Canada Development Investment Corporation

ANNUAL REPORT

2019

CDEV

Contents

Corporate Address

CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

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Directors and Officers as at March 30, 2020

Minister Responsible for CDEV

The Honourable William Francis Morneau
Minister of Finance

Board of Directors

Stephen Swaffield, MBA (2)
Chair of CDEV
President
CarbEx Consulting Inc.
Whistler, British Columbia

Darlene Halwas, CFA, ICD.D (1) (3)
Director
Calgary, Alberta

Jennifer Reynolds, ICD.D (1) (3)
President and CEO
Toronto Finance International
Toronto, Ontario

Robert Wener, MBA, FCPA, FCA (1) (2)
President
Wener Advisory Group Ltd.
Ottawa, Ontario

Mary Ritchie, FCPA, FCA (1) (2)
CEO
Richford Holdings Ltd.
Edmonton, Alberta

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

Carole Malo, BComm, CFA (1) (2) (3)
Director, Humber River Hospital,
York University
Toronto, Ontario

Officers

Michael Carter
Executive Vice-President

Andrew Stafl, CPA, CA
Vice-President, Finance

Zoltan Ambrus, CFA, LLB
Vice-President

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

Committees of the Board

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

Report to the Minister

The Honourable William Francis Morneau
Minister of Finance

Dear Minister Morneau:

2019 has been another successful year for Canada Development Investment Corporation.

CDEV has worked with Trans Mountain Corporation ("TMC") management and the TMC Board to help further the continued operational excellence of the Trans Mountain Pipeline System. I attended all TMC Board meetings to maintain involvement in all relevant governance matters. TMC generated $250 million in Earnings before Interest, Taxes and Depreciation ($194 million under its US GAAP accounting framework) in its first full year of operation. This is on top of the $48 million in EBITDA generated in 2018 ($60 million under US GAAP). Since acquisition TMC has spent $1.3 billion on its expansion project financed by borrowings from the Canada Account. We helped TMC further its expansion project (the Trans Mountain Expansion Project or "TMEP"). We have worked with the TMC Board and management to provide an increased level of assurance regarding the project's development to ensure that Canada's interests are best served including the creation of an advisory team to assist management of the project. We also increased the credit available to TMC to fund construction.

Through 2019 the expansion project team at TMC worked with its contractors to ensure that a suitable project schedule and cost plan was developed. It also worked with regulators in federal, Alberta and B.C. jurisdictions to attain permits and authorities to execute the project. TMC also worked with First Nations groups to help progress the development of the project. By year end TMC contractors were in the field in Alberta near Edmonton and work recommenced at the Burnaby Terminal and the Westridge Marine Terminal where we are building a marine facility. Our focus now is on executing the TMC plan and putting the project in service by December 2022. We will work with your department and with Export Development Canada ("EDC") to ensure there is suitable financing available to complete the project on time. We continue to work towards satisfying the mandate you gave us in August of 2018 to help develop the project on a commercial basis, respect all laws and rules and to operate in a manner consistent with Canada's commitment to advance reconciliation with Indigenous peoples.

Canada Hibernia Holding Corporation ("CHHC") generated $46 million of profit as the Hibernia field produced 102 thousand barrels of oil per day in 2019. This was down from 113 thousand in 2018 as the platform encountered two shutdowns in production due to oil discharges from the platform. We conducted enquiries as to environmental and safety practices at the platform and we have concluded that the operator is operating judiciously. CHHC paid dividends of $51 million to CDEV during the year.

In 2019, under the Government's instruction, CDEV signed a Memorandum of Understanding with Natural Resources Canada to receive and manage the Net Profits Interest payments from the Hibernia owners. We began receiving payments in September and received $13 million through to December. We paid a dividend of $12 million related to these NPI receipts.

After many months of negotiation we were able, as agent, to complete the sale of 90% of Ridley Terminals for $350 million, with 10% of the equity being transferred to local First Nation groups. We continue to oversee the post-closing period of the transaction.

We paid dividends of $63 million this year. TMP Finance, our subsidiary borrowed $1.3 billion during the year from the Canada Account, administered by EDC, to finance the ongoing expansion of the pipeline.

The Board has determined that given the increased operations of the Corporation following the acquisition of Trans Mountain Corporation, they plan to seek a Governor in Council appointed Chief Executive Officer ("CEO") as soon as is practical. The Board has commenced the process with Privy Council Office to determine its needs regarding the future appointment of a CEO and will work with your Department to help further the appointment.

On behalf of the Board of Directors

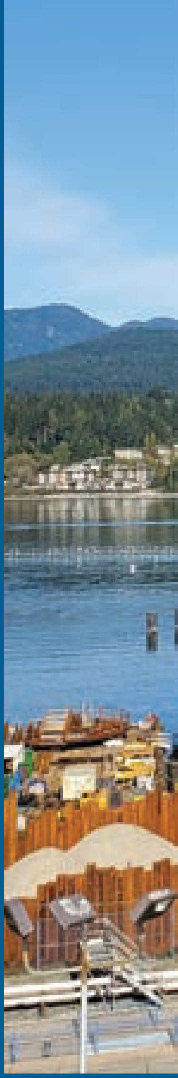
Stephen Swaffield
Chair
Canada Development Investment Corporation

March 30, 2020

CDEV 2019 Overview

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

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



- CDEV provided its subsidiary Trans Mountain Corporation with financing to further develop its pipeline expansion project. In 2019 TMC spent $1.1 billion to further development of the project. We received regulatory approvals for the project.
- In the first full year of ownership Trans Mountain Corporation generated $250 million in Earnings before Interest, Taxes and Depreciation under IFRS.

Left:
Trans Mountain Pipeline expansion

Top Right:
Westridge Marine Terminal

Center Right:
Ridley Terminals

Bottom Right:
Hibernia Platform

- Canada Hibernia Holding Corporation generated a profit of $46 million in 2019 on net crude oil revenue of $168 million from sales volume of 2.8 million barrels.
- CDEV acting as agent sold 90% of Ridley Terminals Inc. for $350 million.

- CDEV received $13 million in Net Profits Interest receipts.
- CDEV declared dividends of $63 million in 2019.

Corporate Governance Practices

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

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

Attendance at directors' meetings is near 100% and each director dedicates appropriate time outside of board meetings to the affairs and governance of the Corporation. CDEV and each subsidiary have separate and active boards of directors that meet regularly. The boards of CEI, CHHC and TMP Finance are composed of directors of CDEV and management. TMC's Board was appointed by CDEV and is responsible for the oversight of and governance of TMC and its management team.

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

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

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

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

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

Impact Assessment Act Compliance

Under the *Impact Assessment Act, 2019 (IAA 2019)*, CDEV is required to conduct a determination of the significance of adverse environmental effects of any project it carries out or permits to be carried out on federal lands. CDEV undertakes a process to evaluate any such projects that would require an assessment and consequently, reporting. CDEV has determined that none of its activities in 2019 trigger these assessments or reporting obligations under IAA 2019.

Management Discussion and Analysis of Results

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

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

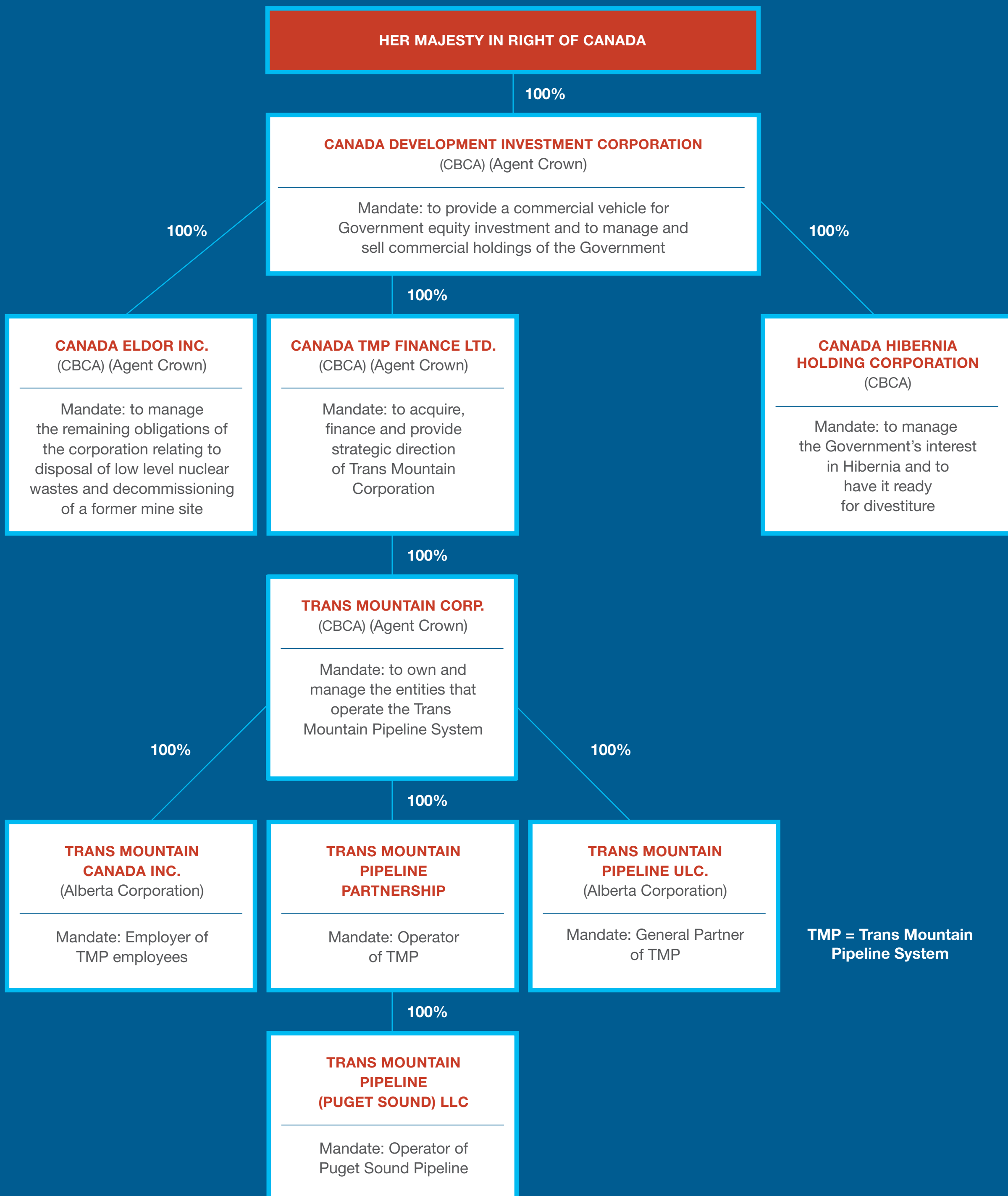
Corporate Overview

CDEV, a federal Crown corporation, was incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government. CDEV’s primary objective is to carry out its activities in the best interests of Canada, operating in a commercial manner. In addition to certain activities of our own, we have four primary wholly-owned subsidiaries for which we are responsible: Canada Hibernia Holding Corporation (“CHHC”), Canada Eldor Inc. (“CEI”), Canada TMP Finance Limited (“TMP Finance”) and its subsidiary Trans Mountain Corporation (“TMC”). CHHC owns and manages the federal government’s interests in the Hibernia Development Project (“Hibernia”). CEI has no operations, but has responsibility for servicing liabilities, chiefly arising from an agreement of purchase and sale with Cameco Inc. entered into in 1988. TMP Finance’s primary responsibility is to provide financing to TMC. TMC has a mandate to operate the existing Trans Mountain Pipeline and to complete the Trans Mountain Expansion Project (“TMEP”) in a timely and commercially viable manner. As of August 2019, CDEV receives and is responsible for Net Profit Interest (“NPI”) payments from the Hibernia Project Owners after it signed a Memorandum of Understanding with Natural Resources Canada.

Since CDEV’s inception in 1982, we have been effective in the management and divestiture of corporate interests of the Crown. The assets sold on behalf of the Crown by CDEV through 2017 include Canadair Limited, de Havilland Aircraft of Canada Limited, Teleglobe Canada, Fishery Products International Limited, Canada Development Corporation, Nordion International Inc., Telesat Canada, shares of Cameco Corporation, interests in Chrysler and common and preferred shares of General Motors. In 2019, acting as agent for the Government, CDEV closed the sale of Ridley Terminals Inc. a federal Crown corporation. Cash proceeds to the Crown from these divestment activities totaled approximately $8.5 billion through 2019. In addition, CHHC has paid a total of $2.2 billion in cumulative dividends from operations.

During the year the Government transferred the income and management of the Net Profits Interest of Canada on the Hibernia project to us. NPI payments received in 2019 totaled $13 million.

CDEV has a management team based in Toronto headed by the Executive Vice-President, whose role is to work closely with external consultants, contractor specialists and the Board to ensure the effective functioning of CDEV and its subsidiaries. CHHC has a management team based in Calgary that is experienced in the oil industry which provides expertise in technical operations, marketing, transportation and finance. TMC has a corporate structure with over 350 employees and over 370 contractors led by a seasoned executive team.


