash (note 5)		255		500,683
Trade and other receivables (note 15)		82,567		158,979
Income taxes receivable		5,216		3,497
Other current assets		21,493		18,743
Investments held for future obligations		2,520		2,518
		516,264		1,029,277
Non-current assets:				
Property, plant and equipment (note 6)		5,082,041		4,854,621
Goodwill (note 4)		1,016,240		1,016,582
Investments held for future obligations		146,869		151,233
Restricted cash (note 5)		57,409		56,660
Restricted investments		61,035		54,783
Right-of-use assets (note 7)		76,255		-
Other assets		32,227		46,328
Deferred tax asset		18,747		17,735
		6,490,823		6,197,942
	$	7,007,087	$	7,227,219
Liabilities and Shareholder's Equity				
Current liabilities:				
Trade and other payables	$	157,133	$	132,843
Current portion of loans payable (note 9)		120,000		120,000
Interest Payable		56,297		677
Current portion of provision for decommissioning obligations (note 8(a))		2,622		3,141
Current portion of provision for site restoration (note 8(b))		2,333		2,329
Current portion of lease liabilities (note 7)		13,304		-
Other current liabilities		187,985		109,010
		539,674		368,000
Non-current liabilities:				
Loans payable (note 9)		4,670,000		5,170,000
Deferred income taxes		555,931		560,966
Lease liabilities (note 7)		63,332		-
Provision for decommissioning obligations (note 8(a))		663,379		526,000
Provision for site restoration (note 8(b))		7,377		7,809
Defined benefit obligation		78,244		78,390
Other non-current liabilities		109,055		171,903
		6,147,318		6,515,068
Shareholder's equity:				
Share capital		1		1
Contributed surplus		603,294		603,294
Accumulated deficit		(288,163)		(269,902)
Accumulated other comprehensive income		4,963		10,758
		320,095		344,151
Commitments (note 13)				
Contingencies (note 14)				
	$	7,007,087	$	7,227,219

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 March 31	
	2019	2018
Revenue:		
Net crude oil revenue (note 11)	$ 45,165	$ 53,546
Transportation revenue (note 12)	84,947	-
Lease revenue (note 12)	14,491	-
Other revenue (note 12)	852	-
	145,455	53,546
Other income:		
Facility use and processing fees, net of incidental net profits interest	885	678
Foreign exchange gains	566	2,056
	146,906	56,280
Expenses:		
Depletion and depreciation (note 6)	41,129	13,408
Crude oil operating, transportation and marketing (note 11)	6,651	7,503
Pipeline operating expenses (note 12)	32,065	-
Salaries and benefits	17,615	713
Professional fees	3,405	914
Foreign exchange losses	831	697
Change in provision for site restoration (note 8)	-	(614)
Other administrative expenses	1,086	263
	102,782	22,884
Finance expenses (income):		
Interest expense (note 9)	60,649	-
Interest income	(4,459)	(1,128)
Unwind of discount on decommissioning obligations (note 8(a))	2,756	710
Unwind of discount on provision for site restoration (note 8(b))	37	39
	58,983	(379)
Net income (loss) before income taxes	(14,859)	33,775
Income taxes:		
Current	9,673	10,857
Deferred	(6,271)	(942)
	3,402	9,915
Net income (loss)	$ (18,261)	$ 23,860
Other comprehensive income (loss):		
Items that may be reclassified subsequently to profit or loss		
Currency translation adjustment	337	-
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit obligations	(6,132)	-
	(5,795)	-
Comprehensive income (loss)	$ (24,056)	$ 23,860

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 March 31	
	2019	2018
Share capital		
Balance, beginning and end of period	$ 1	$ 1
Contributed surplus		
Balance, beginning and end of period	603,294	603,294
Accumulated deficit		
Balance, beginning of period	(269,902)	(163,775)
Net income (loss)	(18,261)	23,860
Balance, end of period	(288,163)	(139,915)
Accumulated other comprehensive income		
Balance, beginning of period	10,758	-
Other comprehensive income	(5,795)	-
Balance, end of period	4,963	-
Total shareholder's equity	$ 320,095	$ 463,380

