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Canada Development  
Investment Corporation

La Corporation de développement  
des investissements du Canada

Second Quarter Report  
June 30, 2020





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Investment Corporation

La Corporation de développement  
des investissements du Canada

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## Statement of Management Responsibility by Senior Officials

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

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

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 20, 2020.



Michael Carter  
Executive Vice-President



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

Toronto, Ontario  
August 20, 2020

## **Management Discussion and Analysis of Results – for the period ended June 30, 2020**

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

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

This Management Discussion and Analysis of Results is as of August 20, 2020 and should be read in conjunction with CDEV’s unaudited interim condensed consolidated financial statements for the period ended June 30, 2020 and CDEV’s Annual Report for the year ended December 31, 2019.

### **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 historic 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.

On May 11, 2020 CDEV incorporated a new subsidiary, Canada Enterprise Emergency Funding Corporation (“CEEFC”), to help implement the Government’s new Large Employer Emergency Financing Facility program designed to provide bridge financing to Canada’s largest employers. At June 30, there were no significant assets or liabilities of CEEFC.

### **Canada Development Investment Corporation**

CDEV management is working closely with the board and management of TMC to further the development of the TMEP. This includes setting up procedures to monitor progress of TMEP, arranging necessary financing for TMC and producing meaningful financial information.

Upon the closing of the sale of Ridley Terminals Inc. in December 2019, CDEV received \$350 million from the purchaser on behalf of the Government. CDEV paid \$240 million to the Government and paid \$12 million to CDEV to recover costs of the transaction. During the first half of 2020, a further \$28 million was paid in relation to the closing of the transaction, plus a further \$20 million was paid to the government. As at June 30, 2020 \$50 million was still held on behalf of the Government.

## **Management Discussion and Analysis of Results – for the period ended June 30, 2020 (continued)**

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In the period ended June 30, 2020, CDEV received \$74 million in NPI payments, \$7 million of which was received from CHHC resulting in an increase in the NPI reserve of \$67 million before a dividend payment of \$55 million in March 2020.

### **Trans Mountain Corporation**

In the six months ended June 30, 2020 TMC generated \$229 million in revenue and \$106 million in earnings before interest, taxes, and depreciation (“EBITDA”). In the comparative period TMC generated \$219 million in revenue and \$115 million in EBITDA. We note that under TMC’s continuing use of US GAAP, revenue and EBITDA were \$212 million and \$92 million respectively and \$202 million and \$98 million in the comparative period. For details see notes 13 and 18 of the interim condensed consolidated financial statements.

In the current six-month period TMC spent approximately \$1.1 billion on the TMEP, excluding financing costs, in addition to the \$1.3 billion spent through to December 2019 under CDEV ownership. Activity in Q2 2020 included continued work at the Burnaby and Westridge terminals located in the Lower Mainland, BC and the Edmonton terminal in Alberta as well as work in various stages of construction along the pipeline route in Alberta. Temporary worker accommodations were prepared in anticipation of an increase in construction activity along the pipeline route in BC commencing in mid-late Q3 2020.

In June, the pipeline incurred a release of approximately 1000 barrels of light crude oil near Sumas, BC. The pipeline was shut down for one day. Clean-up costs of \$12 million were accrued in the period.

For further details please see the TMC Q2 2020 financial report at [www.transmountain.com](http://www.transmountain.com).

### **Canada TMP Finance Limited**

Canada TMP Finance Limited (“TMP Finance”) provides funding to TMC at a ratio of 45% equity and 55% debt. To finance these advances, TMP Finance borrows from the Canada Account administered by Export Development Canada. Certain financial requirements of TMC are provided by TMP Finance to TMC through an undrawn credit facility with the Canada Account. On January 1, 2020 the facility limit for the Construction Facility increased to \$4 billion in accordance with the Amended Credit Agreement of July 30, 2019. Further financing sources will be required by TMP Finance to continue to finance TMC’s TMEP before the end of the year and TMP Finance is in discussion with the Department of Finance in this regard.

### **Canada Hibernia Holding Corporation**

CHHC’s after-tax income of \$3 million and \$10 million recognized in the three and six months ended June 30, 2020, respectively, was significantly lower than \$21 million and \$38 million recognized in the comparative periods, respectively, due to a significant decrease in net crude oil revenue which was only partially offset by lower expenses and income taxes.

Net crude oil revenue, calculated as crude oil sales less royalties and net profits interest (“NPI”), decreased by 47% to \$53 million in the six months ended June 30, 2020 from \$100 million in the comparative period, driven by a 46% decrease in CAD sales price combined with a 15% decrease in sales volume. Net crude oil revenue decreased by 64% to \$20 million in the three months ended June 30, 2020 from \$55 million in the comparative period, due to a 67% decrease in CAD sales price combined with an 11% decrease in sales volume. The sales volume decrease in both periods was the result of the timing of oil tanker cargo sales and not directly related to average daily production volumes, which were relatively unchanged. Gross Hibernia oil production averaged 123,000 barrels per day in the second quarter of 2020 and 125,000 barrels per day year-to-date in 2020, which are consistent with the comparative 2019 periods. Royalty and NPI expenses fell commensurate with lower crude oil sales and the favorable impact of cost deductions in

## **Management Discussion and Analysis of Results – for the period ended June 30, 2020 (continued)**

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royalty and NPI calculations.

CHHC sells its oil based on the Dated Brent benchmark price for crude oil, in US dollars. The price of Dated Brent crude declined 58% to average US \$29.25 per barrel in Q2 2020 from US \$68.85 per barrel in Q2 2019. For the six-month period, the price declined 40% to US \$39.70 per barrel. CHHC realized a price discount to Dated Brent on its sales in both periods.

During the six months ended June 30, 2020, capital investment was \$12 million. The platform drilling rig was demobilized in June and there is no further drilling of new wells planned for 2020, while oil production of existing wells continues.

### **Canada Eldor Inc.**

There was no significant change in the management of CEI's liabilities. During the quarter, we transferred twenty of the mine site properties to the Institutional Control Program of the Province of Saskatchewan. A plan is in place to transfer the remaining properties within four years. During the first half of 2020, \$1.4 million was spent on site restoration efforts and there was no significant change in the estimated cost for site restoration in the period.

### **Canada Enterprise Emergency Funding Corporation**

Since March 2020, management of CDEV has assisted in the development and operation of CEEFC including the retention of financial and legal advisors to implement the LEEFF program on behalf of the government. During the second quarter of 2020, a board of directors was appointed for CEEFC and a president was hired to lead CEEFC. CEEFC and CDEV received a mandate letter and term sheet from the Minister of Finance detailing the objectives and parameters of the LEEFF lending program. As well, Orders in Council were received regarding the establishment of the CEEFC subsidiary. CEEFC signed a Funding Agreement with the government detailing how CEEFC will be funded and to allow it to make loan commitments to borrowers. During the second quarter, CEEFC received and analyzed several loan applications from Canadian companies but as yet, has not made loans. In preparation to make future loans, the company issued 100 thousand preference shares to the government for proceeds of \$100 million, subsequent to period end.