HER MAJESTY IN RIGHT OF CANADA
100%
CANADA DEVELOPMENT INVESTMENT CORPORATION
(CBCA) (Agent Crown)
Mandate: to provide a commercial vehicle for Government equity investment and to manage and sell commercial holdings of the Government
100%
100%
100%
CANADA ELDOR INC.
(CBCA) (Agent Crown)
Mandate: to manage the remaining obligations of the corporation relating to disposal of low level nuclear wastes and decommissioning of a former mine site
CANADA TMP FINANCE LTD.
(CBCA) (Agent Crown)
Mandate: to acquire, finance and provide strategic direction of Trans Mountain Corporation
CANADA HIBERNIA HOLDING CORPORATION
(CBCA)
Mandate: to manage the Government's interest in Hibernia and to have it ready for divestiture
100%
TRANS MOUNTAIN CORP.
(CBCA) (Agent Crown)
Mandate: to own and manage the entities that operate the Trans Mountain Pipeline System
100%
100%
100%
TRANS MOUNTAIN CANADA INC.
(Alberta Corporation)
Mandate: Employer of TMP employees
TRANS MOUNTAIN PIPELINE PARTNERSHIP
Mandate: Operator of TMP
TRANS MOUNTAIN PIPELINE ULC.
(Alberta Corporation)
Mandate: General Partner of TMP
TMP = Trans Mountain Pipeline System
100%
TRANS MOUNTAIN PIPELINE (PUGET SOUND) LLC
Mandate: Operator of Puget Sound Pipeline

Corporate Performance

Key Objectives from the 2019 Corporate Plan:

- Oversee, monitor and provide strategic support of TMC operations and the development of its expansion project.
- Through TMP Finance, provide financing to TMC to help it execute its expansion project.
- Manage our working interest in the Hibernia oil field through our subsidiary CHHC and ensure that this asset is ready for sale when deemed appropriate.
- Manage the sales process of Ridley Terminals Inc.
- Continue to oversee the management of CEI's obligations.
- Continue to manage other issues which may arise and to remain prepared to assume management and divestiture of any other interests of Canada assigned to us for divestiture, in a commercial manner.
- Maintain our ability to perform all tasks given to us in an efficient manner.

Performance

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

Canada Development Investment Corporation

In 2019 CDEV acting as agent for the Government, executed the sale of 90% of the equity of Ridley Terminals Inc. ("RTI") a federal Crown corporation that owns and operates a coal terminal in Prince Rupert, British Columbia.

In 2019 CDEV continued to work on its mandate regarding TMC, including to: pursue the TMC expansion project to protect the government's investment, ensure compliance with applicable laws and rules, and thirdly to operate in a manner consistent with Canada's commitment to advance reconciliation with Indigenous peoples. CDEV worked with external experts to evaluate its expansion project and provide assurance activities related to the project to ensure it protects and enhances the interest of Canadians. In 2019 an investment decision by the TMC Board of Directors led to construction activities on the project in areas near Edmonton, Alberta and Burnaby B.C. after the project received Order in Council approval in June. Our financing subsidiary executed a credit agreement with Export Development Canada to allow for continued availability of funds for TMC's expansion project.

Of the $350 million received on behalf of the Government for the sale of RTI, $240 million was paid to the Government, $12 million was paid to CDEV for reimbursement of costs related to the RTI sale and $98 million was still held at year end on behalf of the Government.

We declared dividends of $63 million in 2019. These dividends were funded by $51 million in dividends received from CHHC and $12 million from NPI receipts.

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

Canada Hibernia Holding Corporation

CHHC's after-tax profit of $46 million in 2019 was lower than the $76 million recorded in 2018.

Net crude oil revenue decreased by 7% or $12 million to $168 million in 2019 from $180 million in 2018. (On consolidation, Net oil revenue for 2019 was $173 million due to the elimination of NPI payments made to CDEV). A $31 million decrease in crude oil sales driven by lower sales volumes and oil prices was partially offset by a $19 million reduction in royalty and NPI expenses. Gross Hibernia production averaged 102,000 barrels per day in 2019, lower than 112,500 barrels per day in 2018 due to an increase in unscheduled downtime. Production was shut down for over two months in the third quarter to respond to two unrelated oil discharge incidents.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The average price of Dated Brent crude decreased by 10% to average US $64.30 per barrel from US $71.07 per barrel in 2018. On a Canadian dollar basis, CHHC's average realized oil price decreased by only 5% to $86.81 per barrel in 2019 from $91.58 per barrel in 2018, due to the favorable impact of a weaker Canadian dollar in relation to the U.S. dollar.

During 2019, capital investments were primarily directed toward drilling activities in the Hibernia Main Field, which included an appraisal well in the northwest portion of the field and a multi-lateral oil well. In the near term, Hibernia owners plan to focus on drilling activities and development projects in the west portion of the field.

Canada Eldor Inc.

In 2019, the liability for site restoration decreased $0.4 million due to the settlement of $1.7 million in obligations and an increase in the estimate of provisions of $1.3 million. 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 four years. CEI holds cash and cash equivalents plus funds within the Consolidated Revenue Fund totaling $17 million to pay for CEI's total estimated liabilities of $11 million. Following a hearing, the Canadian Nuclear Safety Commission approved a transfer of a number of properties to Institutional Control.

Canada TMP Finance Limited

Canada TMP Finance Limited is the parent of 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 TMC's expansion project capital expenditures, TMP Finance provided funding to TMC at a ratio of 45% equity and 55% debt. TMP Finance executed an amended lending agreement with EDC to borrow up to $2.6 billion under its Construction Facility. At year end the outstanding amount of the Construction Facility was $1.4 billion. In 2019 total interest expense was $248 million, of which $49 million was capitalized and was added to the capital cost of the project and will be depreciated over the useful life of the pipeline.

Trans Mountain Corporation

TMC purchased the entities of the Trans Mountain Pipeline on August 31, 2018 for $4.4 billion, as described in note 5 of the accompanying financial statements. In 2019 TMC received $1.2 billion from TMP Finance through a funding agreement and credit facility. In 2019, its first full year of operation under CDEV ownership, TMC generated $476 million in revenue and $250 million in adjusted Earnings Before Interest, Taxes, and Depreciation ("EBITDA"). We note that under TMC's continuing use of US GAAP, revenue was $420 million and EBITDA was $194 million. For details see note 31 and www.transmountain.com.

During the second half of 2019, TMC management developed a more detailed project execution plan and cost estimate incorporating the delays incurred on the project due to the 2018 Federal Court of Appeal ruling and further refinement of the expansion project scope. On February 7, 2020 TMC released a revised project costs estimate of $12.6 billion under US GAAP. The project costs under IFRS excluding financing costs is $11.2 billion. In 2019 under IFRS, TMC spent approximately $1.1 billion on the expansion project in addition to the $0.2 billion in 2018, excluding financing costs. After TMC received an Order in Council from the government in June, and received regulatory approval to proceed with the project shortly after, TMC ramped up project development and construction activity increased significantly in the fourth quarter in project spreads near Edmonton, AB as well as work on the Westridge Marine Terminal in Burnaby, BC. For more details please refer to the TMC website above.

Summary of 2019 Operational Metrics

$ Millions (unless noted otherwise)	2019 Plan	2019 Actual	2018 Actual	Actual Y/Y Change**	Explanation of changes Year/Year or to Plan
TMC throughput (K bpd)	294	314	281	8%	Pipeline system remains in high demand given 300 k bpd nominal capacity
TMC EBITDA (IFRS)	192	250	48 (4 months)	not meaningful	Higher revenue adjustment than expected under IFRS framework
TMEP Capital Expenditures excluding capitalized interest (IFRS)	1,300	1,130	160	n.m.	Due to regulatory and other delays, construction activities and costs incurred in 2019 were lower than expected
Interest Costs before capitalization	241	248	83	n.m.	2019 full year of interest expense; change in loan outstanding amount from plan
Net crude oil revenue (deducting all NPI paid by CHHC)	189	168	180	(7%)	2019 actual revenue affected by lower sales volume, lower USD prices offset by lower CAD.
Oil Sales Volume (million barrels)	3.1	2.8	3.0	(7%)	Reduced sales volume due to unplanned platform shutdowns in 2019
Realized Oil Sale Price ($US/barrel)	70	64.3	71.0	(9%)	World oil prices declined in 2019.
Oil Capital Expenditures	45	34	21	62%	Due to platform shutdown and project priorities, capital expenditures were lower than plan.
Professional Fees and Administration Expenses (ex. TMC)*	12	15	17	(12%)	2018 expenses included $5 million in TMC acquisition related costs.

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

** Percentages may differ due to rounding

Analysis of External Business Environment

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

The market and economic conditions of the oil and petroleum products business do not have significant impact on the operations of TMC since the transportation revenue is derived from tolls set by a regulator and shipper volumes are expected to be fairly constant and limited by pipeline capacity for the near term and are not expected to vary significantly based on economic conditions. TMC operating expenses do not vary significantly based on market or economic conditions. The majority of costs are recovered through current and future tolls. The external business environment for the construction of the TMEP is unpredictable with a number of potential difficulties which may have significant impact on the completion schedule and cost of the project. In 2019 a more detailed development schedule and cost estimate were developed by TMC management which addresses some of these impacts. The loans payable have fixed interest rates and are not impacted by economic conditions that may affect interest rates.

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

CDEV receives funds from the Net Profits Interest in Hibernia. This will vary significantly based upon oil prices, production levels and the capital expenditures on the project. CEI will be affected by ongoing changes in the regulatory requirements and fees of the Canadian Nuclear Safety Commission and the Government of Saskatchewan.

The impact of changing climatic conditions may have a material adverse effect on CHHC's and TMC's future financial results. The production and transportation of CHHC's crude oil, as well as its drilling and construction activities, can be affected by extreme weather events and conditions, and widespread epidemics or pandemics. The demand for crude oil can be affected by weather and the climate which may impact CHHC's and TMC's customers. The operations of TMC may be impacted by the response to climate changes, including potential legislation changes, that may affect the ability of its customers to ship on the pipeline, weather related events, widespread epidemics or pandemics, and sea level changes which may affect operations of the Trans Mountain pipeline system, but these are currently not expected to be material. TMC will monitor climate related risks and opportunities affecting the global market for petroleum and TMC's and CHHC's businesses and will evaluate the impact of these risks and opportunities over the long term. The Corporation continues to monitor significant world events and how these may impact its operations including the unprecedented decline in world crude oil prices and the economic impact of the COVID-19 world health emergency. Please also see Note 33 Subsequent Event note.

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 Canada Energy Regulator standards and scrutiny. The risks related to TMEP development are discussed in the notes to the financial statements. During 2019 TMC received the authority to proceed with construction of the TMEP, however there continues to be risks inherent in such a large project which may impact financial returns and the timing of future cash flows.

TMP Finance is a borrower of over $6 billion dollars which creates financial risk for CDEV. As the loans are from the Government, this risk is assessed as low. We note that refinancing risk exists as the TMEP requires further financing as the expansion project continues.

As with any oil development project, CHHC's interest in the Hibernia project faces geological and production risks. These risks arise due to the drilling of more complex wells and development of Ben-Nevis Avalon resources. The operator of the project maintains high standards in all aspects of the operation including safety, efficiency and environmental protection. CHHC employs prudent risk management practices in consultation with the operator and maintains suitable insurance coverage that it regards as economically sound.

Risks and Contingencies (continued)

Another significant risk to CHHC's earnings and cash flow is the change in crude oil prices which can fluctuate due to global economic events and conditions. A $1.00 per barrel change in the price of oil realized by CHHC is estimated to impact its earnings before tax by $1.9 million ($2.0 million in 2018). CHHC does not engage in crude oil hedging activities. Given the relatively low cost of production, CHHC is easily able to meet its obligations.

The present value of CHHC's share of decommissioning and abandonment of the Hibernia wells and facilities of $148 million is estimated based on known regulations, procedures and costs today for undertaking the decommissioning, the majority of which is projected to be incurred in the year 2049. It is possible that these costs may change materially before decommissioning due to regulatory changes, technological changes and inflation among other variables. CHHC has set aside funds totaling $151 million ($101 million deposited in the Consolidated Revenue Fund and $50 million in low risk investments) to specifically provide for decommissioning and abandonment costs.

The revenues of CHHC are impacted by foreign exchange fluctuations as CHHC's crude oil sales are priced in US dollars. The average USD/CAD exchange rate increased to 1.33 in 2019 compared to 1.30 in 2018, a 2% devaluation in the CAD which had a positive effect on revenue.

CHHC bears credit risks on relatively large cargo sales. CHHC deals primarily with purchasers with established credit history and utilizes credit risk mitigation tools when necessary. TMC bears credit risk with its customers. The terms of TMPL's tariff allow it to require potential customers to provide reasonable financial assurance, which greatly mitigates TMC's exposure to credit risk. There exists some concentration risk where two customers represent approximately 48% of consolidated invoiced revenues, however both have investment grade credit ratings.

The present value cost for decommissioning and abandonment of the TMC pipeline of $466 million is estimated based on the current expected costs to abandon the pipeline at the end of its economic life in 99 years. There is significant variability in this cost estimate and in determining the economic life of the asset. TMC retains restricted investments deposited in a Trust specifically set up to fund future abandonment activities.

CEI is subject to liabilities due to its undertakings to Cameco as part of a 1988 Purchase and Sale agreement. The $10 million provision determined for mine site restoration is based on estimates for expected restoration and monitoring work over a four-year period. The actual costs may vary materially due to changes in inflation, changes in cost estimates in a difficult northern environment and changes in regulatory requirements. CEI has $17 million in total assets to settle its $11 million in liabilities.

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

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

Financial Statements for the Year Ended December 31, 2019

The consolidated financial statements for the year ended December 31, 2019 with comparative figures for 2018, have been prepared in accordance with International Financial Reporting Standards (IFRS).

TMC prepares its financial statements in accordance with US GAAP. To read the US GAAP 2019 TMC financial statements please go to www.transmountain.com. US GAAP is the typical accounting method used by TMC's Canadian peer rate-regulated companies. Note 31 shows TMC financial results in US GAAP, adjustments made to the statements to convert these results to IFRS and the TMC financial results in IFRS as consolidated into CDEV. The most significant differences in accounting treatment include:

- Under US GAAP TMC recognizes revenue ratably over time based on TMC's annual revenue requirement whereas IFRS recognizes revenue based on volume shipped. The IFRS adjustment for 2019 is to increase revenue by $24 million. There was also a $29 million IFRS adjustment to increase revenue to recognize Firm 50 commitment receipts.
- Under US GAAP TMC recognizes an Allowance for Funds Used During Construction ("AFUDC") where a regulated return on capital and regulated amounts of debt interest are added to the total cost of an asset under construction. Capital return is added to income and capitalized debt interest reduces interest cost. Under IFRS no AFUDC for capital return is added to the asset value nor income and only actual debt interest incurred can be capitalized. The IFRS adjustments to AFUDC and interest in 2019 increased net finance costs by $137 million before the capitalization of interest by TMP Finance.
- IFRS requires that a provision for decommissioning obligations be recognized. Under US GAAP such an obligation is not required to be recognized as a result of the significant uncertainty as to the timing and scope of cash outflows.