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 March 31	
	2019	2018
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ (18,261)	$ 23,860
Adjustments for:		
Depletion and depreciation	42,803	13,408
Income tax expense	3,402	9,915
Net change in defined benefits	316	(49)
Interest income	(4,459)	(1,128)
Lease interest expense	861	-
Change in provision for site restoration	-	(614)
Unrealized foreign exchange gain on lease	(79)	-
Unwind of discount on provisions	2,793	749
Interest received	4,402	1,298
Provisions settled	(887)	(1,533)
Income taxes paid	(10,094)	(9,750)
	20,797	36,156
Change in non-cash working capital (note 10)	91,197	232
	111,994	36,388
Financing activities:		
Repayments of loan payable	(500,000)	-
Payment of lease liabilities, principal portion	(3,184)	-
Payment of lease liabilities, interest portion	(861)	-
	(504,045)	-
Investing activities:		
Purchase of property, plant and equipment	(85,681)	(7,349)
Sale of short term investments	-	29,999
Working capital settlement from acquisition	37,020	-
Withdrawal from CRF	5,000	-
Decrease in restricted cash	499,679	-
Purchase of restricted investments	(3,731)	-
Change in investments held for future obligations	(581)	(386)
	451,706	22,264
Effects of FX translation on cash	(299)	-
Change in cash and cash equivalents	59,356	58,652
Cash and cash equivalents, beginning of period	344,857	176,357
Cash and cash equivalents, end of period	$ 404,213	$ 235,009
Represented by:		
Cash	310,370	64,357
Cash equivalents	93,843	170,652
	$ 404,213	$ 235,009

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

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"), and Trans Mountain Corporation ("TMC").

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".

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

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 are agents of Her Majesty in Right of Canada. TMC is also subject to the *Income Tax Act*.

TMC owns and operates 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").

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 9 for loan details.

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

1. Reporting entity (continued):

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

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.

2. Basis of preparation:

a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to interim periods, including 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, 2018.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 23, 2019.

b) Basis of measurement:

The interim condensed 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 the Puget Sound pipeline which uses the U.S. dollar as its functional currency.

d) Use of estimates and judgments:

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

2. Basis of preparation (continued):

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 3(v) of the Corporation's annual consolidated financial statements for the year ended December 31, 2018, except for new significant judgements and key sources of estimation uncertainty related to the application of new accounting policies, which are described in note 3 below.

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of application as those presented in note 3 of the annual audited consolidated financial statements for the year ended December 31, 2018, except for those policies which have changed as a result of the adoption of new accounting standards, amendments or interpretations effective January 1, 2019, as described below. In addition, income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

Changes in accounting policies:

The following accounting standards, amendments to standards and interpretations 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:

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

IFRS 16 is a major revision to the way in which companies account for leases, in that it requires almost all leases to be included on the statement of financial position of lessees. IFRS 16 replaces the previous IAS 17 *Leases* and related interpretation IFRIC 4 *Determining whether an arrangement contains a lease*, and as a result, the Corporation changed its accounting policy for leases as detailed below.

Up to the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Significant accounting policy applicable from January 1, 2019

At inception of a contract entered into, or changed, on or after January 1, 2019, the Corporation assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

3. Significant accounting policies (continued):

Changes in accounting policies (continued):

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Corporation has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used.

As a lessee

All leases are accounted for by recognizing a right-of-use asset and lease liability at the lease commencement date, except for short term leases (original lease term of 12 months of less) and leases of low value assets. As a practical expedient, these types of leases are expensed or (if appropriate) capitalized as incurred, depending on the activity in which the leased asset is used. Low-value assets comprise IT and office equipment.

Lease liabilities are initially measured at the present value of the contractual payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if this is not readily determinable, the Corporation's incremental borrowing rate. Lease payments included in the initial measurement of the lease liability comprise the following, as applicable:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Corporation is reasonably certain to exercise, lease payments in an optional renewal period if the Corporation is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortised cost using the effective interest method. Lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if in the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option.

3. Significant accounting policies (continued):

Changes in accounting policies (continued):

Right-of-use assets are initially measured at cost comprised of the amount of the lease liability, reduced for any lease incentives received, and increased for lease payments made at or before the commencement date, initial direct costs incurred, and the estimated costs to dismantle, remove or restore the leased asset where the Corporation is contractually required to do so.

Right-of-use assets are subsequently depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Right-of-use assets are tested for impairment in accordance with IAS 36, *Impairment of assets*.

For office leases and certain equipment contracts that both convey a right to the Corporation to use an identified asset and require services to be provided to the Corporation by the lessor, the Corporation has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

As a lessor

The accounting policies applicable to the Corporation as a lessor under IFRS 16 were not different from the comparative period.