### **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. Material changes have been identified since December 31, 2019 as described in the 2019 Annual Report related to the changing economic conditions brought on by the recent global outbreak of the novel coronavirus (COVID-19) and the sharp decrease in world crude oil prices.

### **Risks and Contingencies**

Further to the risks and contingencies identified and disclosed in the Annual Report for the year ended December 31, 2019, the Corporation has updated its risk exposures and analysis as a result of the COVID-19 pandemic. Given the nature of TMC's operations, it is not anticipated that the COVID-19 outbreak will have a material impact on TMC's financial results. The development of TMEP faces various legal and regulatory challenges. The COVID-19 pandemic may increase certain risks related to development of the TMC expansion project schedule. At this time, these are not expected to have a material impact on the project's completion schedule or project cost. The significant fluctuations in global crude oil prices experienced in the quarter have a significant impact on the financial results of CHHC thus increasing financial risks for the Corporation. The implementation of the government's LEEFF lending program will

## Management Discussion and Analysis of Results – for the period ended June 30, 2020 (continued)

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increase the credit risk for CDEV when loans are made, but at present there are no loans receivable issued by CEEFC. The other risks and contingencies described in the 2019 Annual Report remain unchanged.

### Financial Statements for the Period Ended June 30, 2020

The interim condensed consolidated financial statements for the three and six months ended June 30, 2020 with comparative figures for Q2 2019, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to interim periods, including IAS 34, *Interim Financial Reporting*.

TMC prepares its financial statements in accordance with US GAAP. To read the US GAAP Q2 2020 TMC financial statements please go to [www.transmountain.com](http://www.transmountain.com). Note 18 shows TMC financial results in US GAAP, adjustments made to the statements to convert these results to IFRS and the TMC financial results in IFRS as consolidated into CDEV. The most significant differences in accounting treatment are described in note 18.

Consolidated revenue for the six months ended June 30, 2020 was \$285 million, compared to revenue of \$319 million in the comparative period. The decrease is due to a \$45 million decrease in net crude oil revenue, partly offset by a \$8 million increase in transportation revenue. The increase in transportation revenue of \$8 million is primarily due to the product mix and delivery points of shipments which attracted higher tariffs. The decrease in net crude oil revenue is due to a 67% decrease in crude oil prices and a 11% decrease in sales volume. For the three month period ended June 30, 2020 the \$48 million decrease in revenue from the comparative period is due to a decrease in transportation revenue due to lower shipping volumes and the \$35 million drop in crude oil revenues primarily due to lower oil prices.

Total expenses for the six-month period, excluding finance costs, were \$222 million, compared to \$213 million in the comparative period. The increase is primarily due a \$12 million increase in pipeline operating expenses of TMC, due to the accrual of \$12 million in remediation costs related to the oil release in the second quarter, higher security costs, increased pipeline integrity costs, net of lower power costs. A \$6 million increase in salaries and benefits for the six-month period at TMC was due to higher costs associated with an increased workforce to support TMC’s transition to a stand-alone organization. Depletion and depreciation decreased \$7 million primarily due to a decrease in crude oil sales volumes. Professional fees in the six month period totaled \$8 million which includes \$4 million in legal and financial advisory costs related to the set-up of CEEFC and costs related to evaluating borrower requests for loans. The increase in total expenses in the three months ended June 30, 2020 was driven by the higher pipeline operating costs as noted above, net of lower depletion and depreciation.

Interest expense in the six-month period ended June 30, 2020 decreased by \$35 million to \$82 million as an increase of \$31 million in gross interest costs was offset by higher capitalized interest of \$68 million. A corresponding decrease was realized in the three months ended June 30, 2020 from the comparative period, also due to higher capitalization of interest costs.

Loss before income taxes for the six-month period ended June 30, 2020 was \$15 million, compared to a loss of \$8 million in the comparative period primarily due to lower net interest expense of TMP Finance of \$37 million related to the higher capitalization of interest expense in the period and a \$37 million decrease in pre-tax income of CHHC due to lower oil sales. The change in income/loss in the three-month period ended June 30, 2020 from the comparative period of \$40 million is primarily due to the \$48 million decrease in revenue, largely due to the drop in net crude oil revenue.

The change in tax expense for the six-month period ended June 30, 2020 was an increase \$43 million primarily related to a \$58 million deferred tax recovery in the comparative period. In the three months ended June 30, 2020, there was a \$31 million increase relative to the comparative period due to a \$52 million deferred tax recovery in the prior period and a current tax recovery in the current quarter primarily related

## Management Discussion and Analysis of Results – for the period ended June 30, 2020 (continued)

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to a decrease in CHHC income before taxes.

Cash and cash equivalents as at June 30, 2020 decreased to \$571 million compared to \$587 million at December 31, 2019 mainly due to cash expenditures on property, plant and equipment of \$1,176 million largely related to TMEP and dividends paid of \$62 million, offset by the increase in borrowing from the Canada account of \$1,190 million in the period and operating cash flow in the period of \$57 million, primarily generated by CHHC (\$50 million) and TMC (\$25 million).

Accounts receivable decreased by \$60 million as at June 30, 2020 from year end, due to the decrease in receivables of \$44 million at CHHC due to lower sales outstanding and a \$16 million decrease in TMC accounts receivable.

Property, plant and equipment increased \$1,202 million since year end primarily due to \$1,252 million in capital expenditures at TMC, including capitalized interest, net of depletion and depreciation of \$77 million.

Other non-current assets increased \$63 million as at June 30, 2020 from year end primarily due to a \$50 million increase in prepaid construction advances.

Trade and other payables increased \$61 million since year end primarily due to a \$74 million increase at TMC due to increased payables for construction costs and \$16 million decrease at CHHC due to lower capital accruals.

Other non-current liabilities decreased \$25 million primarily due to a \$39 million decrease in dock premiums payable, net of a \$16 million increase in the pipeline abandonment trust liability which increases as surcharges are collected from shippers and invested in the trust.

Loans payable increased \$1,190 million since year end due to \$1,190 million in draws on the Construction Facility.

The total provision for decommissioning obligations increased \$7 million primarily due to the unwind of discount of \$4 million. The impact of the change in discount rates was offset by the same change in inflation rate assumptions.

The defined benefit obligation increased \$9 million due to the decrease in the year-to-date period of the discount rates used to calculate the benefit obligation and decrease in the return on plan assets.