Consolidated revenue for the year ended December 31, 2019 was $659 million, compared to revenue of $309 million in the prior year. The increase is primarily due to the $305 million increase in TMC transportation revenues reflecting twelve months of revenue in 2019 compared to four months in 2018. TMC also earned $60 million from leasing storage tanks that it owns. The $7 million decrease in net crude oil revenue is due to a 6% drop in sales volume, a 5% drop in Canadian dollar oil prices, offset by reduced royalty payments and the elimination on consolidation of NPI expense accrued to CDEV.

Total expenses for the year excluding finance costs were $433 million, compared to $209 million in the prior year. The increase is due to the increase in operating and depreciation and depletion expenses of TMC reflecting a full year of operations in 2019 and only four months in 2018. Crude oil production and operating costs decreased $3 million. Interest expense increased $121 million due to twelve months of interest recorded in 2019 compared to four months in 2018 plus higher loan balances.

Profit before income taxes in 2019 declined $5 million due to the offsetting effects of higher TMC profits and higher interest costs. Income taxes decreased significantly as a percentage of profit before tax due to the $49 million deferred tax recovery related to lower income tax rates in 2019 at TMC partly offset by the $18 million decrease in the deferred tax asset at CHHC and a significant portion of the interest expense being incurred by a non-taxable entity.

Financial Statements for the Year Ended December 31, 2019 (continued)

Cash and cash equivalents as at December 31, 2019 increased to $587 million compared to $345 million at December 31, 2018 largely due to the $173 million in cash provided by operations. The cash increase from borrowings was largely offset by the cash decrease from investing activities. Total restricted cash decreased by $486 million reflecting the $500 million in restricted cash used to repay the NEB credit facility in March 2019.

Accounts receivable decreased by $40 million at December 31, 2019, primarily due to a $79 million decrease in receivables at TMC due to timing of year end collections offset by a $40 million increase at CHHC.

Property, plant and equipment increased $1.2 billion primarily due to the capital expenditures on the TMC expansion project.

Trade payables increased $199 million primarily due to a $185 million increase in trade payables of TMC as the costs incurred on the expansion project increase as the project progresses. Other current liabilities increased $85 million due to an increase in dock premiums that will be repaid to shippers.

Total loans payable increased $765 million due to an increase in borrowings under the construction credit facility of $1,265 million to fund construction costs of TMC's expansion project, net of a $500 million repayment of the NEB credit facility.

Non-current deferred income taxes decreased by $53 million primarily due to a decrease in expected future taxes payable in Alberta based on lower expected future tax rates.

The provision for decommissioning obligations increased $84 million primarily due to application of a lower discount rate ($218 million) offset by a decrease in other estimates (-$142 million) primarily due to the application of a lower inflation rate given the historically low long-term discount rate.

Lease liabilities of $92 million were recognized at December 2019 with nil the prior period as certain operating leases previously not recognized on the balance sheet are now recognized because of new accounting standards.

The defined benefit obligation increased $10 million primarily due to the increase in pension plan obligations of $30 million increasing more than the return on financial assets within the pension plan of $24 million.

Other non-current liabilities decreased by $80 million which is primarily related to a $99 million decrease in dock premiums to be refunded to shippers in 2021 or later, offset by other deferred credits.

Commencing in 2019 CDEV received $13 million in NPI cash receipts from the Hibernia project owners due to the Memorandum of Understanding with Natural Resources Canada. The receipt is recorded as an increase in Net Profits Interest reserve.

CDEV paid dividends of $63 million in 2019; $51 million was funded from CHHC dividends paid to CDEV and $12 million from NPI reserve. In 2018 we paid dividends to the Government of $114 million, all funded from CHHC dividends.

Management Responsibility For Financial Statements

The accompanying consolidated financial statements of Canada Development Investment Corporation ("CDEV") are the responsibility of management and were authorized for issue by the Board of Directors on March 30, 2020. The consolidated financial statements have been prepared by the Corporation in accordance with International Financial Reporting Standards. The financial statements of the Corporation's subsidiaries for which it has responsibility have been consolidated with those of the Corporation. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with information contained in the consolidated financial statements.

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

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

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

As Executive Vice-President of CDEV and Vice-President, Finance, we have reviewed its consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position as at December 31, 2019, and financial performance and cash flows for the year ended December 31, 2019.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

March 30, 2020

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

Consolidated Financial Statements of Canada Development Investment Corporation

Year ended December 31, 2019

Independent Auditors' Report

Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

pwc

To the Minister of Finance

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Canada Development Investment Corporation and its subsidiaries (the Corporation), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Compliance with Specified Authorities

Qualified Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Canada Development Investment Corporation and its wholly-owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the Canada Business Corporations Act, the articles and by laws of Canada Development Investment Corporation and its wholly-owned subsidiaries, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, except for the matter of non-compliance described in the *Basis for Qualified Opinion* section of our Report on Compliance with Specified Authorities, the transactions of Canada Development Investment Corporation and its wholly-owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied, except for the change in the method of accounting for leases as explained in Note 3(a)i) to the consolidated financial statements, on a basis consistent with that of the preceding year.

Basis for Qualified Opinion

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

Marise Bédard

Marise Bédard, CPA, CA
Principal
for the Interim Auditor General of Canada

Ottawa, Canada
30 March 2020

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statement of Financial Position

As at December 31
(Thousands of Canadian Dollars)

		2019		2018
Assets				
Current assets:				
Cash and cash equivalents (note 6)	$	**587,109**	$	344,857
Restricted cash (note 9)		**-**		500,683
Trade and other receivables (note 29)		**119,271**		158,979
Income taxes receivable (note 20)		**4,173**		3,497
Other current assets (note 8)		**19,583**		18,743
Investments held for future obligations (note 7)		**3,552**		2,518
		733,688		1,029,277
Non-current assets:				
Property, plant and equipment (note 11)		**6,054,065**		4,854,621
Goodwill (note 14)		**1,015,781**		1,016,582
Investments held for future obligations (note 7)		**159,745**		151,233
Restricted cash (note 9)		**71,515**		56,660
Restricted investments (note 10)		**70,911**		54,783
Right-of-use assets (note 12)		**90,289**		-
Other assets (note 13)		**95,675**		46,328
Deferred tax asset (note 20)		**-**		17,735
		7,557,981		6,197,942
	$	**8,291,669**	$	7,227,219
Liabilities and Shareholder's Equity				
Current liabilities:				
Trade and other payables (note 21)	$	**332,571**	$	133,520
Current portion of loans payable (note 18)		**-**		120,000
Current portion of provision for decommissioning obligations (note 16(a))		**3,659**		3,141
Current portion of provision for site restoration (note 16(c))		**3,351**		2,329
Current portion of lease liabilities (note 12)		**20,258**		-
Other current liabilities (note 15)		**194,390**		109,010
		554,229		368,000
Non-current liabilities:				
Loans payable (note 18)		**6,055,000**		5,170,000
Deferred income taxes (note 20)		**507,498**		560,966
Provision for decommissioning obligations (note 16(a), (b))		**609,901**		526,000
Lease liabilities (note 12)		**71,662**		-
Provision for site restoration (note 16(c))		**6,419**		7,809
Defined benefit obligation (note 17)		**88,694**		78,390
Other non-current liabilities (note 19)		**91,702**		171,903
		7,430,876		6,515,068
Shareholder's equity:				
Share capital (note 22)		**1**		1
Contributed surplus		**603,294**		603,294
Net Profits Interest reserve (note 22)		**826**		-
Accumulated deficit		**(286,965)**		(269,902)
Accumulated other comprehensive income		**(10,592)**		10,758
		306,564		344,151
	$	**8,291,669**	$	7,227,219

Commitments (note 26)
Contingencies (note 27)
Subsequent Event (note 33)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board: ______________ Director ______________ Director

Consolidated Statement of Comprehensive Income

Year ended December 31
(Thousands of Canadian Dollars)

		2019		2018
Revenue:				
Transportation revenue (note 25)	$	**413,196**	$	107,732
Net crude oil revenue (note 24)		**172,845**		179,544
Lease revenue (note 25)		**60,146**		20,417
Other revenue		**13,026**		1,011
		659,213		308,704
Other income:				
Facility use and processing fees, net of incidental net profits interest		**1,812**		2,062
Foreign exchange gain		**1,915**		5,713
		662,940		316,479
Expenses:				
Depletion and depreciation (note 11, 12)		**160,623**		78,303
Pipeline operating expenses (note 25)		**152,270**		53,077
Crude oil operating, transportation and marketing (note 24)		**27,440**		30,402
Salaries and benefits		**71,614**		26,979
Professional fees		**12,427**		12,855
Foreign exchange loss		**3,268**		2,071
Change in estimates of provision for site restoration (note 16)		**1,150**		(177)
Other administrative expenses		**4,202**		5,299
		432,994		208,809
Finance expenses (income):				
Interest expense (note 18)		**203,346**		82,484
Interest income		**(11,804)**		(11,098)
Unwind of discount on decommissioning obligations (note 16)		**12,724**		5,607
Unwind of discount on provision for site restoration (note 16)		**147**		157
		204,413		77,150
Net income before income taxes		**25,533**		30,520
Income taxes (note 20):				
Current		**25,367**		35,916
Deferred		**(33,771)**		(13,269)
		(8,404)		22,647
Net income		**33,937**		7,873
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss				
Currency translation adjustment		**(14,772)**		12,977
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit obligations (note 17)		**(6,578)**		(2,219)
Total other comprehensive income (loss)		**(21,350)**		10,758
Comprehensive income	$	**12,587**	$	18,631

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

Consolidated Statement of Changes in Shareholder's Equity

Year ended December 31
(Thousands of Canadian Dollars)

		2019		2018
Share capital				
Balance, beginning and end of year	$	**1**	$	1
Contributed surplus				
Balance, beginning and end of year		**603,294**		603,294
Net Profits Interest Reserve				
Balance, beginning of year		**-**		-
Net Profits Interest received		**12,826**		-
Dividends		**(12,000)**		-
Balance, end of year		**826**		-
Accumulated deficit				
Balance, beginning of year		**(269,902)**		(163,775)
Net income		**33,937**		7,873
Dividends		**(51,000)**		(114,000)
Balance, end of year		**(286,965)**		(269,902)
Accumulated other comprehensive income				
Balance, beginning of year		**10,758**		-
Other comprehensive income (loss)		**(21,350)**		10,758
Balance, end of year		**(10,592)**		10,758
Total shareholder's equity	$	**306,564**	$	344,151

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

Consolidated Statement of Cash Flows

Year ended December 31
(Thousands of Canadian Dollars)

	2019	2018
Cash provided by (used in):		
Operating activities:		
Net income	$ **33,937**	$ 7,873
Adjustments for:		
Depletion and depreciation	**160,623**	78,303
Income tax expense	**(8,404)**	22,647
Interest income	**(11,804)**	(11,098)
Unwind of discount on provisions	**12,871**	5,764
Net change in defined benefits	**2,329**	3,545
Lease interest expense	**2,049**	-
Unrealized foreign exchange gain	**(149)**	-
Change in provision for site restoration	**1,150**	(177)
Interest received	**11,612**	11,096
Provisions settled	**(3,748)**	(6,096)
Income taxes paid	**(27,395)**	(35,686)
	173,071	76,171
Change in non-cash working capital (note 23)	**400**	142,553
Total cash provided by operating activities	**173,471**	218,724
Financing activities:		
Proceeds from loan issuance	**1,265,000**	5,290,000
Repayments of loan payable	**(500,000)**	-
Dividends paid	**(63,000)**	(114,000)
Net Profits Interest received	**12,826**	-
Payment of lease liabilities, principal portion (note 12)	**(15,401)**	-
Payment of lease liabilities, interest portion (note 12)	**(3,726)**	-
Total cash provided by financing activities	**695,699**	5,176,000
Investing activities:		
Acquisition, net of cash acquired (note 5)	**-**	(4,484,372)
Purchase of property, plant and equipment (note 23)	**(1,114,959)**	(211,068)
Working capital settlement from acquisition	**37,020**	-
Withdrawal from CRF	**5,000**	-
Internal use software expenditures	**(10,094)**	-
Sale of short-term investments	**-**	30,169
Purchase of restricted investments	**(13,957)**	(4,843)
Purchase of investments held for future obligations	**(14,354)**	(13,876)
Change in restricted cash	**485,828**	(542,901)
Total cash used in investing activities	**(625,516)**	(5,226,891)
Effects of FX translation on cash	**(1,402)**	667
Change in cash and cash equivalents	**242,252**	168,500
Cash and cash equivalents, beginning of year	**344,857**	176,357
Cash and cash equivalents, end of year	$ **587,109**	$ 344,857

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

Notes to Consolidated Financial Statements

Year ended December 31, 2019
(All dollar amounts are stated in thousands of Canadian dollars)

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").

Parent

Canada Development Investment Corporation was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly owned by Her Majesty in Right of Canada. CDEV 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 ("GoC") 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, CDEV 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 CDEV's legal obligations and to report on the implementation of the directive in its next corporate plan. CDEV aligned its policies, guidelines and practices as of October 2015.

In August 2019, the Government of Canada transferred to CDEV its activities related to the management of the Net Profits Interest "NPI" and Incidental Net Profits Interest agreements under the Hibernia Oil Project which were previously managed by Natural Resources Canada. Refer to note 3(u) for details.

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

Subsidiaries

i. Trans Mountain Corporation and Canada TMP Finance Ltd. were incorporated in 2018 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*.

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

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

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

TMP Finance is the parent company of TMC. It also provides debt and equity financing to TMC funded by loans from Her Majesty in Right of Canada, administered by Export Development Canada ("EDC"). See note 18 for loan details.

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

iii. CHHC was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by CDEV in March 1993. CHHC is subject to the *Financial Administration Act* and the *Income Tax Act*.

CHHC's sole purpose is the holding and management of its interests in the 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 in the HSE Unit Agreement.

The Hibernia Project is of strategic importance to CHHC as it is CHHC's sole business activity from which it derives all of its crude oil revenues.