Transition

The Corporation applied the following transition options permitted under IFRS 16:

- IFRS 16 was applied initially, using the modified retrospective approach whereby the cumulative effect of adopting IFRS 16, if any, is recognised as an adjustment to retained earnings at January 1, 2019, with no restatement of comparative information.
- Contracts already classified either as leases under IAS 17 and IFRIC 4 or as non-lease service arrangements will maintain their respective classifications upon the implementation of IFRS 16 (“grandfathering of contracts”); and
- Right-of-use assets have been initially recognized at an amount equal to the corresponding lease liability.

On transition at January 1, 2019, the aggregate lease liability and corresponding amount for right-of-use assets recognized in the statement of financial position was $ 79.7 million. The right-of-use assets were categorized as $26.7 million for equipment, $12.5 million buildings and $40.5 million for land. The weighted average incremental borrowing rate applied to lease liabilities at January 1, 2019 is 4.29%.

3. Significant accounting policies (continued):

Changes in accounting policies (continued):

The difference between operating lease commitments disclosed as at December 31, 2018 and the lease liabilities recognized at January 1, 2019 is explained as follows:

Total commitments disclosed as at December 31, 2018	$	520,848
Non-lease elements		(363,766)
Gross lease commitments at December 31, 2018		157,082
Additions or adjustments		10,128
Impact of discounting using the Corporation's incremental borrowing rate as at January 1, 2019		(87,556)
Lease liabilities, January 1, 2019	$	79,654
Current portion	$	14,528
Long-term portion	$	65,126

There was no impact on opening retained earnings at January 1, 2019.

Use of estimates and judgments

The implementation of IFRS 16 required management to apply judgment and use estimates in the following areas:

- Determining the customer in Hibernia Project lease contracts: As is common in the oil and gas industry, the Hibernia Project activities are carried out jointly with others. CHHC has undivided working interests in the Hibernia Project as outlined in note 1. Since lease assets and liabilities must be recognized by the customer in the lease contract, CHHC is required to evaluate for each lease contract whether the Hibernia Project working interest owners are jointly considered to be the customer in the Hibernia Project lease contracts, or whether the Hibernia Project operator is the customer in the lease contracts. Depending on the facts and circumstances in each case, the conclusions reached could vary between contracts. In summary, the Corporation used judgment in concluding that although the operator, HMDC, is the sole signatory to the Hibernia Project lease contracts, it does so implicitly or explicitly on behalf of the working interest owners. Accordingly, the Corporation recognizes its proportionate share of the Hibernia Project leases entered into by the operator, as CHHC is considered to share responsibility for the lease liabilities.

- Determining the Corporation's incremental borrowing rate: In measuring the present value of the lease liability under IFRS 16, the standard requires that the lessee's incremental borrowing rate be used as the discount rate if (as is typically the case) the interest rate implicit in the lease cannot be readily determined. Significant judgment is used to estimate the Corporation's incremental borrowing rate. Factors include the Government of Canada's borrowing rates, credit risk spreads applicable to the Corporation or its subsidiaries, the duration of the lease term and the currency of the obligation.

3. Significant accounting policies (continued):

Changes in accounting policies (continued):

- Evaluating the impact of option periods for the lease terms: Certain of the Corporation's leases include options to extend the lease term. Under IFRS 16, the evaluation of whether each lease contract's extension terms are considered reasonably certain to be exercised, is made at commencement of the leases and subsequently when facts and circumstances which are under the control of the Corporation require it. In the Corporation's view, the term "reasonably certain" implies a high level of probability, and this has been reflected in its evaluations.

Refer to note 7 for further lease disclosures.

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

The amendments to IAS 12 clarify that an entity must recognize all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend. The application of the amendments to IAS 12 had no impact on the Corporation's interim condensed consolidated financial statements.

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

IFRIC 23 clarifies the application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments that have yet to be accepted by tax authorities. The application of IFRIC 23 had no impact on the Corporation's interim condensed consolidated financial statements.

4. 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 were included in professional fees.

During the fourth quarter of 2018, 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.

4. Acquisition of subsidiary (continued):

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:

	(In 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	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.

The Corporation acquired the TMC entities on the basis that a significant part of the purpose is to build TMEP and $1.1 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 (see Note 14, Contingencies for further details).

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.