Interim Condensed Consolidated Financial Statements of

**CANADA DEVELOPMENT INVESTMENT  
CORPORATION**

Three and six months ended June 30, 2020

(Unaudited)

# CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	June 30, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 570,745	\$ 587,109
Trade and other receivables (note 16)	59,142	119,271
Income taxes receivable	9,981	4,173
Other current assets	33,412	19,583
Investments held for future obligations	3,218	3,552
	676,498	733,688
Non-current assets:		
Property, plant, and equipment (note 5)	7,256,349	6,054,065
Goodwill (note 7)	1,015,862	1,015,781
Investments held for future obligations	161,136	159,745
Restricted cash (note 4)	69,401	71,515
Restricted investments	89,500	70,911
Right-of-use assets (note 6)	83,617	90,289
Other assets	158,775	95,675
	8,834,640	7,557,981
	\$ 9,511,138	\$ 8,291,669
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Trade and other payables	\$ 393,061	\$ 331,758
Interest payable	1,030	813
Current portion of provision for decommissioning obligations (note 8(a))	-	3,659
Current portion of provision for site restoration (note 8(c))	3,031	3,351
Current portion of lease liabilities (note 6)	19,090	20,258
Other current liabilities	191,713	194,390
	607,925	554,229
Non-current liabilities:		
Loans payable (note 9)	7,245,000	6,055,000
Deferred income taxes	500,800	507,498
Provision for decommissioning obligations (note 8(a), (b))	620,170	609,901
Lease liabilities (note 6)	66,760	71,662
Provision for site restoration (note 8(c))	5,529	6,419
Defined benefit obligation	98,164	88,694
Other non-current liabilities	66,326	91,702
	8,602,749	7,430,876
Shareholder's equity:		
Share capital	1	1
Contributed surplus	603,294	603,294
Net Profits Interest reserve (note 10)	12,835	826
Accumulated deficit	(313,534)	(286,965)
Accumulated other comprehensive income	(2,132)	(10,592)
	300,464	306,564
	\$ 9,511,138	\$ 8,291,669

Commitments (note 14)

Contingencies (note 15)

Subsequent Event (note 19)

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

On behalf of the Board:  Director

 Director

# CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<b>Revenue:</b>				
Transportation revenue (note 13)	\$ 89,145	\$ 103,033	\$ 195,915	\$ 187,980
Net crude oil revenue (note 12)	20,068	54,924	55,271	100,089
Lease revenue (note 13)	16,016	15,413	31,763	29,904
Other revenue (note 13)	663	459	1,595	1,311
	125,892	173,829	284,544	319,284
<b>Other income:</b>				
Facility use and processing fees, net of incidental net profits interest	434	385	995	1,270
Foreign exchange gains	65	897	3,249	1,463
	126,391	175,111	288,788	322,017
<b>Expenses:</b>				
Pipeline operating expenses (note 13)	44,592	35,762	79,468	67,827
Depletion and depreciation (note 5,6)	40,579	44,057	78,331	85,186
Salaries and benefits	19,171	17,791	41,357	35,406
Crude oil operating, transportation and marketing (note 12(b))	7,438	7,905	12,243	14,556
Professional fees	4,743	2,710	7,571	6,115
Foreign exchange losses	1,110	1,218	2,452	2,049
Change in provision for site restoration (note 8)	79	-	154	-
Other administrative expenses	(14)	978	683	2,064
	117,698	110,421	222,259	213,203
<b>Finance expenses (income):</b>				
Interest expense (note 9)	40,973	56,338	81,676	116,987
Interest income	(1,533)	(2,057)	(4,858)	(6,516)
Unwind of discount on decommissioning obligations (note 8(a,b))	1,887	3,065	4,396	5,821
Unwind of discount on provision for site restoration (note 8(c))	28	37	55	74
	41,355	57,383	81,269	116,366
<b>Net income (loss) before income taxes</b>	<b>(32,662)</b>	<b>7,307</b>	<b>(14,740)</b>	<b>(7,552)</b>
<b>Income taxes:</b>				
Current income tax expense (recovery)	(4,629)	10,723	9,560	20,396
Deferred income tax recovery	(5,444)	(51,860)	(4,731)	(58,131)
	(10,073)	(41,137)	4,829	(37,735)
<b>Net income (loss)</b>	<b>\$ (22,589)</b>	<b>\$ 48,444</b>	<b>\$ (19,569)</b>	<b>\$ 30,183</b>
<b>Other comprehensive income (loss):</b>				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Currency translation adjustment	(12,558)	(6,257)	14,240	(12,389)
<i>Items that will not be reclassified to profit or loss</i>				
Remeasurements of defined benefit obligations	(21,102)	(12,306)	(5,780)	(11,969)
	(33,660)	(18,563)	8,460	(24,358)
<b>Comprehensive income (loss)</b>	<b>\$ (56,249)</b>	<b>\$ 29,881</b>	<b>\$ (11,109)</b>	<b>\$ 5,825</b>

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

# CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	Three months ended		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
<b>Share capital</b>				
Balance, beginning and end of period	\$ 1	\$ 1	\$ 1	\$ 1
<b>Contributed surplus</b>				
Balance, beginning and end of period	603,294	603,294	603,294	603,294
<b>Net Profits Interest Reserve</b>				
Balance, beginning of period	10,411	-	826	-
Net Profits Interest received	2,424	-	66,638	-
Dividends	-	-	(54,629)	-
Balance, end of period	12,835	-	12,835	-
<b>Accumulated deficit</b>				
Balance, beginning of period	(290,945)	(288,163)	(286,965)	(269,902)
Net income	(22,589)	48,444	(19,569)	30,183
Dividends	-	-	(7,000)	-
Balance, end of period	(313,534)	(239,719)	(313,534)	(239,719)
<b>Accumulated other comprehensive income</b>				
Balance, beginning of period	31,528	4,963	(10,592)	10,758
Other comprehensive income (loss)	(33,660)	(18,563)	8,460	(24,358)
Balance, end of period	(2,132)	(13,600)	(2,132)	(13,600)
<b>Total shareholder's equity</b>	<b>\$ 300,464</b>	<b>\$ 349,976</b>	<b>\$ 300,464</b>	<b>\$ 349,976</b>

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

# CANADA DEVELOPMENT INVESTMENT CORPORATION

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income (loss)	\$ (22,589)	\$ 48,444	\$ (19,569)	\$ 30,183
Adjustments for:				
Depletion and depreciation	40,579	44,057	78,331	85,186
Income tax expense	(10,073)	(41,137)	4,829	(37,735)
Net change in defined benefits	1,012	668	1,057	984
Lease interest expense	467	877	938	1,738
Interest income	(1,533)	(2,057)	(4,858)	(6,516)
Change in provision for site restoration	80	(74)	155	(74)
Unrealized foreign exchange loss (gain) on lease	-	(70)	-	(149)
Unwind of discount on provisions	1,915	3,102	4,451	5,895
Payment of lease liabilities, interest portion	(1,003)	(877)	(2,036)	(1,738)
Interest received	1,533	1,822	4,858	6,224
Provisions settled	(1,770)	(1,641)	(2,678)	(2,528)
Income taxes paid	(5,908)	(8,220)	(13,752)	(18,314)
	2,710	44,894	51,726	63,156
Change in non-cash working capital (note 11)	(104,095)	(76,188)	5,744	16,683
	(101,385)	(31,294)	57,470	79,839
<b>Financing activities:</b>				
Proceeds from loan issuance	990,000	245,000	1,190,000	245,000
Repayments of loan payable	-	-	-	(500,000)
Dividends paid	-	-	(61,629)	-
Net Profits Interest received	2,424	-	66,638	-
Payment of lease liabilities, principal portion	(5,504)	(3,394)	(10,522)	(6,578)
	986,920	241,606	1,184,487	(261,578)
<b>Investing activities:</b>				
Purchase of property, plant and equipment	(664,584)	(208,541)	(1,246,972)	(294,222)
Working capital settlement from acquisition	-	-	-	37,020
Internal use software expenditures	(3,422)	(3,013)	(5,739)	(3,013)
Withdrawal from CRF	-	-	-	5,000
Change in restricted cash	2,020	(1,738)	2,114	497,941
Purchase of restricted investments	(6,173)	(3,657)	(8,930)	(7,388)
Change in investments held for future obligations	(369)	(404)	(1,057)	(985)
	(672,528)	(217,353)	(1,260,584)	234,353
Effects of FX translation on cash	(2,353)	(598)	2,263	(897)
Change in cash and cash equivalents	210,654	(7,639)	(16,364)	51,717
Cash and cash equivalents, beginning of period	360,091	404,213	587,109	344,857
<b>Cash and cash equivalents, end of period</b>	<b>\$ 570,745</b>	<b>\$ 396,574</b>	<b>\$ 570,745</b>	<b>\$ 396,574</b>
<b>Represented by:</b>				
Cash	\$ 526,802	\$ 319,738	\$ 526,802	\$ 319,738
Cash equivalents	43,943	76,836	43,943	76,836
	<b>\$ 570,745</b>	<b>\$ 396,574</b>	<b>\$ 570,745</b>	<b>\$ 396,574</b>