An account is maintained on behalf of the working interest owners of each the Hibernia Development Project and the HSE Unit by its operator, Hibernia Management and Development Company Ltd. ("HMDC") and ExxonMobil Canada Properties, respectively, 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:

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 30, 2020.

b) Basis of measurement:

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

c) Functional and presentation currency:

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

3. Significant accounting policies:

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

a) Changes in accounting policies:

The following accounting standards, issued by the International Accounting Standards Board ("IASB"), and set out in the CPA Canada Handbook, are effective for the first time in the current financial year and have been adopted effective January 1, 2019 in accordance with the applicable transitional provisions.

i. 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.

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:

- 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.

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, plant 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*.

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. The Corporation's borrowing rate is the rate it would incur to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. 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. If there is a change in the lease term due to a change in assessment of whether the Corporation will exercise a purchase, extension or termination option, the lease liability will be remeasured by discounting the revised lease payments using a revised discount rate. If there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee or a change in future lease payments arising from a change in an index or rate, the lease liability will be remeasured by discounting the revised lease payments using an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

For 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.

(All dollar amounts are stated in thousands of Canadian dollars)

3. Significant accounting policies (continued):

a) Changes in accounting policies (continued):

i. IFRS 16, *Leases* ("IFRS 16") (continued):

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, and
- As an alternative to performing an impairment review, reliance has been placed on previous IAS 37 assessments of whether leases are onerous (there were no onerous contracts at January 1, 2019).

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 $79,700. The right-of-use assets were categorized as $26,700 for equipment, $12,500 buildings and $40,500 for land. The weighted average incremental borrowing rate applied to lease liabilities at January 1, 2019 is 4.29%.

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
Commitments unrelated to leases:		
Crude oil transportation and transhipment services		(42 814)
Hibernia Project Contracts		(16 331)
Pipeline PPE		(304,621)
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	$	14,528
Non-current		65,126
	$	79,654

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. The Hibernia Project uses right-of-use assets in its activities. Since right-of-use assets assets and lease 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. 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.
- Evaluating the impact of option periods for the lease terms: Certain of the Corporation's leases include options to extend the lease term and/or terminate the lease. Under IFRS 16, the evaluation of whether each lease contract's extension or termination 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 12 for further lease disclosures.

ii. 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 consolidated financial statements.

iii. 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 consolidated financial statements.

b) Basis of consolidation:

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

3. Significant accounting policies (continued):

c) Undivided working interests:

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

The Hibernia Project explores for, develops and produces oil reserves from the Hibernia offshore oilfield, which is located east of St. John's, NL, Canada. The activities of Hibernia are conducted jointly, primarily through HMDC, as operator and agent of the Hibernia Development Project joint account. HMDC's principal place of business is located in St. John's, NL, Canada.

CHHC has an 8.5% undivided working interest in the original Hibernia Project area and a 5.6% undivided working interest in the HSE Unit development. CHHC records in its financial statements its proportionate share of the assets, liabilities, revenues and expenses of the Hibernia Project.

CHHC also has an 8.5% equity interest in HMDC and considers HMDC to be an associate. An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. Because all assets, liabilities, revenues and expenses of the Hibernia Project are proportionately owned by the project's owners, HMDC holds no beneficial interest in the joint property and has nil assets, liabilities, revenues and expenses of its own. Accordingly, there are no amounts recognized in the Corporation's consolidated financial statements related to its equity ownership in HMDC.

d) Business combinations:

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

e) Goodwill:

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

f) Cash and cash equivalents:

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

g) Restricted cash:

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

h) Investments held for future obligations:

The Corporation's investments held for future obligations are comprised of cash balances and investments and are held primarily for funding future abandonment obligations. Although a portion of the underlying investments is short-term and highly liquid, the funds have been classified outside of cash and cash equivalents since they are not held for the purpose of meeting short-term cash commitments. There is no external restriction on the use of the investments.

i) Restricted Investments:

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

j) Inventory:

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

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

k) Property, plant and equipment (PPE):

i. Recognition and measurement:

Items of property, plant and equipment, which include oil development and production assets, and oil pipeline assets, are measured at acquisition cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGUs") for impairment testing. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components within the CGU. The Corporation has grouped its development and production assets into one CGU and oil pipeline assets into another CGU.

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

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

ii. Subsequent costs:

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

3. Significant accounting policies (continued):

k) Property, plant and equipment (continued):

iii. Depletion and depreciation:

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

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

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

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

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

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

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

l) Internal-use software:

The Corporation has intangible assets related to internal use software and included in “Other assets” on the consolidated statement of financial position. Internal use software projects are recorded at cost less accumulative amortization and impairment losses The Corporation capitalizes costs incurred during the development stage of internal-use software projects which include employee costs directly attributable to the project. Amortization is calculated on a straight-line basis over the asset’s useful life, commencing when the asset is available for use and recorded in “Other assets. The useful life of the software is estimated to be five years based on the expected technical obsolescence of such assets.

m) Leases:

Policy applicable prior to January 1, 2019:

As described in note 3(a), the Corporation has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. For contracts entered into before January 1, 2019, a lease was classified at the inception date as a finance lease or an operating lease. Leases where the Corporation assumes substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition the leased asset was measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset was accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases were apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

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

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

n) Financial instruments:

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

Financial instruments are initially recognized on the date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value and subsequently measured in accordance with their classification.

The classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. If the Corporation's business model changes, the classification of the financial instruments would be reassessed.

The following table presents the measurement categories for the Corporation's financial assets and financial liabilities:

Financial instrument	Classification
Financial assets:	
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
Trade and other receivables	Amortized cost
Restricted cash	Amortized cost
Restricted investments	Fair value through profit and loss
Investments held for future obligations	Amortized cost
Financial liabilities:	
Trade and other payables	Amortized cost
Loans payable	Amortized cost

3. Significant accounting policies (continued):

n) Financial instruments: (continued):

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

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

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

o) Impairment:

(i) Financial assets:

The Corporation measures its loss allowance on its financial assets at an amount equal to the lifetime expected credit losses (ECLs) when the credit risk on that financial asset has increased significantly since initial recognition. In the event that credit risk on the financial asset has not increased significantly since initial recognition, the Corporation measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The Corporation uses a combination of historical, present and forward-looking information to determine the appropriate loss allowance provision.

A simplified approach is used when measuring the loss allowance on the Corporation's trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Corporation's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

(ii) Non-financial assets:

Goodwill

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

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

Other non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped into CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use ("VIU") and its fair value less costs of disposal to sell ("FVLCD"). FVLCD is defined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

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

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

An impairment loss is recognized in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

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

p) Foreign currency transactions:

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using exchange rates prevailing at the end of each reporting period. Non-monetary items which are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items that are measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss unless they are from the consolidation of a foreign operation where foreign currency differences arising on translation are recognized in other comprehensive income.

3. Significant accounting policies (continued):

q) Provisions and contingencies:

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

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

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

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

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

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

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

r) Defined benefit obligation:

The defined benefit obligation includes pension and other post-employment benefits for employees and retirees of TMC and post-employment benefit obligations of CEI. For further details of these plans see note 17.

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

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

s) Income taxes:

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

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

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

t) Revenue from contracts with customers:

Crude oil sales:

Nature of contracts with customers:

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

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

3. Significant accounting policies (continued):

t) Revenue from contracts with customers: (continued):

Revenue recognition:

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

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

CHHC pays the marketing agent a fixed price marketing fee per barrel of crude oil sold. CHHC expenses these costs when incurred.

Starting September 2019, NPI paid by CHHC are eliminated upon consolidation with the Parent, who became responsible for managing the NPI agreements. Royalties and NPI are paid and remitted by CHHC. Royalties and NPI are measured according to the terms of the various agreements and reflect the provincial and federal governments' interests in Hibernia Project resources. Net crude oil revenue is presented after deducting royalties and, NPI for 2018 and until August 2019.

Pipeline services:

Nature of contracts with customers:

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

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

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

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

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

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

Reclamation Trust surcharges collected from shippers are recorded as deferred revenue (see note 19). As the use of funds is restricted to pay future abandonment costs, the deferred surcharges collected are retained in the Trust as Restricted Cash and Restricted Investments and will be recognized as revenue when the funds in the Trust are used for future abandonment activities.

Firm 50 Contracts

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

u) Net Profits Interest:

On April 1, 2019, the GoC and the Province of Newfoundland and Labrador signed an agreement which commits Canada to make annual payments to the Province of Newfoundland and Labrador. The GoC has instructed CDEV to pay all declared dividends otherwise payable to Canada that are derived from dividends received from CHHC, or other sources of income that the GoC may prescribe up to the amount of the annual payments agreed to.

On 20 August 2019, the GoC, through a letter from the Minister of Finance, prescribed the transfer of Canada’s responsibility pursuant to the Hibernia Development Project’s NPI agreements from the Minister for Natural Resources (“NRCan”) to the Corporation. To this effect, the Corporation and NRCan entered into a memorandum of understanding on 23 August 2019.

Under the NPI Agreements, the GoC, now the Corporation, is entitled to receive NPI from each owner of Hibernia (the “Project Owners”), including the Corporation’s subsidiary, CHHC. The NPI payment is based on 10% of net crude oil sales (crude oil sales adjusted for eligible transportation, operating and capital costs).

Amounts received under the NPI Agreements are recorded as capital contributions when the Corporation receives the cash from the Project Owners.

v) Other liabilities

Redirect fees

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

Dock Premiums

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

3. Significant accounting policies (continued):

w) Finance expenses and income:

Finance expenses comprise unwinding of the discount on decommissioning obligations and the provision for site restoration and interest expense on loans payable and lease liabilities.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized until such time as substantially all the necessary activities to prepare that asset for its intended use or sale are complete. The Corporation's indebtedness is considered general borrowings and the borrowing costs eligible for capitalization are calculated by applying a capitalization rate to the cumulative expenditures on such assets, or in the Corporation's case, Construction work in Progress. Capitalized amounts are limited each period to the actual borrowing costs incurred.

Other financing costs are expensed in the period in which they are incurred and reported in finance expenses.

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

x) Use of estimates and judgments:

The timely preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Key sources of estimation uncertainty:

Reserves

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of oil reserves. By their nature, the estimates of reserves, including the estimates of future oil prices, exchange rates, operating and capital costs, royalties and net profits interest, HSE Unit working interest adjustments, discount rates and the related future cash flows, as well as the interpretation of complex geological and geophysical models and data, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material. The depletion and depreciation expenses for the current period are disclosed in note 11.

Pursuant to the HSE Unit Agreement dated February 16, 2010, HSE unit interest ownership is subject to change as a result of revised tract factor allocations. These tract factors are subject to interim resets once oil production and water injection wells have been drilled and completed and sustained production has been established. All production adjustments from interim resets are prospective in nature. The agreement also has provisions for a first and a final redetermination of the HSE Unit working interests. These redeterminations call for adjustments of historical oil production to be settled on a prospective basis, as well as operating costs. Historical capital costs will be adjusted at the time of each reset and redetermination if a threshold level of adjustment is attained. The first and second interim resets occurred in 2015 and 2017, respectively, and there will be no further interim resets. The first and final redeterminations are expected to be complete in late 2020 and in 2025, respectively. Estimates of ultimate recovery of reserves and the impact of those estimates on eventual redetermination of tract factors are used to estimate CHHC's working interest reserves in the HSE Unit.

Decommissioning obligations

A provision is set up for decommissioning costs which will be incurred primarily when certain of the Corporation's tangible long-lived assets are retired. Assumptions, based on current economic factors which management believes are reasonable, have been made to estimate the future obligation. However, the actual cost and timing of decommissioning is uncertain, and these estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration which incorporates drilling and development plans. The impact to comprehensive income over the remaining economic life of the assets could be significant due to changes in the estimates of costs and timing as new information becomes available. In addition, the Corporation determines the appropriate discount rate at the end of each reporting period. This discount rate, which is a risk-free rate, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

Some uncertainties relate to the Corporation's future costs of fulfilling its obligations for site restoration including the estimation of future costs, including inflation, timing and other variables to complete restoration. The Corporation has recognized a provision for decommissioning obligations associated with future removal and site restoration costs. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected pipeline abandonment cost and the expected timing of those costs. However, the actual timing and the nature and extent of abandonment activities that will ultimately be required to comply with regulations at the end of the pipelines' life in future is uncertain and these estimates may change significantly as new information becomes available. See note 16 for details of decommissioning obligations.

Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which TMC and CHHC operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Details related to the Income tax expense and the reconciliation of effective tax rate are disclosed in note 20.

Business combinations

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

Impairment of Goodwill

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

Defined benefit obligation

The cost of the defined benefit obligation is determined using actuarial valuations which involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details about pension obligations are provided in note 17.

Critical judgments in applying accounting policies:

Undivided working interests

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

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

Revenue

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

(All dollar amounts are stated in thousands of Canadian dollars)

4. Accounting pronouncements issued but not yet effective:

A number of new standards, amendments and interpretations are effective for future annual periods, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below. New standards, amendments and interpretations not adopted in the current year are not expected to have a material impact on the Corporation's financial statements. The Corporation does not plan to adopt these pronouncements early.

(i) Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (Definition of Material)
The amendments were issued in October 2018 to clarify and align the definition of "material" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS. The changes emphasize that information should not be aggregated or disaggregated in a way that obscures material information, and highlight that materiality applies to all aspects of financial statements, including the primary statements, the notes and specific disclosures required by individual IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2020.

(ii) Revised Conceptual Framework for Financial Reporting
Issued in October 2018, the revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies other important concepts. While not a standard, and none of the concepts override the concepts or requirements in any standard, the Conceptual Framework assists standard setters in developing standards and helps preparers develop consistent accounting policies where there is no applicable standard in place. The revised Conceptual Framework is effective for annual periods beginning on or after January 1, 2020.

5. Acquisition of subsidiary:

On August 31, 2018, in culmination of an agreement executed on May 29, 2018 between Her Majesty in Right of Canada and Kinder Morgan, Trans Mountain Corporation 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 $4,447,352, after customary purchase price adjustments as provided in the purchase agreement. In February 2019, the remaining working capital adjustments of $37,000 were received. Acquisition costs related to the transaction of $5,000 were expensed and were included in professional fees in 2018.