5. Restricted cash:

	March 31, 2019	December 31, 2018
Restricted cash – NEB letter of credit (see note 9)	$ -	$ 500,000
Restricted cash – TMC held for future abandonment costs	255	683
Restricted cash – TMC letters of credit	48,909	48,160
Restricted cash – CHHC letters of credit	8,500	8,500
	$ 57,664	$ 557,343
Represented by:		
Current portion	$ 255	$ 500,683
Non-current portion	57,409	56,660
	$ 57,664	$ 557,343

6. Property, plant 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	1,130,070	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
Foreign exchange movements	-	12,397	-	12,397
Balance at December 31, 2018	$ 1,277,356	$ 3,426,781	$ 542,787	$ 5,246,924
Additions for the period	133,498	-	4,986	138,484
Transfers	641	(641)	-	-
Decommissioning adjustments	-	122,438	12,848	135,286
Foreign exchange movements	-	(6,204)	-	(6,204)
Balance at March 31, 2019	$ 1,411,495	$ 3,542,374	$560,621	$ 5,514,490
Accumulated depletion and depreciation:				
Balance at December 31, 2017	$ -	$ -	$ 315,109	$ 315,109
Depletion and depreciation	-	34,468	43,202	77,670
Foreign exchange movements	-	(476)	-	(476)
Balance at December 31, 2018	$ -	$ 33,992	$ 358,311	$ 392,303
Depletion and depreciation	-	25,853	14,346	40,199
Foreign exchange movements	-	(53)	-	(53)
Balance at March 31, 2019	$ -	$ 59,792	$372,657	$ 432,449
Carrying amounts:				
At December 31, 2018	$ 1,277,356	$ 3,392,789	$ 184,476	$ 4,854,621
At March 31, 2019	$ 1,411,495	$ 3,482,582	$ 187,964	$ 5,082,041

6. Property, plant and equipment (continued):

At March 31, 2019, oil and gas assets and production facilities costs subject to the calculations of depletion and depreciation included future development costs of $566,014 ($571,000 - December 31, 2018).

During the period ended March 31, 2019 capitalized interest of $1,432 was included in the cost of property, plant and equipment – pipeline (2018- nil).

At March 31, 2019 an assessment of indicators of impairment was conducted for the Corporation's cash generating units. No indicators were noted and accordingly an impairment test was not required.

For details on decommissioning adjustments, see note 8, Provisions.

7. Right-of-use assets and leases:

The Corporation leases certain assets including office buildings, land and equipment.

The category of equipment includes CHHC's proportionate working interest share of three support vessels leased by HMDC on behalf of the Hibernia Project owners. The leases comprise monthly fixed payments, extend to the year 2027 and a portion of the lease payments are incurred in US dollars. Equipment leases also include a power substation, vehicles, and office equipment.

Land includes lease for space at the Westridge marine terminal which consists of land and water area as well as land for pump stations and temporary construction space and extend up to the year 2105.

The category of buildings includes the monthly fixed lease payments made for the Corporation's office building spaces in Alberta, BC and Ontario. It also includes CHHC's proportionate working interest share of HMDC's office building space in St. John's, NL. The leases extend to the year 2025.

Certain contracts contain renewal options. The execution of such options is not reasonably certain and will depend on future market conditions and business needs at the time when such options are to be exercised. Some leases are subject to annual changes in Consumer Price Index ("CPI") and the lease liability is remeasured when there are changes to the CPI. Additionally, some of real estate leases contain variable lease payments related to operating costs.

The Corporation is not exposed to any significant additional potential cash outflows that are not included in the reported amount of the lease liabilities, other than certain termination penalties which the Corporation considers not reasonably certain to incur as at March 31, 2019.

7. Right-of-use assets and leases (continued):

Statement of Financial Position:

Details of right-of-use assets (including additions to and depreciation of) as follows:

	Equipment and Vehicles	Land and Buildings	Total
January 1, 2019			
Initial Recognition	$ 26,664	$ 52,990	$ 79,654
Additions	281	-	281
Depreciation	(1,042)	(2,603)	(3,645)
Foreign exchange	(35)	-	(35)
March 31, 2019	$ 25,868	$ 50,387	$ 76,255

Details of lease liabilities are as follows:

Lease liabilities, January 1, 2019	$ 79,654
Additions	281
Interest expense	861
Lease payments	(4,045)
Foreign exchange movements	(115)
Lease liabilities, March 31, 2019	$ 76,636
Current portion	$ 13,304
Long-term portion	$ 63,332