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

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2020

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

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## 1. Reporting entity:

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

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

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

### Subsidiaries

Trans Mountain Corporation and Canada TMP Finance Ltd. were incorporated under the provisions of the *Canada Business Corporations Act*. The companies are subject to the *Financial Administration Act* and are agents of Her Majesty in Right of Canada. TMC is also subject to the *Income Tax Act*.

TMC owns and operates the Trans Mountain pipeline ("TMPL"), the Puget Sound pipeline ("Puget Sound") as well as certain rights, designs, plant, property and equipment and construction contracts related to the expansion of the TMPL known as the Trans Mountain Expansion Project ("TMEP").

TMP Finance is the parent company of TMC. It also provides debt and equity financing to TMC funded by loans from Her Majesty in Right of Canada, administered by Export Development Canada ("EDC"). See note 9 for loan details.

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

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*

# CANADA DEVELOPMENT INVESTMENT CORPORATION

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## 1. Reporting entity (continued):

*Tax Act.* CHHC's sole purpose is the holding and management of its interest in the Hibernia Development Project ("Hibernia Project") which is an oil development and production project located offshore Newfoundland and Labrador. The Hibernia Project comprises the original Hibernia Development Project area, where CHHC has an 8.5% working interest, and the Hibernia Southern Extension Unit ("HSE Unit"), where CHHC has a current 5.6% working interest. CHHC's working interest in the HSE Unit is subject to adjustment in accordance with the applicable provisions in the HSE Unit Agreement.

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 interests.

On May 11, 2020, pursuant to subsection 89(1) of the *Financial Administration Act*, Canada Enterprise Emergency Funding Corporation ("CEEFC") was incorporated, to administer, approve and fund transactions in accordance with terms approved by the Minister of Finance in relation to the Government's Large Employer Emergency Financing Facility ("LEEFF") program designed to provide bridge financing to Canada's largest employers in response to the COVID-19 emergency. CEEFC is subject to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. On May 20, 2020, CEEFC received a mandate letter from the government which outlined the objective for LEEFF to help protect Canadian jobs, help Canadian businesses weather the current economic downturn and avoid bankruptcies of otherwise viable firms where possible. The specific eligibility criteria for LEEFF as set out in the term sheet was also provided on the same day. On June 18, 2020, CEEFC entered into a Funding Agreement with Her Majesty in Right of Canada, as represented by the Minister of Finance to provide financing to CEEFC by way of subscription for preference shares of CEEFC for the administration and implementation of the program. As at June 30, 2020, CEEFC has not made any loan commitment, has not funded any loan, nor issued any preferred shares. (see note 19, Subsequent Event)

## 2. Basis of preparation:

### a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to interim periods, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2019.

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## 2. Basis of preparation (continued):

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 20, 2020.

### b) Basis of measurement:

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

### c) Functional and presentation currency:

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

### d) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Critical judgments and key sources of estimation uncertainty are the same as those disclosed in note 3(v) of the Corporation's annual consolidated financial statements for the year ended December 31, 2019, except for new significant judgements and key sources of estimation uncertainty described below.

#### Recent developments and impacts on estimates and judgments:

In March 2020, the World Health Organization declared a global pandemic following the outbreak of a novel strain of the coronavirus ("COVID-19"). Responses to the spread of COVID-19 have resulted in a significant increase in economic uncertainty, with more volatile commodity prices and foreign exchange rates, and a marked decline in long-term interest rates. Particularly, current forecasts estimate an unprecedented global crude oil demand reduction for 2020 that has resulted in a significant decrease in current and forecasted crude oil prices. The current information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to evolve.

Market conditions improved toward the end of the period ended June 30, 2020 as nations began easing lockdown restrictions; however, the COVID-19 pandemic continues to present challenges to our operations and business environment.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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

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## 2. Basis of preparation (continued):

### d) Use of estimates and judgments (continued):

The COVID-19 outbreak has increased the complexity of estimates and assumptions used to prepare the interim condensed consolidated financial statements, particularly related to the following:

- **Impairment:** The impact of COVID-19 on the Corporation's customers or operations may change cash flows and impact the recoverability of the Corporation's assets. Furthermore, COVID-19 is a rapidly evolving situation and may have an impact on management's ability to accurately use historical sales trends and cash flows to forecast future results, leading to additional estimation uncertainty with respect to impairment testing. Impairment testing is further discussed in note 5 to the interim condensed consolidated financial statements.
- **Credit risk:** COVID-19 may cause more of the Company's customers to experience liquidity issues and this may result in higher expected credit losses or slower collections. The estimation of such credit losses is complex because of limited historical precedent for the current economic situation. The Corporation will continue to reassess forward looking information and the impact on our customers in subsequent periods. Credit risk is further discussed in note 16 to the interim condensed consolidated financial statements.

## 3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of application as those presented in note 3 of the annual audited consolidated financial statements for the year ended December 31, 2019, except for those policies which have changed as a result of the adoption of new accounting standards, amendments or interpretations effective January 1, 2020, as described below. In addition, income taxes on earnings or loss in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual earnings or loss.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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## 3. Significant accounting policies (continued):

### Changes in accounting policies:

The following accounting standards, amendments to standards and interpretations issued by the International Accounting Standards Board ("IASB"), are effective for the first time in the current financial period and have been adopted in accordance with the applicable transitional provisions: The application of these amendments had no impact on the Corporation's interim condensed consolidated financial statements.

(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 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.

(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.