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		
Cash consideration, net of cash acquired and debt assumed	$	4,447,352
Total purchase price		4,447,352
Identified net assets acquired at fair value:		
Accounts receivable		76,349
Other current assets		22,930
Property, plant and equipment (excluding construction in progress)		2,910,243
Construction in progress		1,130,000
Other non-current assets		91,055
Land		309,000
Accounts payable		(91,092)
Other current liabilities		(109,928)
Retirement and post-employment benefits		(70,228)
Other deferred credits		(43,885)
Decommissioning obligations		(219,318)
Deferred tax liability		(573,636)
Identifiable net assets acquired		3,431,490
Goodwill (note 14)		1,015,862
Total purchase consideration, net of cash acquired and debt assumed	$	4,447,352

Goodwill arising from the acquisition amounting to $442,000 relates to expected economic benefits associated with the completion of the Trans Mountain Expansion Project, including the direct economic benefits that the completion of the TMEP creates for the existing pipeline system, and the assumption of a decommissioning obligation. The balance of the goodwill recorded of $574,000 primarily relates to a deferred income tax liability which is recorded on acquisition on an undiscounted basis rather than its fair value. The deferred income tax liability arose as the tax bases of the net assets acquired were lower than their fair values. The goodwill is not expected to be deductible for tax purposes. At the date of acquisition, the present value of the obligations was calculated using a credit-adjusted risk-free rate, calculated using a credit spread of 0.50% added to a risk-free rate of 2.25%. The decommissioning obligations associated with the acquired properties are subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in decommissioning obligations and property, plant and equipment (see note 11 and 16).

The Corporation acquired the TMC entities on the basis that a significant part of the purpose is to build TMEP and $1,130,000 of related construction in progress and a portion of allocated goodwill accrue to the purchase price.

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.

6. Cash and cash equivalents and short-term investments:

Cash comprises bank balances. Cash equivalents include short-term highly liquid investments including banker's acceptances and GICs. Interest revenue arising on cash and cash equivalents was earned at annual interest rates ranging from 1.20% to 2.50% in 2019 (2018 - 0.75% to 2.50%). The details are as follows:

		2019		2018
Bank balances	**$**	**525,401**	$	251,306
Cash equivalents		**61,708**		93,551
Cash and cash equivalents	**$**	**587,109**	$	344,857

7. Investments held for future obligations:

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

		2019		2018
CRF balance, beginning of year	**$**	**117,079**	$	115,685
Allocated interest		**1,682**		1,394
Withdrawals		**(5,000)**		-
CRF balance, end of year		**113,761**		117,079
Cash in deposit accounts		**353**		-
Investments		**49,183**		36,672
	$	**163,297**	$	153,751
Current	**$**	**3,552**	$	2,518
Non-current		**159,745**		151,233
	$	**163,297**	$	153,751

(All dollar amounts are stated in thousands of Canadian dollars)

7. Investments held for future obligations (continued):

At December 31, 2019, the balance of investments held for future obligations consists of cash and cash equivalents and investments held for future abandonment and risk fund and site restoration. This is comprised of cash on deposit in the CRF of $12,226 held for CEI and $101,535 held for CHHC (2018 - $17,034 and $100,045 respectively) and investments of $49,183 and cash of $353 held by CHHC (2018 - $36,672 and nil).

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

CHHC has deposited cash in the CRF and in investments to provide for future abandonment obligations of the Hibernia facility and to provide for security against future risks. CHHC has reduced a portion of its third-party insurance coverage as a result of the risk fund. The investments are comprised of term deposits maturing within 365 days of inception and earned interest income at interest rates ranging from 2.15% to 2.50% during the year (2018 – 1.58% to 2.50%).

Funds held in the CRF are interest bearing at a rate of 90% of the three-month treasury bill tender rate. The average annual interest rate was 1.49% during the year (2018 - 1.20%). The interest is retained in the CRF. Access to these funds is unrestricted.

8. Other current assets:

		2019		2018
Prepaid expenses	**$**	**6,200**	$	5,676
Inventory				
Crude oil		**583**		3,797
Pipeline – spare parts		**6,509**		6,048
Other		**6,291**		3,222
	$	**19,583**	$	18,743

Depletion expense of $1,800 was related to crude oil inventories during the period (2018 - $633).

9. Restricted cash:

		2019		2018
Restricted cash – CER letter of credit	**$**	**-**	$	500,000
Restricted cash – TMC held for future abandonment costs		**2,501**		683
Restricted cash – TMC letters of credit		**59,314**		48,160
Restricted cash – TMC held as security		**1,200**		-
Restricted cash – CHHC letters of credit		**8,500**		8,500
	$	**71,515**	$	557,343
Current	**$**	**-**	$	500,683
Non-current		**71,515**		56,660
	$	**71,515**	$	557,343

During the year, the $500,000 letter of credit issued to Trans Mountain Pipeline ULC to satisfy the financial resources requirements specified by the CER was cancelled and $500,000 of restricted cash on deposit was used to repay the outstanding loan on the NEB Facility.

The long-term portion of restricted cash balance includes $8,500 and $61,000 (2018 - $8,500 and $48,000) used to collateralize letters of credit associated with the Hibernia Project and TMC, respectively.

TMC issued a $27,000 letter of credit (2018 - $26,000) to support the defined benefit plan and the remaining letters of credit are related to utilities and government authorities.

In the granting of operations and drilling authorizations associated with Hibernia Project, the C-NLOPB requires evidence of financial responsibility pursuant to the *Energy Safety and Security Act*. To comply with this legislation, CHHC has provided a letter of credit to the C-NLOPB of $8,500 representing its proportionate share of the evidence required by the Hibernia Project as at December 31, 2019 and 2018. During 2019, the letter of credit was amended to extend its expiry date from April 30, 2020 to October 30, 2023. The C-NLOPB has the right to make claims against the cash held in escrow under certain circumstances and CHHC retains any interest earned on the account.

10. Restricted investments:

Restricted investments of $70,911 (2018 - $54,800) held at TMC are long-term investments in Canadian government and Federal agency bonds held in trust. The restricted long-term investments by the Trust are to be used solely for the purposes of satisfying future abandonment costs under the CER's directives. The interest is retained in the Trust and the Corporation does not have access to it until it performs approved abandonment activities.

(All dollar amounts are stated in thousands of Canadian dollars)

11. 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	1,255,436	-	34,161	1,289,597
Transfers	(50,866)	50,866	-	-
Decommissioning adjustments	-	70,496	5,676	76,172
Retirements	-	(2,370)	-	(2,370)
Foreign exchange movements	(8)	(15,134)	-	(15,142)
Balance at December 31, 2019	$ 2,481,918	$ 3,530,639	$ 582,624	$ 6,595,181
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	-	107,546	43,994	151,540
Retirements	-	(2,370)	-	(2,370)
Foreign exchange movements	-	(357)	-	(357)
Balance at December 31, 2019	$ -	$ 138,811	$ 402,305	$ 541,116
Carrying amounts:				
At December 31, 2018	$ 1,277,356	$ 3,392,789	$ 184,476	$ 4,854,621
At December 31, 2019	$ 2,481,918	$ 3,391,828	$ 180,319	$ 6,054,065

At December 31, 2019, costs subject to the calculations of depletion and depreciation – oil included future development costs of $472,000 (2018 - $571,000). Oil development assets and production facilities include $128,699 at December 31, 2019 (2018 - $123,022) of capitalized costs relating to decommissioning obligations, which will be depreciated over the life of the asset.

At December 31, 2018 and 2019, an assessment of indicators of impairment was conducted for the Corporation's CGUs. No indicators were noted and accordingly an impairment test was not required.

During the year ended December 31, 2019 capitalized interest of $48,848 was included in the cost of property, plant and equipment – construction work in progress (2018 - $1,043).

12. 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 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, B.C. 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 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 be incurred as at December 31, 2019.

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	1,047	27,801	28,848
Lease modifications	(946)	-	(946)
Depreciation	(4,065)	(13,121)	(17,186)
Foreign exchange movements	(81)	-	(81)
December 31, 2019	$ 22,619	$ 67,670	$ 90,289

Details of lease liabilities are as follows:	
Lease liabilities, January 1, 2019	$ 79,654
Additions	28,849
Lease modification	(946)
Interest expense	3,726
Lease payments	(19,128)
Foreign exchange movements	(235)
Lease liabilities, December 31, 2019	$ 91,920
Current	$ 20,258
Non-current	71,662
	$ 91,920

(All dollar amounts are stated in thousands of Canadian dollars)

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

Maturity analysis – contractual undiscounted cash flows:

	2020	2021-2024	Thereafter	Total
Lease liabilities	$ 20,795	$ 42,794	$ 114,630	$ 178,219

Statement of Comprehensive Income and Statement of Cash Flows:

	December 31, 2019*
Statement of Comprehensive Income:	
Interest on lease liabilities	$ 3,726
Less: capitalized lease interest	(1,675)
Expenses relating to low-value assets	2,268
Short-term and variable cost	365
Statement of Cash Flows:	
Total cash outflow for leases	$ 19,127

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

Lessor

Operating leases in which the Corporation is the lessor relate to merchant tanks owned by the Corporation and housing located along the pipeline right of way or in the proximity of pump stations. For the year ended December 31, 2019, lease income for merchant tank operating leases recognized in "Lease revenue" for the year ended December 31, 2019 totaled $60,100, which included the variable lease payments described above, and lease income related to housing operating leases recognized in "Other revenue" totaled $200.

The future undiscounted minimum operating lease revenues based on contractual agreements are as follows:

2020	51,214
2021	49,541
2022	47,937
2023	42,373
2024	40,759
Thereafter	415,800
Total	647,624

13. Other assets:

		2019		2018
Prepaid construction advances	**$**	**39,489**	$	18,893
Payments to be recovered through tolls		**40,853**		24,567
Internal-use software		**9,875**		-
Other		**5,458**		2,868
	$	**95,675**	$	46,328

Payments to be recovered through tolls includes $39,619 relating to the Bulk Oil Cargo Fee ("BOCF") which provides the Western Canada Marine Response Corporation ("WCMRC") with funds for spill response and is collected from shippers based on volume of commodities moved through WCMRC's marine response area. BOCF related to TMEP is to be recovered from shippers after TMEP in-service. The BOCF is recorded in Other current assets to the extent the amount paid to WCMRC exceeds the amount collected from shippers or in Other current liabilities to the extent that the amount collected from shippers exceeds the BOCF payable. Depreciation and amortization expense charged against "Other assets" related to internal-use software was $219 for the year ended December 31, 2019 (2018 – nil).

14. Goodwill:

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

Balance at January 1, 2018	$	-
Acquired through business combination		1,015,862
Effect of foreign exchange		720
Balance at December 31, 2018		1,016,582
Effect of foreign exchange		(801)
Balance at December 31, 2019	$	1,015,781

b) Impairment test

For the purposes of impairment testing, goodwill has been allocated to TMC's CGU. The recoverable amount of this CGU was based on the fair value of the reporting unit which was estimated using the expected cash flows. The estimate of fair value required the use of significant unobservable inputs representative of a Level 3 fair value measurement, including assumptions related to timing of TMEP project construction and in-service date.

A goodwill impairment test was performed as of December 31, 2019 and did not result in an impairment charge. The recoverable amount or valuation of the reporting unit was estimated using an income-based approach based on the discounted cash flows. Cash flows used to determine the recoverable amount have been projected for twenty years from pipeline expansion in service with a terminal value applied thereafter that assumes a 2% growth rate. The estimate of fair value required the use of significant unobservable inputs, including assumptions related to the timing of TMEP construction, discount rate, and changes in cost estimates, and therefore, the fair value is representative of a Level 3 fair value. The total approved project cost estimate for the TMEP of $12,600,000 as disclosed by TMC includes $1,700,000 of financial carrying costs and the project is expected to be in-service by the end of 2022. For purposes of determining the fair value, the estimate of discounted cash flows included probability-weighted scenarios of various in-service dates for the TMEP, including in-service dates of 2022, 2023, and a potential scenario where TMEP would not be put in service. The estimate of discounted cash flows was determined using a discount rate of approximately 8.6% which reflects the time value of money based on the risks associated with the Corporation's assets that have not otherwise been incorporated in the cash flow estimates.

Sensitivity analysis:

Changes in these key assumptions would impact the fair value of the reporting unit TMC which could result in impairment. In reference to a base valuation with an estimated in-service date at the end of 2022, sensitivity analysis of key assumptions was performed as shown below. The sensitivity scenarios described below would not result in an impairment of goodwill in the reporting unit.

(All dollar amounts are stated in thousands of Canadian dollars)

14. Goodwill (continued):

Impact on fair value of TMC reporting unit:	Increase	Decrease
Discount rate change of 0.25%	($500,000)	+$500,000
$600,000 change in TMEP capital expenditures	($200,000)	
One-year delay in construction and operation of TMEP including a $600,000 increase in capital expenditures	($900,000)	

15. Other current liabilities:

		2019		2018
Dock premiums	**$**	**179,936**	$	95,338
Environmental accrual		**3,639**		4,018
Defined benefit obligation (note 17)		**1,443**		476
Other		**9,372**		9,178
	$	**194,390**	$	109,010

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

16. 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, 2017	$	-	$	133,398	$	133,398	$	12,080
Additional provisions/acquisition		219,318		-		219,318		-
Additional provisions		-		-		-		835
Changes in estimates		-		6,287		6,287		(966)
Obligations settled		-		(4,174)		(4,174)		(1,922)
Changes in discount rate- acquisition (1)		138,475		-		138,475		-
Changes in discount rate		25,649		3,089		28,738		(46)
Effect of foreign exchange		1,492		-		1,492		-
Unwind of discount		2,676		2,931		5,607		157
Balance at December 31, 2018	**$**	**387,610**	**$**	**141,531**	**$**	**529,141**	**$**	**10,138**
Additional provisions		-		-		-		1,510
Changes in estimates		(126,967)		(14,603)		(141,570)		(405)
Obligations settled		-		(2,083)		(2,083)		(1,665)
Changes in discount rate		197,463		20,279		217,742		45
Effect of foreign exchange		(2,394)		-		(2,394)		-
Unwind of discount		10,039		2,685		12,724		147
Balance at December 31, 2019	**$**	**465,751**	**$**	**147,809**	**$**	**613,560**	**$**	**9,770**
Current	$	-	$	3,659	$	3,659	$	3,351
Non-current		465,751		144,150		609,901		6,419
	$	**465,751**	**$**	**147,809**	**$**	**613,560**	**$**	**9,770**

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

Sensitivity Analysis:

Changes to the discount rate or the inflation rate would have the following impact on the provision for decommissioning obligations of the Corporation at December 31, 2019:

	One percent increase	One percent decrease
Discount rate	$ (322,243)	$ 817,344
Inflation rate	$ 845,690	$ (329,884)

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 $237,259 at December 31, 2019 (2018 - $291,928). 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 2049 and is based upon the useful lives of the underlying assets. The provision was calculated at December 31, 2019 using an average inflation rate of 1.75% (2018 - 2.00%) and was discounted using an average risk-free rate of 1.75% (2018 – 2.15%).

