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

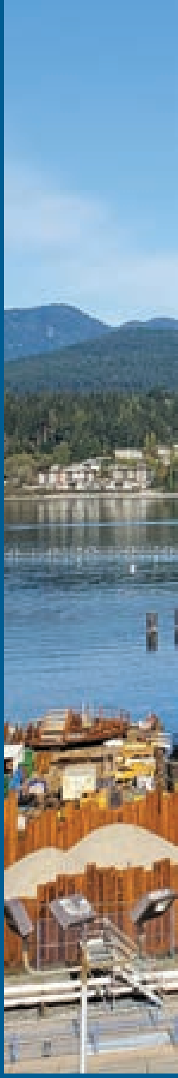
Stephen Swaffield
Chair
Canada Development Investment Corporation

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.

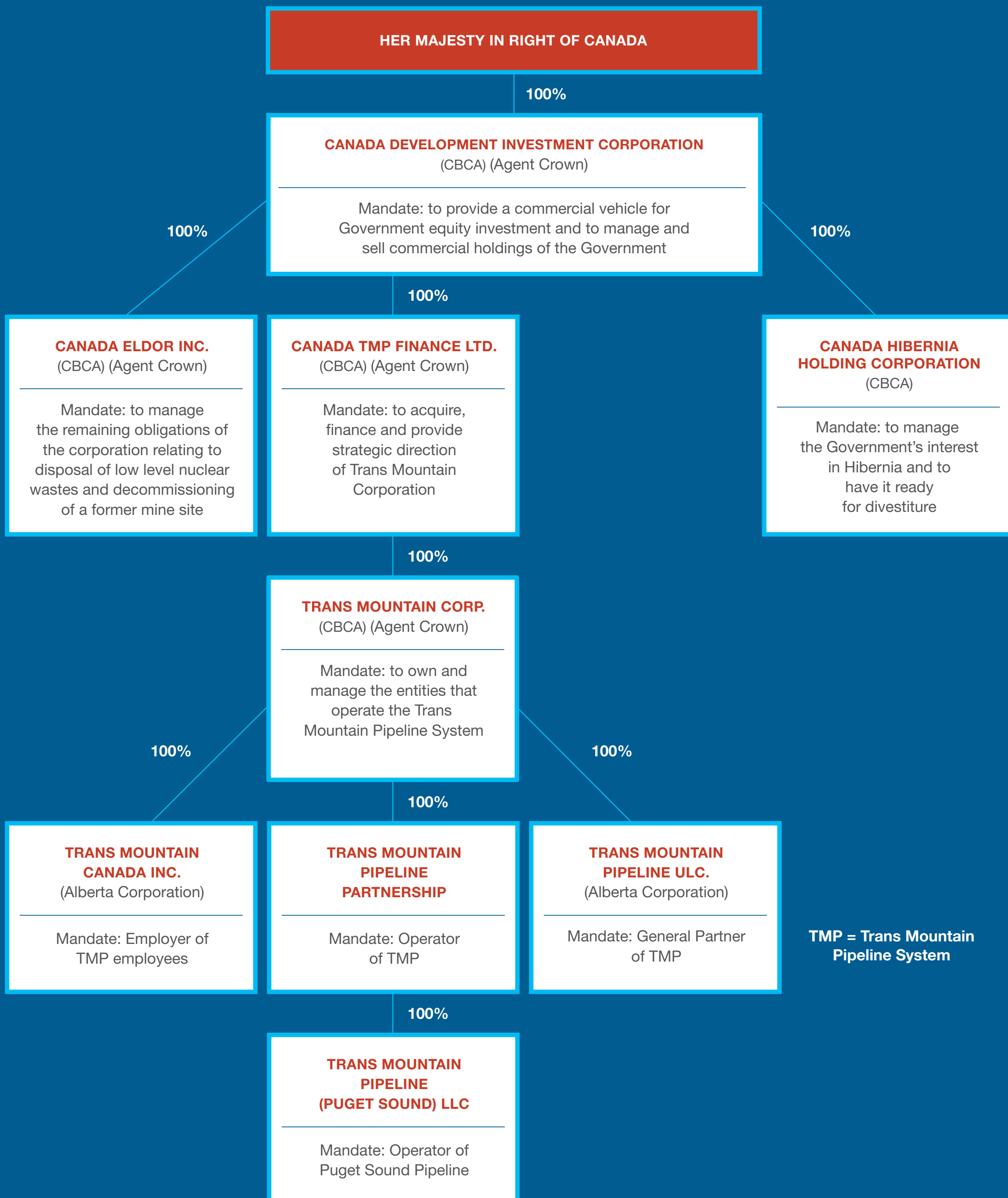
Corporate Overview

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

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

March 30, 2020