## 4. Restricted cash:

	June 30, 2020	December 31, 2019
Restricted cash – TMC held for future abandonment costs \$	3	\$ 2,501
Restricted cash – TMC letters of credit	59,698	59,314
Restricted cash – TMC held as security	1,200	1,200
Restricted cash – CHHC letters of credit	8,500	8,500
	\$ 69,401	\$ 71,515

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

## 5. Property, plant, and equipment:

	Construction work in progress	Pipeline	Oil development assets and production facilities	TOTAL
<b>Cost:</b>				
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
Additions for the period	1,251,699	-	12,443	1,264,142
Transfers	(38,306)	38,306	-	-
Decommissioning adjustments	-	(524)	1,889	1,365
Foreign exchange movements	15	14,532	-	14,547
Balance at June 30, 2020	\$ 3,695,326	\$ 3,582,953	\$ 596,956	\$ 7,875,235
<b>Accumulated depletion and depreciation:</b>				
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
Depletion and depreciation	-	50,855	26,306	77,161
Foreign exchange movements	-	609	-	609
Balance at June 30, 2020	\$ -	\$ 190,275	\$ 428,611	\$ 618,886
<b>Carrying amounts:</b>				
At December 31, 2019	\$ 2,481,918	\$ 3,391,828	\$ 180,319	\$ 6,054,065
At June 30, 2020	\$ 3,695,326	\$ 3,392,678	\$ 168,345	\$ 7,256,349

At June 30, 2020, oil development property and equipment costs subject to the calculations of depletion and depreciation included future development costs of \$511,327 (\$472,000 - December 31, 2019).

During the period ended June 30, 2020 capitalized interest of \$70,566 was included in additions to construction work in progress – pipeline (2019 - \$2,999).

At June 30, 2020, an assessment of indicators of impairment was conducted for the Corporation's cash generating units ("CGUs"). No indicators were noted for the oil transportation assets, including goodwill, and accordingly an impairment test was not required. The impact of COVID-19 and crude oil market conditions on Transportation revenue has not been material. 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 will consider if this represents an indicator of impairment. See also Goodwill note 7.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2020

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## 5. Property, plant, and equipment (continued):

An assessment of indicators of impairment of oil development property and equipment was conducted at June 30, 2020 for the Corporation's CGU. No new indicators were noted and accordingly an impairment test was not required.

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

## 6. Right-of-use assets and leases:

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

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

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

The category of buildings includes the monthly fixed lease payments made for the Corporation's office building spaces in Alberta, 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 June 30, 2020.

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

### Statement of Financial Position:

Details of right-of-use assets are 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
Additions	1,002	3,319	4,321
Lease modifications	-	48	48
Depreciation	(1,987)	(9,131)	(11,118)
Foreign exchange movements	77	-	77
June 30, 2020	\$ 21,711	\$ 61,906	\$ 83,617

Details of lease liabilities are as follows:

	Six months ended June 30, 2020	Year ended December 31, 2019
Lease liabilities, beginning of period	\$ 91,920	\$ 79,654
Additions	4,321	28,849
Lease modification	48	(946)
Interest expense	2,033	3,726
Lease payments	(12,559)	(19,128)
Foreign exchange movements	87	(235)
Lease liabilities, end of period	\$ 85,850	\$ 91,920
Current portion	\$ 19,090	\$ 20,258
Long-term portion	66,760	71,662
	\$ 85,850	\$ 91,920

Maturity analysis – contractual undiscounted cash flows:

	2020	2021-2024	Thereafter	Total
Lease liabilities	\$ 10,853	\$ 44,787	\$ 114,826	\$ 170,466

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

Statement of Comprehensive Income and Statement of Cash Flows:

	June 30, 2020	June 30, 2019
Statement of Comprehensive Income:		
Interest on lease liabilities	\$ 1,033	\$ 1,738
Less: capitalized lease liabilities	562	660
Short term and variable cost	652	-
Statement of Cash Flows:		
Total cash outflow for leases	\$ (6,023)	\$ (8,316)

## 7. Goodwill:

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

Balance at December 31, 2018	\$	1,016,582
Effect of foreign exchange		(801)
Balance at December 31, 2019		1,015,781
Effect of foreign exchange		81
Balance at June 30, 2020	\$	1,015,862

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. At June 30, 2020, an assessment of indicators of impairment was conducted for the Corporation's cash generating units. Despite changes in the macroeconomic environment, neither TMC's existing operations nor TMEP construction has been materially impacted to date. No indicators were noted and accordingly an impairment test at June 30, 2020 was not required.

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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## 8. Provisions:

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

	<u>Decommissioning Obligations</u>			Site restoration
	Pipeline	Wells & Facilities	Total	
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
Changes in estimates	(524)	(30,032)	(30,556)	-
Obligations settled	-	(1,258)	(1,258)	(1,420)
Changes in discount rate	-	31,921	31,921	155
Effect of foreign exchange	2,107	-	2,107	-
Unwind of discount	3,607	789	4,396	55
Balance at June 30, 2020	\$ 470,941	\$ 149,229	\$ 620,170	\$ 8,560
Current	-	-	-	3,031
Non-current	470,941	149,229	620,170	5,529
Provisions at June 30, 2020	\$ 470,941	\$ 149,229	\$ 620,170	\$ 8,560

### 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 \$192,952 at June 30, 2020 (\$237,259 - December 31, 2019). 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 June 30, 2020 using an average inflation rate of 0.91% (1.75% - December 31, 2019) and was discounted using an average risk-free rate of 0.91% (1.75% - December 31, 2019).

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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## 8. Provisions (continued):

### 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 \$470,941 at June 30, 2020 (December 31, 2019 - \$465,751) discounted at a risk-free rate of 0.99% (December 31, 2019 - 1.76%). The undiscounted decommissioning liability is estimated to be \$1,700,000 (December 31, 2019 - \$2,600,000), with an inflation rate of 0.99% 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 interim condensed consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The future estimate of costs for site restoration has been discounted at a rate of 0.3% (December 31, 2019 – 1.69%) and an inflation rate of 0.3% was used to calculate the provision at June 30, 2020 (December 31, 2019 – 2.00%).

## 9. Loan payable:

On August 29, 2018, TMP Finance entered into Credit Agreements with Her Majesty in Right of Canada. The facilities are part of the Canada Account of the Government of Canada, administered by EDC. The Acquisition Facility was used to fund the acquisition of the Trans Mountain Pipeline entities. The Construction Facility is used primarily to finance the TMEP construction.

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 was \$2,587,000, increasing to \$4,000,000 in January 2020, until December 31, 2020 as detailed in a revised borrowing authority letter received from the Minister of Finance.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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## 9. Loan payable (continued):

On March 25, 2019 TMP Finance entered into an amended NEB Credit Agreement which allows TMP Finance to borrow funds for the purpose of providing financial assurance for the TMPL as required by the Canada Energy Regulator (“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 June 30, 2020 are as follows:

Facility	Total Available Credit June 30, 2020	Outstanding Amounts June 30, 2020	Outstanding Amounts December 31, 2019	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	4,000,000	2,575,000	1,385,000	4.7%	0.065%	August 29, 2023
NEB	500,000	-	-	4.7%	0.30%	August 29, 2023
		\$ 7,245,000	\$ 6,055,000			

Total interest expense for the periods ended June 30 is comprised of the following:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Interest on Loan payables	\$ 77,556	\$ 56,516	\$ 148,733	\$ 117,564
Interest on leases	1,562	877	2,033	1,738
Interest capitalized	(38,831)	(1,566)	(70,566)	(3,000)
Standby fees	686	511	1,476	685
	\$ 40,973	\$ 56,338	\$ 81,676	\$ 116,987

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Corporation’s general borrowings during the year of 4.7% (2019 – 4.7%).