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 $465,751 at December 31, 2019 (2018 - $387,610) discounted at a risk-free rate of 1.76% (2018 - 2.18%). The undiscounted decommissioning liability is estimated to be $2,600,000 (2018 - $3,300,000) with an inflation rate of 1.76% (2018 - 2.00%) and an expected remaining useful life of 99 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 99 years. The estimated economic life is used to determine the undiscounted cash flows at the time of decommissioning and is reflective of the expected timing of economic outflows relating to the provision.

c) Provision for site restoration:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to the sale of assets to Cameco. Provision for site restoration as at the date of the consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The costs are estimated over a period ending in 2023 (2018 – 2023). The future estimate of costs for site restoration has been discounted at a rate of 1.88% (2018 – 1.73%) and an inflation rate of 2.00% (2018 – 2.00%) was used to calculate the provision at December 31, 2019. The current estimate for costs and the amount accrued as at December 31, 2019 is $9,770 (2018 - $10,138).

(All dollar amounts are stated in thousands of Canadian dollars)

17. Defined benefit obligation:

		2019		2018
TMC (see detailed schedule below):				
- Pension plan	$	**68,830**	$	59,598
- Other post-employment benefits		**19,550**		17,623
CEI retiree benefits		**1,547**		1,645
Net defined benefit obligation	$	**89,927**	$	78,866
Current [(a)]	$	**1,443**	$	476
Non-current [(b)]		**88,694**		78,390
Non-current [(c)]		**(210)**		-
	$	**89,927**	$	78,866

(a) Amounts included in Other current liabilities on the consolidated statement of financial position (see note 15).
(b) Amounts included in Defined benefit obligation on the consolidated statement of financial position.
(c) Amounts included in Other assets on the consolidated statement of financial position.

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

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

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

Other post-employment benefits ("OPEB") are provided to current and future retirees and their dependents, including depending on circumstance, supplemental health, dental and life insurance coverage. Medical benefits under those OPEB plans may be subject to deductibles, co-payment provisions, dollar caps and other limitations on the amount of employer costs, and the Corporation reserves the right to change these benefits. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determination, considering, among other factors, health care cost escalation. The most recent actuarial valuation for accounting purposes was completed as of December 31, 2019.

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

	2019		2018	
	Pension	**OPEB**	Pension	OPEB
Change in defined benefit obligation:				
Defined benefit obligation at end of prior year	**257,424**	**17,623**		
Defined benefit obligation from Acquisition			256,380	18,122
Current service cost	**7,958**	**416**	2,516	141
Past service cost	**1,053**		2,544	
Interest expense	**9,007**	**606**	2,937	206
Benefit payments from plan assets	**(8,473)**		(2,715)	
Benefit payments from employer	**(1,231)**	**(823)**	(408)	(275)
Participant contributions	**2,975**		790	
Effect of changes in demographic assumptions		**(36)**		(158)
Effect of changes in financial assumptions	**29,604**	**1,936**	(4,620)	(413)
Effect of experience assumptions	**(64)**	**(172)**		
Defined benefit obligation at end of year	**298,253**	**19,550**	257,424	17,623
Change in fair value of plan assets:				
Fair value of plan assets at end of prior year	**202,555**			
Increase due to Acquisition			208,070	
Interest income	**7,243**		2,377	
Return on plan assets (excluding interest income	**23,511**		(8,527)	
Employer contributions	**8,104**		2,791	
Employer direct benefit payments	**1,231**	**823**	408	275
Participant contributions	**2,975**		790	
Benefit payments from plan assets	**(8,473)**		(2,715)	
Benefit payments from employer	**(1,231)**	**(823)**	(408)	(275)
Administrative expenses paid from plan assets	**(696)**		(231)	
Fair value of plan assets at end of year	**235,219**		202,555	
Change in asset ceiling				
Asset ceiling at end of prior year	**4,729**			
Asset ceiling at Acquisition			4,991	
Interest expense	**164**		56	
Remeasurements:				
Change in asset ceiling (excluding interest)	**903**		(318)	
Asset ceiling at end of year	**5,796**		4,729	
Funded status reflected in the statement of financial position:				
Defined benefit obligation	**298,253**	**19,550**	257,424	17,623
Fair value of pension plan assets	**235,219**		202,555	
Funded status	**63,034**	**19,550**	54,869	17,623
Effect of the asset ceiling from remeasurement	**5,796**		4,729	
Net defined benefit liability at end of year	**68,830**	**19,550**	59,598	17,623
Presented as follows:				
Current benefit liability (a)	**470**	**823**	326	
Non-current benefit liability (b)	**68,570**	**18,727**	59,272	17,623
Non-current benefit asset (c)	**(210)**			
Net defined benefit liability - TMC	**68,830**	**19,550**	59,598	17,623

(a) Amounts included in Other current liabilities on the consolidated statement of financial position.
(b) Amounts included in Defined benefit obligation on the consolidated statement of financial position.
(c) Amounts included in Other assets on the consolidated statement of financial position.

(All dollar amounts are stated in thousands of Canadian dollars)

17. Defined Benefit Obligation (continued):

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

	2019		2018	
	Pension	**OPEB**	Pension	OPEB
Components of defined benefit cost:				
Service cost				
Current service cost	**7,958**	**416**	2,516	141
Past service cost	**1,053**		2,544	
Total service cost	**9,011**	**416**	5,060	141
Net interest cost				
Interest expense on DBO	**9,007**	**606**	2,937	206
Interest (income) on plan assets	**(7,243)**		(2,377)	
Interest expense of effect of asset ceiling	**164**		56	
Total net interest cost	**1,928**	**606**	616	206
Administrative expenses and/or taxes (not reserved within DBO)	**625**		207	
Defined benefit cost included in net income	**11,564**	**1,022**	5,883	347
Remeasurements (recognized in OCI)				
Effect of changes in demographic assumptions		**(36)**		(158)
Effect of changes in financial assumptions	**29,604**	**1,936**	(4,620)	(413)
(Return) on plan assets (excluding interest income)	**(23,440)**		8,551	
Effect of experience assumptions	**(64)**	**(172)**		
Changes in asset ceiling (excluding interest income)	**903**		(318)	
Total remeasurements included in OCI	**7,003**	**1,728**	3,613	(571)
Total defined benefit cost	**18,567**	**2,750**	9,496	(224)

Net defined benefit liability reconciliation

	2019		2018	
	Pension	**OPEB**	Pension	OPEB
1. Net defined benefit liability	**59,598**	**17,623**		
2. Defined benefit cost included in P&L	**11,564**	**1,022**	5,883	347
3. Total remeasurements included in OCI	**7,003**	**1,728**	3,613	(571)
4. Net transfer in/(out) from business combination, and effect of asset ceiling			53,301	18,122
5. Cash flows				
a. Employer contributions	**(8,104)**			
b. Employer direct benefit payments	**(1,231)**	**(823)**	(2,791)	(275)
c. Employer direct settlement payments			(408)	
Net defined benefit liability (asset) as of end of year	**68,830**	**19,550**	59,598	17,623

Defined benefit obligation by participant status - OPEB

	2019	2018
Actives	**$ 7,916**	$ 6,654
Retirees	**11,634**	10,969
Total	**$ 19,550**	$ 17,623

Plan Assets

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

As of December 31, 2019, the target asset allocation for the Legacy plans was 95% fixed income and 5% equity. The target allocation for the TMCI plans were 45% fixed income and 55% equity.

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

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

(All dollar amounts are stated in thousands of Canadian dollars)

17. Defined Benefit Obligation (continued):

Listed below are the fair values of the pension plans' assets that are recorded at fair value by class and categorized by fair value measurement:

		2019		2018
Measured within Level 1 of fair value hierarchy				
Cash	$	6,286	$	5,468
Mutual funds		228,933		197,087
	$	235,219	$	202,555

Plan Assets by Asset Category:	2019	2018
Domestic Equity	14%	12%
International Equity	17%	15%
Domestic Fixed Income	68%	72%
Other	1%	1%
Total	100%	100%

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

Expected Payment of Future Benefits and Employer Contributions

Following are the expected future benefit payments:

	2019		2018	
	Pension	OPEB	Pension	OPEB
Expected employer contributions	9,964	823	9,967	823
Expected total benefit payments				
2019	11,015	823	9,893	823
2020	11,548	843	10,244	847
2021	11,927	860	10,639	865
2022	12,494	878	10,996	880
2023	12,977	902	11,383	897
2024-2028	68,574	4,763	61,327	4,744

Significant actuarial assumptions

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

	2019		2018	
	Pension	**OPEB**	Pension	OPEB
Assumptions related to defined benefit obligations:				
Effective discount rate for defined benefit obligation	**3.12%**	**3.13%**	3.81%	3.82%
Immediate health care cost trend rate		**5.28%**		4.96%
Ultimate health care cost trend rate		**4.00%**		4.00%
Year rate reaches ultimate trend rate		**2040**		2040
Assumptions related to benefit costs:				
Effective discount rate for benefit obligations	**3.81%**	**3.82%**	3.69%	3.69%
Effective rate for net interest cost	**3.60%**	**3.52%**	3.51%	3.44%
Effective discount rate for service cost	**3.89%**	**3.95%**	3.76%	3.79%
Effective rate for interest on service cost	**3.73%**	**3.91%**	3.64%	3.76%
Immediate health care cost trend rate		**4.96%**		5.55%
Ultimate health care cost trend rate		**4.00%**		4.50%
Year rate reaches ultimate trend rate		**2040**		2035

Sensitivity analysis

Assumed health care cost trends have a significant effect on the amounts reported for OPEB plans.

A sensitivity analysis was performed for significant assumptions. A one-percentage point change in assumed rates would have the following effects as at year end:

	2019		2018	
Present value of defined benefit obligation	**One percent increase**	**One percent decrease**	One percent increase	One percent decrease
Health care cost trend rate				
i. Effect on total service cost and interest cost components	**110**	**(81)**	50	(37)
ii. Effect on benefit obligation	**1,420**	**(1,129)**	1,210	(968)
iii. Effect on net benefit periodic cost	**110**	**(81)**	50	(37)
Discount rate				
i. Effect on benefit obligation	**(2,589)**	**3,296**	(2,208)	2,786
ii. Effect on net benefit periodic cost	**208**	**(183)**	12	(2)

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

	2019		2018	
Present value of defined benefit obligation	**One percent increase**	**One percent decrease**	One percent increase	One percent decrease
Salary scale	**309,059**	**288,716**	266,912	248,856
Discount rate	**257,815**	**349,923**	223,961	299,850

(All dollar amounts are stated in thousands of Canadian dollars)

18. Loans 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 CER financial resource requirements. With this new credit agreement, TMC was able to cancel the credit agreement with Kinder Morgan that back-stopped a $500,000 letter of credit. After the letter of credit was cancelled, $500,000 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 NEB Facility allows TMP Finance to borrow funds for the purpose of providing financial assurance for the Trans Mountain Pipeline as required by the CER.

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

Details of the facilities at December 31, 2019 are as follows:

Facility	Total Available Credit 2019	Outstanding Amounts 2019	Outstanding Amounts 2018	Interest Rate Disbursed amounts	Standby Fee Undisbursed amounts	Maturity Date
Acquisition	$ 4,670,000	$ 4,670,000	$ 4,670,000	4.7%	0.065%	August 29, 2023
Construction (a)	2,587,000	1,385,000	120,000	4.7%	0.065%	August 29, 2023
NEB	500,000	-	500,000	4.7%	0.30%	August 29, 2023
		$ 6,055,000	$ 5,290,000			
Current		-	120,000			
Non-current		6,055,000	5,170,000			
		$ 6,055,000	$ 5,290,000			

a) The availability of the Construction Credit Facility is limited to any borrowing authority issued by the Minister of Finance. On July 30, 2019 an Amended Credit Agreement was executed between Her Majesty in Right of Canada, as administered by EDC and Canada TMP Finance Ltd. The Construction facility limit until December 31, 2019 is $2,587,000, increasing to $4,000,000 in 2020 as detailed in a revised borrowing authority letter received from the Minister of Finance.

Total interest expense is comprised of the following:

	2019	2018
Interest on loans payable	**$ 248,207**	$ 83,180
Interest on leases	**2,057**	-
Interest capitalized	**(48,848)**	(1,043)
Standby fees	**1,930**	347
	$ 203,346	$ 82,484

19. Other non-current liabilities:

		2019		2018
Dock premiums	$	**57,068**	$	156,309
Deferred revenue		**30,929**		12,961
Environmental liabilities		**3,705**		2,633
	$	**91,702**	$	171,903

Deferred revenue is mainly comprised of approximately $6,733 (2018 – $7,000) related to upfront fees or capital improvements paid for in advance by certain customers which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contract as well as $24,196 (2018 – $6,000) paid by customers related to the Trust which will be recognized as revenue when the funds in the Trust are used for future abandonment activities.