Maturity analysis – contractual undiscounted cash flows

	2019	2020-2023	Thereafter	Total
Lease liabilities	$ 10,781	$ 33,382	$ 119,033	$ 163,196

Statement of Comprehensive Income and Statement of Cash Flows:

	Three months ended March 31, 2019*
Statement of Comprehensive Income:	
Interest on lease liabilities (net of capitalized interest)	$ 541
Statement of Cash Flows:	
Total cash outflow for leases	$ 4,045

**Comparative figures are not available as IFRS 16 was not applied in 2018 under the modified retrospective method of adoption of IFRS 16*

8. Provisions:

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

	Decommissioning Obligations			
	Pipeline	Wells & Facilities	Total	Site restoration
Balance at December 31, 2018	$ 387,610	$ 141,531	$ 529,141	$ 10,138
Changes in estimates	-	(414)	(414)	-
Obligations settled	-	(422)	(422)	(465)
Changes in discount rate	122,438	13,262	135,700	-
Effect of foreign exchange	(760)	-	(760)	-
Unwind of discount	2,107	649	2,756	37
Balance at March 31, 2019	$ 511,395	$ 154,606	$ 666,601	$ 9,710
Current		2,622	2,622	2,333
Non-current	511,395	151,984	663,379	7,377
Provisions at March 31, 2019	$ 511,395	$ 154,606	$ 666,001	$ 9,710

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 $290,508 at March 31, 2019 ($291,928 - December 31, 2018). 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 March 31, 2019 using an inflation rate of 2.00% (2.00% - December 31, 2018) and was discounted using an average risk-free rate of 1.86% (2.15% - December 31, 2018).

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 $511,395 at March 31, 2019 (December 31, 2018 - $387,610) discounted at a risk-free rate of 1.9% (December 31, 2018 - 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.

8. Provisions (continued):

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 interim condensed consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The future estimate of costs for site restoration has been discounted at a rate of 1.88% (December 31, 2018 – 1.73%) and an inflation rate of 2.0% was used to calculate the provision at March 31, 2019 (December 31, 2018 – 2.0%).

9. Loan payable:

On August 29, 2018, TMP Finance entered into 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. On March 25, 2019 TMP Finance entered into an amended NEB Credit Agreement which allows TMP Finance to provide to TMC the required NEB financial resource requirements. With this new credit agreement, TMC was able to cancel the credit agreement with Kinder Morgan that back-stopped a $500 million letter of credit. After the letter of credit was cancelled, $500 million of restricted cash on deposit was used to repay the outstanding loan on the NEB Facility.

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 and other corporate purposes. The available credit on the Acquisition facility expired in January 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 March 31, 2019 are as follows:

Facility	Total Available Credit	Outstanding Amounts	Interest Rate Disbursed amounts	Standby Fee Undisbursed amounts	Maturity Date
Acquisition	$ 4,670,000	$ 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	$ -	4.7%	0.30%	August 29, 2023
		$ 4,790,000			
Current portion		$ 120,000			
Non-current portion		$ 4,670,000			

9. Loan payable (continued):

Total interest expense for the periods ended March 31 is comprised of the following:

	2019	2018
Interest on Loan payables	$ 61,047	-
Interest on leases	861	-
Interest capitalized	(1,432)	-
Standby fees	173	-
	$ 60,649	$ -

10. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the periods ended March 31 include the following:

	2019	2018
Trade and other receivables	$ 39,392	$ 3,501
Inventory	155	1,100
Other current assets	(1,865)	(1,247)
Deferred charges and other assets	14,101	-
Trade and other payables	22,991	(5,028)
Interest payable	55,620	-
Other current liabilities	78,975	-
Other deferred credits	(65,369)	-
Change in non-cash working capital items	$ 144,000	$ (1,674)
Relating to:		
Operating activities	$ 91,197	$ 232
Investing activities	52,803	(1,906)
Change in non-cash working capital items	$ 144,000	$ (1,674)

Property and equipment expenditures comprise the following:

	2019	2018
Property, plant and equipment additions (note 6)	$ (138,484)	$ (5,443)
Change in non-cash investing working capital	52,803	(1,906)
Cash used for property, plant and equipment expenditures	$ (85,681)	$ (7,349)

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

a) Net crude oil revenue for the periods ended March 31 is comprised as follows:

	Three months ended March 31	
	2019	2018
Gross crude oil revenue	$ 67,092	$ 80,820
Less: royalties	(16,954)	(21,127)
Less: net profits interest	(4,973)	(6,147)
Net crude oil revenue	$ 45,165	$ 53,546

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

	Three months ended March 31	
	2019	2018
United States	$ 63,198	$ 9,605
Europe	3,894	34,783
Canada	-	36,432
	$ 67,092	$ 80,820

b) Operating, transportation and marketing expenses comprise the following:

	Three months ended March 31	
	2019	2018
Hibernia Project operating expenses	$ 5,824	$ 5,618
Crude oil transportation and transshipment	673	1,716
Crude oil marketing	154	169
Total operating, transportation and marketing	$ 6,651	$ 7,503

12. Revenue and operating expenses from pipeline operations:

For the period ended March 31, 2019 revenues and operating expenses from TMC's operations, disaggregated by revenue source and type of revenue, are comprised as follows:

Transportation revenue	$	84,947
Lease revenue		14,491
Other revenue		852
Total	$	100,290
Operating and production expenses	$	32,065
Salaries and benefits		16,776
Other general and administration costs		1,623
Total operating expenses excluding finance costs and depreciation	$	50,464

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

13. Commitments:

CDEV's commitments at March 31, 2019 are summarized in the table below and include crude oil transportation and transshipment service arrangements, CHHC's share of Hibernia Project contractual commitments related to drilling and operations, and TMC's purchase of property, plant and equipment ("PPE").

	Remainder 2019	2020-2023	Thereafter	Total
Crude oil transportation and transshipment services	$ 3,339	$ 14,620	$ 23,742	$ 41,701
Hibernia Project contracts	3,218	5,132	3,889	12,239
Pipeline PPE	400,660	-	–	400,660
Total Commitments	$ 407,217	$ 19,752	$ 27,631	$ 454,600

14. 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 ("FCA" or "the Court") 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 heard the reference case on March 18 to March 22, 2019. The Court's decision on the matter is expected to be issued between Q2 2019 and Q1 2020. 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 FCA 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 ("GIC") 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 GIC must require the NEB to reconsider its recommendation and related conditions.

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 GIC for approval. It is uncertain, however, if the GIC will grant its approval and issue a new Order in Council or, in the event the GIC 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.

14. Contingencies (continued):

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.

In addition to the judicial reviews of the NEB recommendation report and GIC'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. Both appeals are scheduled to be heard on May 6 to May 8, 2019 and the decisions for both are expected to be issued in Q4 2019. It is unclear at this time how the Federal Court of Appeal decision in Tsleil-Waututh will affect these proceedings.

15. 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 (loss). The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Corporation's annual financial statements as at December 31, 2018. 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, 2018.

15. Risks to the Corporation (continued):

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from CHHC's trade and other receivables. The composition of the Corporation's trade and other receivables is as follows:

	March 31, 2019	December 31, 2018
Contracts with pipeline shippers	$ 29,376	$ 95,388
Contracts with crude oil customers	36,432	10,568
Hibernia joint arrangement	1,616	4,186
HST/GST input tax credits	5,292	5,430
Working capital adjustment on acquisition		37,019
Other	9,851	6,388
Trade and other receivables	$ 82,567	$ 158,979
Amount outstanding greater than 90 days	$ 8,932	$ 8,295

The Corporation applies a simplified approach to providing for expected credit losses (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 ECL provision at March 31, 2019 is insignificant.

The Corporation's cash and cash equivalents (including those held in escrow and investments held for future abandonment and risk fund) are exposed to 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 March 31, 2019 related to cash and cash equivalents and investments is insignificant.

The Corporation realized no actual impairment losses during the three months ended March 31, 2019 or 2018.

15. Risks to the Corporation (continued):

Fair value of financial instruments:

The following table shows the carrying amounts and fair values of restricted investments and loans payable including their levels in the fair value hierarchy at March 31, 2019 and December 31, 2018:

			Carrying amounts		Fair value	
	Classification	Hierarchy	2019	2018	2019	2018
Financial assets						
Restricted investments	FVTPL	Level 2	61,035	54,783	61,035	54,783
Financial liabilities						
Loans payable	Amortized cost	Level 2	4,790,000	5,290,000	4,790,000	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.

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.

There were no movements between levels in the fair value hierarchy during the period.

16. 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 months ended March 31, 2019 or March 31, 2018. CDEV repaid a $500 million loan to the Government's Canada Account during this period.