## 10. Net Profits Interest Reserve

NPI payments received under the NPI agreements for the six months ended June 30, 2020 totalled \$73,600 of which \$6,962 was received from CHHC and eliminated upon consolidation (2019 – nil).

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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## 11. Supplemental cash flow disclosure:

	Three months ended		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Trade and other receivables	\$ 4,809	\$ (19,308)	\$ 60,129	\$ 20,084
Inventory	346	824	(805)	979
Other current assets	(12,376)	(12,672)	(10,226)	(14,537)
Deferred charges and other assets	(85,814)	(21,577)	(62,967)	(7,476)
Trade and other payables	93,157	117,502	59,687	140,493
Interest payable	(71,741)	(56,833)	217	(1,213)
Other current liabilities	8,271	4,274	(2,677)	83,249
Other deferred credits	(36,012)	1,802	(35,034)	(63,567)
Change in non-cash working capital items	\$ (99,360)	\$ 14,012	\$ 8,324	\$ 158,012
Relating to:				
Operating activities	\$ (104,095)	\$ (76,188)	\$ 5,744	\$ 16,683
Investing activities	4,735	90,200	2,580	141,329
	\$ (99,360)	\$ 14,012	\$ 8,324	\$ 158,012

Property, plant and equipment ("PPE") expenditures comprise the following:

	Three months ended		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
PPE additions (note 5)	\$ (677,151)	\$ (303,684)	\$(1,264,142)	\$ (442,168)
Change in non-cash investing working capital related to PPE	8,156	95,143	8,319	147,946
Capitalized lease amortization and interest	4,411	-	8,851	-
Cash used for PPE expenditures	\$ (664,584)	\$ (208,541)	\$(1,246,972)	\$ (294,222)

## 12. Net crude oil revenue and production and operating expenses:

a) Net crude oil revenue for the periods ended June 30 is comprised as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Crude oil sales	\$ 25,018	\$ 84,672	\$ 69,677	\$ 151,764
Less: royalties	(4,950)	(23,213)	(14,406)	(40,167)
Less: net profits interest	-	(6,535)	-	(11,508)
Net crude oil revenue	\$ 20,068	\$ 54,924	\$ 55,271	\$ 100,089

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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## 12. Net crude oil revenue and production and operating expenses (continued):

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
United States	\$ 9,777	\$ 60,776	\$ 28,000	\$ 123,974
Canada	–	13,140	17,951	13,140
Asia	15,241	–	15,241	–
Europe	–	10,756	8,485	14,650
	\$ 25,018	\$ 84,672	\$ 69,677	\$ 151,764

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Hibernia Project operating expenses	\$ 4,508	\$ 6,666	\$ 8,136	\$ 12,490
Crude oil transportation and transshipment	2,787	1,130	3,849	1,803
Crude oil marketing	143	109	258	263
	\$ 7,438	\$ 7,905	\$ 12,243	\$ 14,556

# CANADA DEVELOPMENT INVESTMENT CORPORATION

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## 13. Revenue and operating expenses from pipeline operations:

For the period ended June 30 revenues and operating expenses from TMC's operations, disaggregated by revenue source and type of revenue, are comprised as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Transportation revenue	\$ 89,145	\$ 103,033	\$ 195,915	\$ 187,980
Lease revenue	16,016	15,413	31,763	29,904
Other revenue	414	459	845	1,311
<b>Total</b>	<b>\$ 105,575</b>	<b>\$ 118,905</b>	<b>\$ 228,523</b>	<b>\$ 219,195</b>
Operating and production expenses	\$ 44,592	\$ 35,762	\$ 79,468	\$ 67,827
Salaries and benefits	18,159	17,019	39,503	33,795
Other general and administration costs	1,003	1,364	3,323	2,888
Total operating expenses excluding finance costs and depreciation	\$ 63,754	\$ 54,145	\$ 122,294	\$ 104,510

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

## 14. Commitments:

CDEV's commitments at June 30, 2020 are summarized in the table below and include TMC's purchase of Plant, Property and Equipment ("PPE"), crude oil transportation and transshipment service arrangements, and CHHC's share of Hibernia Project contractual commitments related to capital investments and operations.

	Remainder 2020	2021-2024	Thereafter	Total
Crude oil transportation and transshipment services	\$ 2,278	\$ 17,266	\$ 24,355	\$ 43,899
Hibernia Project contracts	955	4,919	3,363	9,237
Pipeline PPE	109,083	-	-	109,083
Other operating commitments	-	643	1,648	2,291
<b>Total Commitments</b>	<b>\$ 112,316</b>	<b>\$ 22,828</b>	<b>\$ 29,366</b>	<b>\$ 164,510</b>

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## 15. 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 SCC 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 National Energy Board's ("NEB", now known as the CER) review, and Phase III consultation of Indigenous peoples. On the scope of the NEB's review, the Court decided that the NEB's review of the TMEP unjustifiably excluded 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 consultation of Indigenous peoples, the Court determined that the Government of Canada must re-do its Phase III consultations before it submitted again to the GIC for approval. The TMEP could be submitted again to the GIC for approval. It is uncertain, however, if the GIC will grant its approval and issue a new Order in Council or, in the event the GIC issues a new Order in Council, whether that Order in Council will contain additional conditions separate and apart from any conditions imposed by the NEB.

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## 15. Contingencies (continued):

On February 22, 2019, the NEB released its Reconsideration report, in which the NEB concluded that the TMEP is in the Canadian public interest. The NEB recommended that the GIC approve the TMEP subject to 156 conditions, which are measures that the NEB can enforce upon TMPL and the TMEP under its authority as regulator. The NEB's report also contained 16 recommendations to the GIC, which relate to items outside the scope of the NEB's authority and beyond the control of TMPL or the TMEP, but within the authority of the GIC. Management believes the conditions are reasonable and 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 four remaining applicants.

On November 4, 2019, five of the six applicants for whom the Leave Motions were dismissed by the FCA had filed appeals 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.

Following the February 4, 2020 Decision of the FCA above, the four unsuccessful FCA applicants filed Leave Motions with the SCC on April 6, 2020 and Trans Mountain filed a Response opposing the Leave applications. On July 2, 2020 the SCC issued its decision dismissing all applications for Leave. This matter is now concluded.

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

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## 15. Contingencies (continued):

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. In April 2020, the BC Environmental Assessment Office (“EAO”) announced a process for the reconsideration of any consequential adjustments.