20. Income taxes:

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

a) Income tax expense:

The components of income tax expense are as follows:

		2019		2018
Current tax expense				
Current period	$	**28,867**	$	35,916
Adjustment related to prior periods		**(3,165)**		-
Investment tax credits		**(335)**		-
		25,367		35,916
Deferred tax recovery				
Origination and reversal of temporary differences		**14,768**		(13,473)
Adjustment related to prior periods		**407**		411
Changes in tax rates applied to temporary differences		**(48,946)**		(207)
		(33,771)		(13,269)
Total income tax expense	$	**(8,404)**	$	22,647

(All dollar amounts are stated in thousands of Canadian dollars)

20. Income taxes (continued):

b) Reconciliation of effective tax rate:

The statutory combined federal and provincial income tax rates applicable to TMC decreased to 26.71% in 2019, a reduction from 27% in 2018. The statutory combined federal and provincial tax rate applicable to CHHC decreased modestly to 29.14% in 2019 from 29.19% in 2018. The blended statutory rate in 2019 was 27.86% (2018 - 28.63%).

An Alberta corporate tax rate reduction in June 2019 from 12% to 8% by 2022 resulted in a reduction in the net deferred tax liability and a consequential deferred income tax recovery for the year ended December 31, 2019.

		2019		2018
Net profit for the year	$	33,937	$	7,873
Total income tax expense		(8,404)		22,647
Profit (Loss) before income taxes	$	25,533	$	30,520
Income tax using blended statutory rate of 27.86% (2018 - 28.63%)		7,113		8,736
Expenses of non-taxable entities		17,439		11,974
Non-deductible expenses and other		401		441
Adjustments related to prior periods		(3,093)		411
Impact of Tax Rate Changes		(48,835)		-
Change in unrecognized deferred tax asset		17,519		-
Rate differences and other		1,052		1,085
	$	(8,404)	$	22,647

Unrecognized deferred tax assets (liabilities):

At December 31, 2019, TMC had no unrecognized deferred tax assets.

CHHC has an unrecognized net deferred income tax asset of $17,519 at December 31, 2019 (2018 - nil) related to its provision for decommissioning obligations, as estimated future taxable income is not expected to be sufficient to realize the deferred income tax asset in the allowable timeframes.

Recognized deferred income tax assets (liabilities):

The significant components of the Corporation's deferred income tax liabilities (assets) and deferred income tax expense (recovery) are as follows:

	Inventory	Property and equipment	Provisions	Accrued Liability	Non-Capital Losses	Total
At December 31, 2017	(569)	(22,863)	39,447	86		16,101
Credited/(charged) to the statement of comprehensive income	611	(53,067)	46,012	1,020	18,694	13,270
Credited/(charged) on business combination		(640,372)	45,604	20,498	634	(573,636)
Credited/(charged) to the statement Other Comprehensive Income				821		821
Credited/(charged to cumulative translation adjustment ("CTA")		(37)	253	(2)		214
At December 31, 2018	42	(716,339)	131,316	22,423	19,328	(543,230)
Credited/(charged) to the statement of comprehensive income	(42)	50,377	(33,878)	7,769	30,836	55,063
Credited/(charged) to the statement Other Comprehensive Income				(2,109)		(2,109)
Provision for decommissioning obligations			(17,046)			(17,046)
Credited/(charged) to CTA		(220)	19	9	17	(175)
At December 31, 2019		(666,182)	80,411	28,093	50,181	(507,498)

Expiration Periods for Deferred Tax Assets: As of December 31, 2019, there were non-capital loss carry forwards of $203,000 ($71,600 as of December 31, 2018), which will start to expire in 2037.

(All dollar amounts are stated in thousands of Canadian dollars)

21. Trade and other payables:

		2019		2018
Trade payables and accrued liabilities	$	**97,966**	$	81,003
Property, plant and equipment accrued liabilities		**234,605**		52,517
	$	**332,571**	$	133,520

Information about the Corporation's exposure to currency and liquidity risks is included in note 29 (b).

22. Share capital and Net Profits Interest reserve:

a) Share capital

		2019		2018
Share Capital:				
Authorized – unlimited number of common shares				
Issued and fully paid – 101 common shares	$	**1**	$	1

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

b) Net Profits Interest reserve

During the year, NPI payments received under the NPI agreements totalled $13,718 of which $892 was received from CHHC and eliminated upon consolidation.

23. Supplemental cash flow disclosure:

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

		2019		2018
Trade and other receivables	$	**2,688**	$	(23,364)
Inventory		**1,414**		(176)
Other current assets		**(4,054)**		8,243
Deferred charges and other assets		**(49,357)**		(4,639)
Trade and other payables		**200,403**		24,381
Other current liabilities		**84,413**		(1,068)
Other non-current liabilities		**(82,363)**		127,228
Change in non-cash working capital items	$	**153,145**	$	130,605
Relating to:				
Operating activities	$	**400**	$	142,553
Investing activities		**152,745**		(11,948)
Change in non-cash working capital items	$	**153,145**	$	130,605

Property, plant and equipment expenditures comprise the following:

		2019		2018
Property, plant and equipment additions (note 11)	$	**(1,289,597)**	$	(199,120)
Change in non-cash investing working capital related to PPE		**162,838**		(11,948)
Capitalized lease amortization and interest		**11,800**		-
Cash used for PPE expenditures	$	**(1,114,959)**	$	(211,068)

24. Net crude oil revenue and operating, transportation and marketing expenses:

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

		2019		2018
Crude oil sales	$	**246,050**	$	276,922
Less: royalties		**(61,335)**		(76,376)
Less: net profits interest		**(11,870)**		(21,002)
Net crude oil revenue	$	**172,845**	$	179,544

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

		2019		2018
United States	$	**181,765**	$	106,554
Europe		**51,145**		84,869
Canada		**13,140**		50,303
South America		**–**		18,325
Asia		**–**		16,871
	$	**246,050**	$	276,922

c) Royalties:

CHHC pays royalties monthly to the Province on the revenues generated from Hibernia Project production in accordance with two royalty agreements which govern the applicable license areas. Both royalty agreements consist of tiered royalty structures including gross royalty, net royalty and supplementary royalty. While the stated royalty rates range from 5% of gross transfer revenue to over 40% of net transfer revenue depending on the royalty area, the majority of CHHC's revenue in 2019 was encumbered by a royalty rate of 30% of net transfer revenue, as defined in the royalty agreements. Gross transfer revenue reflects crude oil sales less eligible transportation costs, while net transfer revenue reflects gross transfer revenue less eligible operating and capital costs. In 2019, total royalties averaged 25% of crude oil sales (2018 – 28%).

d) Net Profits Interest:

CHHC is also party to an NPI Agreement, which provides for a monthly NPI payment to the Government of Canada by all Hibernia Development Project owners. The NPI payment is based on 10% of net crude oil sales, as defined in the NPI Agreement (crude oil sales less eligible transportation, operating and capital costs). In 2019, NPI payments averaged 7% of crude oil sales (2018 – 8%). NPI payments made after August 2019 are paid to CDEV and upon consolidation are not recognized as a deduction to revenue since it is an intercompany charge.

e) Operating, transportation and marketing expenses for the years ended December 31 are comprised as follows:

		2019		2018
Hibernia Project production and operating	$	**22,903**	$	24,109
Crude oil transportation and transshipment		**4,089**		5,886
Crude oil marketing		**448**		407
Total operating, transportation and marketing	$	**27,440**	$	30,402

(All dollar amounts are stated in thousands of Canadian dollars)

25. Revenue and operating expenses from pipeline operations:

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

		2019		2018
Transportation revenue	**$**	**413,196**	$	107,732
Lease revenue		**60,146**		20,417
Other revenue		**2,308**		1,021
Total	**$**	**475,650**	$	129,170
Pipeline operating expenses	**$**	**152,270**	$	53,077
Salaries and benefits		**67,796**		23,060
Other general and administration costs		**5,489**		5,077
Total operating expenses excluding finance costs and depreciation	**$**	**225,555**	$	81,214

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

Revenue Allocated to Remaining Performance Obligations

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

The following table presents the estimated revenue allocated to remaining performance obligations for contracted revenue that has not yet been recognized, representing the "contractually committed" revenue as of December 31, 2019 that will be invoiced or transferred from contract liabilities and recognized in future periods.

Year		Estimated Revenue
2020		68,677
2021		68,490
2022		6,011
2023		213
2024		213
Thereafter		27,761
Total	$	171,365

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. Contract assets are recognized in those instances where billing occurs subsequent to revenue recognition and the right to invoice the customer is conditioned on something other than the passage of time. For the year ended December 31, 2019, there were no contract assets recognized. Contract liabilities are substantially related to capital improvements paid for in advance by certain customers, which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contracts as well as abandonment surcharges collected by customers and recognized as revenue in the future once the abandonment costs are incurred.

The following table presents the activity in contract liabilities for the year ended December 31, 2019:

		2019		2018
Opening balance	**$**	**11,110**	$	-
Acquired on Acquisition		**-**		5,037
Additions		**18,311**		6,270
Transfer to Revenues		**(598)**		(197)
Ending Balance	**$**	**28,823**	$	11,110
Other current liabilities		**212**		212
Other non-current liabilities		**28,611**		10,898
	$	**28,823**	$	11,110

26. Commitments:

CDEV's commitments at December 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").

		2020		2021-2024		Thereafter		Total
Crude oil transportation and transshipment services (i)	$	4,556	$	17,266	$	24,355	$	46,177
Hibernia Project contracts		1,910		4,919		3,363		10,192
Pipeline PPE (ii)		186,180		-		–		186,180
Other operating commitments		153		643		1,648		2,444
Total Commitments	$	192,799	$	22,828	$	29,366	$	244,993

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

CHHC is committed to paying its working interest share of the 2020 capital, operating and abandonment costs of the Hibernia Project estimated at $65,450, which is inclusive of amounts shown for 2020 in the commitments table above. The actual funded amount is dependent on the nature of the underlying contracts or purchase orders that have yet to be negotiated by HMDC, and the actual signed authorities for expenditure for capital projects.

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

27. 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.

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 to challenge the federal government's approval of the TMEP.

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. On May 24, 2019, the Court unanimously opined that it is not within the authority of the B.C. Legislature to enact the proposed legislation. The Province of B.C. filed its Notice of Appeal to the Supreme Court of Canada ("SCC") on June 14, 2019. The Supreme Court of Canada set a hearing date of January 16, 2020. The SCC rendered a decision on the appeal from the bench, dismissing the appeal for the reasons stated by the BC Court of Appeal. On August 30, 2018, the Federal Court of Appeal ("FCA" or "the Court") released its judgment in the matter of *Tsleil-Waututh Nation et al. v. Attorney General of Canada et al. ("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 consultations with Indigenous peoples. On the scope of the NEB's review, the Court decided that the NEB's review of the TMEP unjustifiably excluded TMEP-related shipping from TMEP's definition. The Court determined the GIC must require the NEB to reconsider its recommendation and related conditions. On Phase III consultations with Indigenous peoples, the Court determined that the Government of Canada must re-do its Phase III consultations, before the TMEP could be submitted again to the GIC for approval.

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 has incorporated these conditions into the TMEP project execution plan.

On June 18, 2019, the GIC issued a new Order in Council approving the TMEP and directing the NEB to grant a Certificate of Public Convenience and Necessity ("CPCN") for the TMEP. The NEB issued the amended CPCN on June 21, 2019, subject to 156 conditions. Further, following consideration of public comments, on July 19, 2019, the NEB issued its decision that it would rely on decisions and orders with respect to the TMEP that were issued prior to the FCA's decision in *Tsleil-Waututh.*

Twelve parties/groups filed motions with the FCA for leave (the "Leave Motions") to judicially review the new Order in Council re-approving the TMEP. In general, the Leave Motions argue that the NEB, the Government of Canada, and/or the GIC failed to comply with the FCA's decision in *Tsleil-Waututh* in the NEB's Reconsideration hearing and the Phase III consultation process. On September 4, 2019, the FCA dismissed six of the Leave Motions and granted Leave to Appeal for the other six applications. Two of the six parties for whom Leave to Appeal was granted withdrew from further proceedings with the FCA. The final argument was heard on December 16-18, 2019. The FCA released its decision on February 4, 2020, dismissing the applications of all applicants. The applicants have 60 days within which to file for any appeal to the SCC.

On November 4, 2019, the six applicants for whom the Leave Motions were dismissed by the FCA filed applications for leave to appeal to the SCC. The Attorney General of Alberta filed corresponding motions for leave to intervene. On March 5, 2020 the SCC dismissed with costs all 5 of the applications for leave to appeal.

In addition to the judicial reviews of the NEB Recommendation Report and GIC's order at the FCA, 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 and were heard together on May 6 to May 8, 2019. The BCCA released its decision on September 17, 2019. The BCCA dismissed the applications to quash the EAC but allowed both appeals for the limited extent of remitting the conditions to the respective provincial Ministers for reconsideration and consequent adjustment in light of the changes the NEB made to its original report in the reconsideration. The BCCA stated that provincial authority did not extend to "order[ing] assessments that the [NEB] expressly refused to order" and must be limited to conditions within the province's jurisdiction. The Court dismissed all other claims including those related to additional provincial assessment, public consultation, and Indigenous consultation and accommodation.

28. Capital management:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of $306,564 (2018 - $344,151), which is comprised of its share capital, contributed surplus, Net Profits Interest reserve and accumulated deficit and its loan payable of $6,055,000. The Corporation and its subsidiaries' objectives when managing capital are to prudently manage its revenues, expenses, assets, liabilities and general dealings to ensure that it effectively achieves its objectives and purpose, while remaining a going concern. The Corporation's share capital is not subject to any external restrictions. In 2018 the Corporation added loans payable to its capital structure when TMP Finance entered into a credit agreement with the Government.