17. 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, CEI and TMP Finance are grouped as Others:

	March 31, 2019						
	TMC (US GAAP)	IFRS Adjustments	TMC (IFRS)	CHHC	Others	Eliminations	Consolidated
Statement of Comprehensive Income:							
Revenues:							
Transportation revenue	$ 84,089	$ 858 (1)	$ 84,947	$ -	$ -		$ 84,947
Lease Revenue	14,491		14,491				14,491
Net Crude oil revenue				45,165	-		45,165
Other income/ FX	852		852	1,451	322	(322)	2,303
	99,432		100,290	46,616	322	(322)	146,906
Expenses:							
Depletion and depreciation	$ 25,042	$ 1,719 (2)	$ 26,761	$ 14,341	$ 27		$ 41,129
Operating and production	32,263	(198)	32,065	$ 6,651	-		38,716
Salaries and Benefits	16,180	596 (3)	16,776	453	386		17,615
Other and FX	2,617	(975)	1,642	1,189	2,528	(37)	5,322
	$ 76,102		$ 77,244	$ 22,634	$ 2,941	$ (37)	$ 102,782
Finance Costs							
Equity AFUDC	$ 17,604	$ (17,604) (4)	$ -		$ -		$ -
Unwind of Discount	-	$ (2,107) (4)	(2,107)	$ (649)	(37)		(2,793)
Net Interest (expense)	(24,279)	(10,515) (4)	(34,794)	915	(22,596)	285	(56,190)
	$ (6,675)		$ (36,901)	$ 266	$ (22,633)	$ 285	$ (58,983)
Earnings/loss before tax	$ 16,655		$ (13,855)	$ 24,248	$ (25,252)		$ (14,859)
Taxes (recovery)	4,260	(8,220) (5)	(3,960)	7,362	-		3,402
Net Income	$ 12,395		$ (9,894)	$ 16,886	$ (25,252)		$ (18,260)
Other Comprehensive Income	$ (6,250)	$ 455 (6)	$ (5,795)	$ -	$ -		$ (5,795)
Statement of Financial Position:							
Assets:							
Current	$ 303,316	$ (22,017) (7)	$ 281,299	$ 142,809	$ 131,799	$ (39,644)	$ 516,263
Non-Current	5,738,932	365,071 (8)	6,104,003	377,078	4,970,141	(4,960,398)	6,490,824
	$ 6,042,248	**$ 343,054**	**$ 6,385,302**	**$ 519,887**	**$ 5,101,940**	**$ (5,000,042)**	**$ 7,007,087**
Liabilities							
Current liabilities	$ 475,735	$ -	$ 475,735	$ 29,838	$ 180,996	$ (146,894)	$ 539,675
Non-current liabilities	3,405,093	397,495 (9)	3,802,588	172,224	4,678,855	(2,506,350)	6,147,317
	$ 3,880,828	**$ 397,495**	**$ 4,278,323**	**$ 202,062**	**$ 4,859,851**	**$ (2,653,244)**	**$ 6,686,992**
Equity	**$ 2,161,420**	**$ (54,441)** (10)	**$ 2,106,979**	**$ 317,825**	**$ 242,089**	**$ (2,346,798)**	**$ 320,095**
	$ 6,042,248	**$ 343,054**	**$ 6,385,302**	**$ 519,887**	**$ 5,101,940**	**$ (5,000,042)**	**$ 7,007,087**

17. 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). 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*. 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.

17. Supplementary information (continued):

6) Other Comprehensive Income under IFRS has been reduced due to different treatment of pension plan adjustments recognized under US GAAP.

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.

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 shareholder's equity total $54 million with $22 million being the impact on the Q1 2019 net income and OCI, and the balance due to the adjustments to equity in prior periods.

18. Reclassification of prior period comparative figures:

During the current period, the Corporation reclassified marketing fees on the consolidated statement of comprehensive income from the "net crude oil revenue" line to the "operating, transportation and marketing" expenses line. The Corporation believes the classification of marketing fees as an operational expense is more consistent with industry norms. Comparative amounts were reclassified for consistency, which resulted in $169 being reclassified from "net crude oil revenue" to "operating, transportation and marketing" expenses for the three months ended March 31, 2018. As a result, total revenues for the three months ended March 31, 2018 are $169 higher and total expenses are $169 higher than previously presented. This reclassification had no impact on the Corporation's financial position, income before income taxes or comprehensive income.