## 16. Risks to the Corporation:

The nature of CDEV’s consolidated operations expose the Corporation to risks arising from its financial instruments that may have a material effect on cash flows, profit, and comprehensive income (loss). A description of the nature and extent of risks arising from the Corporation’s financial assets and liabilities can be found in the notes to the Corporation’s annual consolidated financial statements as at December 31, 2019.

CDEV is exposed to financial risks including market risk relating to commodity prices, foreign exchange rates and interest rates, as well as credit and contract risk and liquidity risk. A description of the nature and extent of risks arising from the Corporation’s financial assets and liabilities can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2019.

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Corporation’s trade and other receivables.

- 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 generally in the form of guarantees from credit worthy parties or letters of credit from well rated financial institutions. A majority of the Corporation’s customers operate in the oil and gas exploration and development, or energy marketing or transportation industries. The reduction in global crude oil demand resulting from the COVID-19 pandemic and oversupply concerns has resulted in significant decreases in crude oil prices globally and in the Western Canadian Sedimentary Basin. There may be exposure to long-term downturns in energy commodity prices, including the price for crude oil, and economic instability from these events or other credit events impacting these industries and customers’ ability to pay for services.

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## 16. Risks to the Corporation (continued):

As at June 30, 2020 and December 31, 2019 there were no significant accounts receivable past due or impaired.

The composition of the Corporation's trade and other receivables is as follows:

	June 30, 2020	December 31, 2019
Contracts with pipeline shippers	\$ 13,781	\$ 39,131
Contracts with crude oil customers	7,737	49,805
Hibernia joint arrangement	2,808	5,593
HST/GST input tax credits	19,487	16,461
Other	15,329	8,281
Trade and other receivables	\$ 59,142	\$ 119,271
Amount outstanding greater than 90 days	\$ 985	\$ 785

The Corporation applies a simplified approach to providing for expected credit losses ("ECLs"), using the lifetime ECLs provision for all trade receivables. To measure the ECLs provision related to trade receivables, the Corporation applies a provision matrix based on the number of days past due. Due to the high credit quality of the Corporation's counterparties, the ECL provision at June 30, 2020 is insignificant.

The Corporation's cash and cash equivalents (including those held in escrow and investments held for future abandonment and risk fund) are exposed to investment-grade Canadian banks and financial institutions and the Government of Canada. All cash equivalents and short-term investments are purchased from issuers with a credit rating of R1 High by Dominion Bond Rating Service. Accordingly, the ECLs provision at June 30, 2020 related to cash and cash equivalents and investments is insignificant. As there have been no loans issued to borrowers under the LEEFF program by CEEFC, there is no additional credit risk for the Corporation at this time.

The Corporation realized no actual impairment losses during the three months ended June 30, 2020 or 2019.

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. For the financing subsidiary CEEFC, the main source of funding is through the issuance of preference shares to the government by way of the Funding Agreement.

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## 16. Risks to the Corporation (continued):

While the decrease in current and forecasted crude oil prices is expected to negatively impact the Corporation's financial performance and position, the Corporation continues to retain cash and short-term investments that provide it with financial flexibility to meet its obligations as they come due. To enhance its liquidity, the Corporation may adjust dividends paid to its shareholder, and some planned capital expenditures for CHHC for the remainder of 2020 have been reduced. The Corporation may be exposed to long-term downturns in the energy industry and economic volatility which is mitigated by the current regulatory frameworks governing the Corporation's pipeline operations and the competitive position of the Corporation's pipeline and oil producing assets. 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, the Corporation will require the continued availability of future financing in order to complete the project.

Fair value of financial instruments:

The following table shows the carrying amounts and fair values of restricted investments and loans payable including their levels in the fair value hierarchy at June 30, 2020 and December 31, 2019:

	Classification	Hierarchy	Carrying amounts		Fair value	
			2020	2019	2020	2019
<b>Financial assets</b>						
Restricted investments	FVTPL	Level 2	\$ 89,500	\$ 70,911	\$ 89,500	\$ 70,911
<b>Financial liabilities</b>						
Loans payable	Amortized cost	Level 2	\$ 7,245,000	\$ 6,055,000	\$ 7,647,714	\$ 6,159,000

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

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

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

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## 17. Related party transactions:

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

CDEV paid dividends to the Government of Canada during the three and six months ended June 30, 2020 of \$nil and \$61,629 respectively (2019 - nil).

On July 15, 2020, CEEFC and CDEV entered into a Service Agreement whereby CDEV provides executive, administrative, banking, financial and support services and other administrative services to facilitate the organization and functioning of CEEFC and CEEFC's administration of the LEEFF program.

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## 18. Supplementary information:

The following presents a breakdown of the primary operating entities comprising CDEV. CDEV corporate, CEI, CEEFC and TMP Finance are grouped as Others:

	Six months ended June 30, 2020						
	TMC (US GAAP)	IFRS Adjustments	TMC (IFRS)	CHHC	Others	Eliminations	Consolidated
<b>Statement of Comprehensive Income:</b>							
<b>Revenues:</b>							
Transportation revenue	\$ 179,178	\$ 16,737 <sup>(1)</sup>	\$ 195,915				\$ 195,915
Lease revenue	31,763		31,763				31,763
Net crude oil revenue				52,790	\$ -	\$ 2,481	55,271
Other income/ FX	845		845	4,158	2,332	(1,496)	5,839
	<b>211,786</b>	<b>16,737</b>	<b>228,523</b>	<b>56,948</b>	<b>2,332</b>	<b>985</b>	<b>288,788</b>
<b>Expenses:</b>							
Depletion and depreciation	48,825	4,041 <sup>(2)</sup>	52,866	25,411	54		78,331
Operating and production	79,786	(318)	79,468	12,243	-		91,711
Salaries and benefits	36,917	2,586 <sup>(3)</sup>	39,503	865	989		41,357
Other general and admin	6,056	(2,733)	3,323	1,336	6,655	(454)	10,860
	<b>171,584</b>	<b>3,576</b>	<b>175,160</b>	<b>39,855</b>	<b>7,698</b>	<b>(454)</b>	<b>222,259</b>
<b>Finance Costs:</b>							
Equity AFUDC	74,265	(74,265) <sup>(4)</sup>	-		-		-
Unwind of discount	-	(3,607) <sup>(4)</sup>	(3,607)	(789)	(55)		(4,451)
Net Interest (expense)	(41,535)	(20,562) <sup>(4)</sup>	(62,097)	1,353	5,850	(21,924)	(76,818)
	<b>32,730</b>	<b>(98,434)</b>	<b>(65,704)</b>	<b>564</b>	<b>5,795</b>	<b>(21,924)</b>	<b>(81,269)</b>
<b>Net income before income taxes</b>	<b>72,932</b>	<b>(85,273)</b>	<b>(12,341)</b>	<b>17,657</b>	<b>429</b>	<b>(14,625)</b>	<b>(14,740)</b>
Income taxes (recovery)	17,898	(21,013) <sup>(5)</sup>	(3,115)	7,944	-		4,829
<b>Net Income</b>	<b>\$ 55,034</b>	<b>(64,260)</b>	<b>\$ (9,226)</b>	<b>\$ 9,713</b>	<b>\$ 429</b>	<b>\$ (14,625)</b>	<b>\$ (19,569)</b>
<b>Other Comprehensive Income</b>	<b>\$ 15,143</b>	<b>\$ (6,683)</b> <sup>(6)</sup>	<b>\$ 8,460</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ 8,460</b>
<b>Statement of Financial Position:</b>							
<b>Assets:</b>							
Current assets	\$ 437,977	\$ (640) <sup>(7)</sup>	\$ 437,337	\$ 128,931	\$ 112,229	\$ (1,999)	\$ 676,498
Non-current assets	8,256,597	138,874 <sup>(8)</sup>	8,395,471	347,719	7,423,291	(7,331,841)	8,834,640
	<b>\$ 8,694,574</b>	<b>\$ 138,234</b>	<b>\$ 8,832,808</b>	<b>\$ 476,650</b>	<b>\$ 7,535,520</b>	<b>\$ (7,333,840)</b>	<b>\$ 9,511,138</b>
<b>Liabilities</b>							
Current liabilities	\$ 595,575	\$ (8,471)	\$ 587,104	\$ 13,164	\$ 9,635	\$ (1,978)	\$ 607,925
Non-current liabilities	4,731,943	329,567 <sup>(9)</sup>	5,061,510	165,194	7,251,895	(3,875,850)	8,602,749
	<b>\$ 5,327,518</b>	<b>\$ 321,096</b>	<b>\$ 5,648,614</b>	<b>\$ 178,358</b>	<b>\$ 7,261,530</b>	<b>\$ (3,877,828)</b>	<b>\$ 9,210,674</b>
<b>Shareholder's Equity</b>							
	<b>\$ 3,367,056</b>	<b>\$ (182,862)</b> <sup>(10)</sup>	<b>\$ 3,184,194</b>	<b>\$ 298,292</b>	<b>\$ 273,990</b>	<b>\$ (3,456,012)</b>	<b>\$ 300,464</b>
	<b>\$ 8,694,574</b>	<b>\$ 138,234</b>	<b>\$ 8,832,808</b>	<b>\$ 476,650</b>	<b>\$ 7,535,520</b>	<b>\$ (7,333,840)</b>	<b>\$ 9,511,138</b>