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

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

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

(All dollar amounts are stated in thousands of Canadian dollars)

29. Risks to the Corporation:

The nature of CDEV's consolidated operations expose the Corporation to risks arising from its financial instruments that may have a material effect on cash flows, profit and comprehensive income. This note provides information about the Corporation's exposure to each of these risks as well as the Corporation's objectives, policies and processes for measuring and managing them.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations and arises primarily from the Corporation's trade and other receivables. A significant exposure to this risk relates to crude oil sales and oil shipment sales from contracts with customers.

i. For its crude oil sales contracts, the Corporation has assessed the risk of non-collection of funds as low, as it shares cargos with its marketing agent, generally contracts with large purchasers with established credit history and utilizes credit risk mitigation tools when necessary. The marketing agent maintains credit surveillance over all pre-approved purchasers.

ii For the oil shipment sales contracts, the Corporation limits its exposure to credit risk by requiring shippers who fail to maintain specified credit ratings or a suitable financial position to provide acceptable security.

The Corporation's allowance for doubtful accounts was insignificant as at December 31, 2019 and 2018. As at December 31, the composition of trade and other receivables is as follows:

		2019		2018
Contracts with pipeline shippers	**$**	**39,131**	$	95,388
Contracts with crude oil customers		**49,805**		10,568
Hibernia joint arrangement		**5,593**		4,186
HST/GST input tax credits		**16,461**		5,430
Working Capital Adjustment on Acquisition		**-**		37,019
Other		**8,281**		6,388
Trade and other receivables	**$**	**119,271**	$	158,979
Amount outstanding greater than 90 days	**$**	**785**	$	8,295

Of the total amount of trade and other receivables, 75% (2018 – 67%) relates to contracts with customers, which was all collected subsequent to year end. Due to the high credit quality of the Corporation's counterparties, the ECLs provision at December 31, 2019 is insignificant.

The carrying amount of cash and cash equivalents, restricted cash and restricted investments, and investments held for future obligations balances represents the maximum credit exposure. Cash and cash equivalents, restricted cash and restricted investments, and investments held for future obligations balances are held by investment-grade Canadian banks and financial institutions and the Government of Canada. All cash equivalents and investments are purchased from issuers with a credit rating of R1 High by Dominion Bond Rating Service.

Accordingly, the ECLs provision at December 31, 2019 related to cash and cash equivalents and investments is insignificant. The Corporation realized no actual impairment losses during the years ended December 31, 2019 or 2018.

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its work commitments and/or other financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due.

The Corporation forecasts cash requirements to ensure funding is available to settle financial liabilities when they become due. The primary sources of liquidity and capital resources are funds generated from operations and the credit facilities.

Expected future cash flow from the present operations currently exceeds estimated operating expenses and future capital expenditures, aside from TMEP. Given significant expenditures in connection with the TMEP expansion, the Corporation will require the continued availability of future financing in order to proceed with the project. Trade and other payables and income taxes payable are generally due within one year from the date of the statement of financial position.

(c) Market risk:

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

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

(i) Foreign exchange rate risk:

Foreign exchange rate risk is the risk that the fair value of assets or liabilities or future cash flows will fluctuate as a result of changes in foreign exchange rates. This risk arises on financial instruments denominated in U.S. dollars at the end of the period, consisting primarily of U.S. cash, trade receivables and trade payable balances that arise from revenues and expenditures that are denominated in U.S. dollars. Crude oil is priced in U.S. dollars and fluctuations in USD/CAD exchange rates may have an impact on revenues.

Puget Sound operates in the state of Washington and earns its revenues and incurs most of its expenses in U.S. dollars. Therefore, fluctuations in the U.S. dollar to Canadian dollar exchange rate can affect the earnings contributed by Puget Sound, to our overall results.

It is estimated that a 1% strengthening in the Canadian dollar relative to the U.S. dollar would not result in a material impact to the Corporation's profit for the year ended December 31, 2019.

The continuing operations had realized foreign exchange gains and (losses) of $3,300 for the year ended December 31, 2019.The Corporation did not have any foreign exchange rate contracts in place as at or during the year ended December 31, 2019 or 2018.

(ii) Commodity price risk:

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

(iii) Interest rate risk:

Interest rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in interest rates. The Corporation is exposed to interest rate fluctuations on its cash and cash equivalents and the various investments held. The risk is not considered significant as the Corporation's interest revenue is less than 2% of total revenue. The Corporation is not exposed to interest rate risk on its debt as interest is payable at a fixed rate. The Corporation does not use derivative instruments to manage its exposure to this risk.

(All dollar amounts are stated in thousands of Canadian dollars)

29. Risks to the Corporation (continued):

(d) Fair value of financial instruments:

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

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 2 valuations are based on inputs which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred. There were no movements between levels in the fair value hierarchy during the period.

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

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

			Carrying amounts		Fair value	
	Classification	Hierarchy	2019	2018	2019	2018
Financial assets						
Restricted investments	FVTPL	Level 2	70,911	54,783	70,911	54,783
Financial liabilities						
Loans payable	Amortized cost	Level 2	6,055,000	5,290,000	6,159,000	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.

30. Related party transactions:

a) Key management personnel compensation:

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

		2019		2018
Key management personnel compensation comprised of:				
Salaries, termination, other short-term benefits, director fees and post-employment benefits	**$**	**8,818**	$	4,774

b) Other related party transactions affecting Profit:

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.

		2019		2018
CRF Interest income	**$**	**1,682**	$	1,391
Interest expense/standby fees paid to the government		**250,129**		83,527
Net Profits Interests and Incidental Net profit Interest paid to Natural Resources Canada		**16,256**		21,002

c) Items affecting Statement of Financial Position:

		2019		2018
Cash on deposit in the CRF	**$**	**113,760**	$	117,079
Loan from the government (Canada Account) (note 18)		**6,055,000**		5,290,000
Dividend paid to Government of Canada		**63,000**		114,000

(All dollar amounts are stated in thousands of Canadian dollars)

31. 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:

	2019						
	TMC (US GAAP)	IFRS Adjustments	TMC (IFRS)	CHHC	Others	Eliminations	Consolidated
Statement of Comprehensive Income:							
Revenues:							
Transportation revenue	$ 357,298	$ 55,898[1]	$ 413,196	$ -	$ -	$ -	$ 413,196
Lease Revenue	60,146	-	60,146	-	-	-	60,146
Net Crude oil revenue	-	-	-	167,567	-	5,278	172,845
Other income/ FX	2,308	-	2,308	3,727	12,683	(1,965)	16,753
	419,752	55,898	475,650	171,294	12,683	3,313	662,940
Expenses:							
Depletion and depreciation	100,551	10,169[2]	110,720	49,794	109	-	160,623
Operating and production	152,985	(715)	152,270	27,440	-	-	179,710
Salaries and Benefits	66,004	1,792[3]	67,796	2,030	1,788	-	71,614
Other and FX	8,362	(2,583)	5,779	4,061	11,356	(149)	21,047
	327,902	8,663	336,565	83,325	13,253	(149)	432,994
Finance Costs							
Equity AFUDC	91,292	(91,292)[4]	-	-	-	-	-
Unwind of Discount	-	(10,039)[4]	(10,039)	(2,685)	(147)	-	(12,871)
Net Interest (expense)	(84,609)	(45,865)[4]	(130,474)	4,272	(53,132)	(12,208)	(191,542)
	6,683	(147,196)	(140,513)	1,587	(53,279)	(12,208)	(204,413)
Net income before income taxes	98,533	(99,961)	(1,428)	89,556	(53,849)	(8,746)	25,533
Income taxes (recovery)	(32,322)	(19,998)[6]	(52,320)	43,916	-	-	(8,404)
Net Income	**$ 130,855**	**$ (79,963)**	**$ 50,892**	**$ 45,640**	**$ (53,849)**	**$ (8,746)**	**$ 33,937**
Other Comprehensive Income	**$ (22,001)**	**$ 651[6]**	**$ (21,350)**	**$ -**	**$ -**	**$ -**	**$ (21,350)**
Statement of Financial Position:							
Assets:							
Current assets	506,211	(852)[7]	505,359	129,962	99,249	(882)	733,688
Non-Current assets	6,935,524	218,321[8]	7,153,845	360,547	6,224,493	(6,180,904)	7,557,981
	$ 7,441,735	**$ 217,469**	**$ 7,659,204**	**$ 490,509**	**$ 6,323,742**	**$(6,181,786)**	**$ 8,291,669**
Liabilities							
Current liabilities	525,936	(9,054)	516,882	33,382	9,233	(5,268)	554,229
Non-current liabilities	4,125,170	338,442[9]	4,463,612	161,548	6,062,816	(3,257,100)	7,430,876
	$ 4,651,106	**$ 329,388**	**$ 4,980,494**	**$ 194,930**	**$ 6,072,049**	**$(3,262,368)**	**$ 7,985,105**
Shareholder's Equity	**$ 2,790,629**	**$ (111,919)[10]**	**$ 2,678,710**	**$ 295,579**	**$ 251,693**	**$(2,919,418)**	**$ 306,564**
	$ 7,441,735	**$ 217,469**	**$ 7,659,204**	**$ 490,509**	**$ 6,323,742**	**$(6,181,786)**	**$ 8,291,669**

	TMC (US GAAP)	IFRS Adjustments	2018 TMC (IFRS)	CHHC	Others	Eliminations	Consolidated
Statement of Comprehensive Income:							
Revenues:							
Transportation revenue	$ 116,365	$ (8,633)[1]	$ 107,732	$ -	$ -	$ -	$ 107,732
Lease Revenue	20,417	-	20,417	-	-	-	20,417
Net Crude oil revenue	-	-	-	179,544	-	-	179,544
Other income/ FX	1,021	-	1,021	7,765	948	(948)	8,786
	137,803	(8,633)	129,170	187,309	948	(948)	316,479
Expenses:							
Depletion and depreciation	33,615	853[2]	34,468	43,835	-	-	78,303
Operating and production	53,077	-	53,077	30,402	-	-	83,479
Salaries and Benefits	19,723	3,337[3]	23,060	1,957	1,962	-	26,979
Other general and admin	5,077	-	5,077	3,837	11,273	(139)	20,048
	111,492	4,190	115,682	80,031	13,235	(139)	208,809
Finance Costs							
Equity AFUDC	21,241	(21,241)[4]	-	-	-	-	-
Unwind of Discount	-	(2,676)[4]	(2,676)	(2,931)	(157)	-	(5,764)
Net Interest (expense)	(34,483)	(12,585)[4]	(47,068)	4,258	(29,385)	809	(71,386)
	(13,242)	(36,502)	(49,744)	1,327	(29,542)	809	(77,150)
Net income before income taxes	13,069	-	(36,256)	108,605	(41,829)	-	30,520
Income taxes (recovery)	3,532	(13,297)[5]	(9,765)	32,412	-	-	22,647
Net Income	**$ 9,537**	**$ (36,028)**	**$ (26,491)**	**$ 76,193**	**$ (41,829)**	**$ -**	**$ 7,873**
Other Comprehensive Income	**$ 7,337**	**$ 3,421[6]**	**$ 10,758**	**$ -**	**$ -**	**$ -**	**$ 10,758**
Statement of Financial Position:							
Assets:							
Current assets	842,582	(15,390)[7]	827,192	104,633	98,354	(902)	1,029,277
Non-current assets	5,571,376	264,622[8]	5,835,998	347,428	5,512,277	(5,497,761)	6,197,942
	$ 6,413,958	**$ 249,232**	**$ 6,663,190**	**$ 452,061**	**$ 5,610,631**	**$ (5,498,663)**	**$ 7,227,219**
Liabilities							
Current liabilities	836,797	-	836,797	12,732	126,623	(608,152)	368,000
Non-current liabilities	3,421,886	281,839[9]	3,703,725	138,390	5,179,303	(2,506,350)	6,515,068
	$ 4,258,683	**$ 281,839**	**$ 4,540,522**	**$ 151,122**	**$ 5,305,926**	**$ (3,114,502)**	**$ 6,883,068**
Shareholder's Equity	**$ 2,155,275**	**$ (32,607)[10]**	**$ 2,122,668**	**$ 300,939**	**$ 304,705**	**$ (2,384,161)**	**$ 344,151**
	$ 6,413,958	**$ 249,232**	**$ 6,663,190**	**$ 452,061**	**$ 5,610,631**	**$ (5,498,663)**	**$ 7,227,219**

31. Supplementary information (continued):

TMC prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). IFRS 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. Additionally, there are differences in the determination of interest costs and return on plan assets.

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 interest is capitalized by applying a capitalization rate to the expenditures on qualifying assets or Construction work in Progress 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.

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

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

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

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

10) The cumulative impact of the IFRS adjustments to net income (adjustments #1 through #5) and the adjustment to Other Comprehensive Income.

32. Reclassification of prior period comparative figures:

In 2019, the Corporation changed the classification of crude oil marketing expenses from being included in "net crude oil revenue" to being included in "crude oil operating, transportation and marketing" expenses on the statement of comprehensive income. The Corporation believes the classification of marketing expenses as an operational expense is more consistent with industry norms. Comparative amounts were reclassified for consistency, which resulted in $407 being reclassified from "net crude oil revenue" to "crude oil operating, transportation and marketing" expenses for the year ended December 31, 2018. As a result of this reclassification, total revenues for 2018 are $407 higher and total expenses for 2018 are $407 higher than previously presented. This reclassification had no impact on the Corporation's 2018 cash flow, financial position, income before income taxes or comprehensive income.

33. Subsequent Event:

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus specifically identified as "COVID-19" has resulted in a worldwide health emergency that has affected economies and financial markets around the world resulting in an economic downturn. The implications of COVID-19, in combination with other oil market conditions, have also caused significant declines in worldwide crude oil prices. The impairment analyses for property, plant and equipment and goodwill assets at December 31, 2019 did not take into consideration the adverse impact of these factors which arose subsequent to year end. It is not possible at this time to reliably estimate the length and resulting impact of these factors on oil prices over the longer term.

If crude oil prices continue to be adversely impacted due to these factors, the Corporation would consider if this represents an indicator of impairment in future periods. At this time, it is also difficult to estimate the impact on Net crude oil revenue of the Corporation, but if oil prices remain at current levels, the Corporation would expect Net crude oil revenue in 2020 would be negatively affected compared to 2019.

The impact of COVID-19 and crude oil market conditions are not expected to impact Transportation revenue. However, if COVID-19 remains a worldwide health emergency, there may be an impact on the construction schedule of the pipeline expansion project and, in future periods, the Corporation would consider if this represents an indicator of impairment.

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