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## 18. Supplementary information (continued):

	Six months ended June 30, 2019						
	TMC (US GAAP)	IFRS Adjustments	TMC (IFRS)	CHHC	Others	Eliminations	Consolidated
<b>Statement of Comprehensive Income:</b>							
<b>Revenues:</b>							
Transportation revenue	\$ 170,574	\$ 17,406 <sup>(1)</sup>	\$ 187,980	\$ -	\$ -		\$ 187,980
Lease Revenue	\$ 29,904		\$ 29,904				\$ 29,904
Net Crude oil revenue				\$ 100,089	\$ -		\$ 100,089
Other income/ FX	\$ 1,311		\$ 1,311	\$ 2,733	\$ 875	\$ (875)	\$ 4,044
	\$ 201,789		\$ 219,195	\$ 102,822	\$ 875	\$ (875)	\$ 322,017
<b>Expenses:</b>							
Depletion and depreciation	\$ 50,167	\$ 3,884 <sup>(2)</sup>	\$ 54,051	\$ 31,081	\$ 54		\$ 85,186
Operating and production	\$ 68,222	\$ (395)	\$ 67,827	\$ 14,556	\$ -		\$ 82,383
Salaries and Benefits	\$ 31,800	\$ 1,995 <sup>(3)</sup>	\$ 33,795	\$ 874	\$ 737		\$ 35,406
Other and FX	\$ 4,377	\$ (1,390)	\$ 2,987	\$ 2,495	\$ 4,820	\$ (74)	\$ 10,228
	\$ 154,566		\$ 158,660	\$ 49,006	\$ 5,611	\$ (74)	\$ 213,203
<b>Finance Costs</b>							
Equity AFUDC	\$ 37,875	\$ (37,875) <sup>(4)</sup>	\$ -		\$ -		\$ -
Unwind of Discount	\$ -	\$ (4,536) <sup>(4)</sup>	\$ (4,536)	\$ (1,285)	\$ (74)		\$ (5,895)
Net Interest (expense)	\$ (44,295)	\$ (22,644) <sup>(4)</sup>	\$ (66,939)	\$ 2,004	\$ (46,337)	\$ 801	\$ (110,471)
	\$ (6,420)		\$ (71,475)	\$ 719	\$ (46,411)	\$ 801	\$ (116,366)
<b>Earnings/loss before tax</b>	\$ 40,802		\$ (10,940)	\$ 54,535	\$ (51,147)		\$ (7,552)
Taxes (recovery)	\$ (46,315)	\$ (7,855) <sup>(5)</sup>	\$ (54,170)	\$ 16,435	\$ -		\$ (37,735)
<b>Net Income</b>	\$ 87,117		\$ 43,230	\$ 38,100	\$ (51,147)		\$ 30,183
<b>Other Comprehensive Income</b>	\$ (12,615)	\$ (11,743) <sup>(6)</sup>	\$ (24,358)	\$ -	\$ -		\$ (24,358)
<b>Statement of Financial Position:</b>							
<b>Assets:</b>							
Current	\$ 285,257	\$ (11,995) <sup>(7)</sup>	\$ 273,262	\$ 170,238	\$ 93,655	\$ (990)	\$ 536,165
Non-Current	6,062,252	458,699 <sup>(8)</sup>	6,520,951	383,572	5,236,892	(5,226,977)	6,914,438
	\$ 6,347,509	\$ 446,704	\$ 6,794,213	\$ 553,810	\$ 5,330,547	\$ (5,227,967)	\$ 7,450,603
<b>Liabilities</b>							
Current liabilities	\$ 448,449	\$ 217,250	\$ 665,699	\$ 32,503	\$ 369,393	\$ (218,240)	\$ 849,355
Non-current liabilities	3,579,283	317,691 <sup>(9)</sup>	3,896,974	182,268	4,678,380	(2,506,350)	6,251,272
	\$ 4,027,732	\$ 534,941	\$ 4,562,673	\$ 214,771	\$ 5,047,773	\$ (2,724,590)	\$ 7,100,627
<b>Equity</b>							
	\$ 2,319,777	\$ (88,237) <sup>(10)</sup>	\$ 2,231,540	\$ 339,039	\$ 282,774	\$ (2,503,377)	\$ 349,976
	\$ 6,347,509	\$ 446,704	\$ 6,794,213	\$ 553,810	\$ 5,330,547	\$ (5,227,967)	\$ 7,450,603

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## 18. Supplementary information (continued):

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

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

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

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

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

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

# CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended June 30, 2020

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

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## 18. Supplementary information (continued):

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

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

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

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

10) The cumulative impact of the IFRS adjustments to shareholder's equity total \$0.2 million with \$64 million being the impact on the YTD 2020 net income and OCI, and the balance due to the adjustments to equity in prior periods.

## 19. Subsequent event:

On August 7, 2020 CEEFC received \$100 million through the issuance of 100 thousand Class A preferred shares pursuant to the Funding Agreement.