



**TRANS**MOUNTAIN

**TRANS MOUNTAIN CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the period from the date of incorporation  
on May 28, 2018 to  
December 31, 2018**

## Management's Responsibility for Financial Statements

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The accompanying consolidated financial statements of Trans Mountain Corporation ("TMC") are the responsibility of management and were authorized for issue by the Board of Directors on March 4, 2019. The consolidated financial statements have been prepared by TMC in accordance with accounting principles generally accepted in the United States of America. The financial statements of TMC's four wholly-owned subsidiaries for which it has responsibility have been consolidated with TMC. When alternative accounting methods exist, TMC 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.

TMC 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 TMC's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the consolidated financial statements principally through its Audit Committee. The Audit Committee reviews TMC'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 auditors to discuss auditing matters and financial reporting issues.

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

As President of TMC 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, 2018, and financial performance and cash flows for the period from incorporation on May 28, 2018 to December 31, 2018.



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Ian Anderson  
President and CEO  
Trans Mountain Corporation



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Mike Bangle, CPA, CA  
Vice-President, Finance  
Trans Mountain Corporation

March 4, 2019



## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Trans Mountain Corporation

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Trans Mountain Corporation and its subsidiaries (the Corporation), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the period from incorporation on 28 May 2018 to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at 31 December 2018, and its consolidated results of operations and its consolidated cash flows for the period from incorporation on 28 May 2018 to 31 December 2018 in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

### **Report on Compliance with Specified Authorities**

#### *Opinion*

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

In our opinion, the transactions of Trans Mountain Corporation and its wholly owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above.

#### *Responsibilities of Management for Compliance with Specified Authorities*

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

#### *Auditors' Responsibilities for the Audit of Compliance with Specified Authorities*

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



Vicki Clement, CPA, CA  
Principal  
for the Auditor General of Canada

Ottawa, Canada  
4 March 2019



Chartered Professional Accountants

Calgary, Canada  
4 March 2019

**TRANS MOUNTAIN CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
(In thousands of Canadian dollars)

For the period from incorporation  
on May 28, 2018 to December 31,  
2018

<b>Revenues</b>	
Transportation revenue <i>(Note 4)</i>	116,365
Lease revenue	20,417
Other revenue	1,011
	<b>137,793</b>
<b>Expenses</b>	
Pipeline operating costs	42,769
Salaries and benefits	19,837
Depreciation and amortization <i>(Note 7)</i>	33,615
Taxes, other than income taxes	10,308
Administration	5,077
	<b>111,606</b>
<b>Operating income</b>	<b>26,187</b>
Equity allowance for funds used during construction	21,241
Interest expense, net of capitalized debt financing costs <i>(Note 17)</i>	(34,483)
Other, net	115
Foreign exchange gain <i>(Note 19)</i>	10
<b>Income before income taxes</b>	<b>13,070</b>
Income tax expense <i>(Note 5)</i>	(3,532)
<b>Net income</b>	<b>9,538</b>

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

**TRANS MOUNTAIN CORPORATION**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(In thousands of Canadian dollars)**

**For the period from incorporation  
on May 28, 2018 to December 31,  
2018**

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<b>Net income</b>	9,538
<b>Other comprehensive income (loss), net of tax</b>	
Currency translation adjustment	12,983
Pension and post-employment benefits <i>(Note 13)</i>	(5,646)
	<b>7,337</b>
<b>Comprehensive income</b>	<b>16,875</b>

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

**TRANS MOUNTAIN CORPORATION**  
**CONSOLIDATED BALANCE SHEET**  
(In thousands of Canadian dollars)

As of December 31, 2018

<b>Assets</b>	
Current Assets	
Cash and cash equivalents	169,200
Restricted cash (Notes 2, 16)	500,000
Accounts receivable	142,712
Other current assets (Note 6)	30,670
	<b>842,582</b>
Property, plant and equipment (Note 7)	4,530,559
Goodwill (Notes 3, 8)	888,098
Restricted investments (Note 2)	54,783
Restricted Cash (Notes 2, 16)	48,843
Regulatory assets (Note 15)	24,568
Deferred amounts and other assets (Note 9)	24,525
<b>Total Assets</b>	<b>6,413,958</b>
<b>Liabilities and Equity</b>	
Current Liabilities	
Accounts payable (Note 10)	120,687
Regulatory liabilities (Note 15)	102,695
Loans from parent (Note 16)	607,250
Other current liabilities (Note 11)	6,165
	<b>836,797</b>
Loans from parent (Note 16)	2,506,350
Deferred income taxes (Note 5)	618,780
Regulatory liabilities (Note 15)	212,500
Pension and post-employment benefits (Note 13)	74,931
Other deferred credits (Note 14)	9,325
<b>Total Liabilities</b>	<b>4,258,683</b>
Equity	2,155,275
<b>Total Liabilities and Equity</b>	<b>6,413,958</b>

Commitments and contingencies (Note 20)

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

Approved by the Board of Directors

“William Downe”  
Director

“Brian Ferguson”  
Director

**TRANS MOUNTAIN CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In thousands of Canadian dollars)

For the period from incorporation on  
May 28, 2018 to December 31, 2018

<b>Operating activities</b>	
Net income (loss) for the period	9,538
Items not affecting cash	
Depreciation and amortization	33,615
Equity allowance for funds used during construction	(21,241)
Deferred income taxes	1,662
Changes in non-cash working capital items (Note 18)	119,972
<b>Total Cash and cash equivalents and Restricted cash provided by operating activities</b>	<b>143,546</b>
<b>Investing activities</b>	
Acquisition, net of cash and restricted cash acquired (Note 3)	(4,484,157)
Capital expenditures	(189,170)
Purchase of restricted investments	(4,843)
<b>Total Cash and cash equivalents and Restricted cash used in investing activities</b>	<b>(4,678,170)</b>
<b>Financing activities</b>	
Issuances of debt from parent (Note 16)	3,113,600
Capital contributions (Note 16)	2,138,400
<b>Total Cash and cash equivalents and Restricted cash provided by financing activities</b>	<b>5,252,000</b>
Net increase in Cash and cash equivalents and Restricted cash for effects of FX translation	667
Net increase in Cash and cash equivalents and Restricted cash	718,043
Cash and cash equivalents and Restricted cash, beginning of period	-
<b>Cash and cash equivalents and Restricted cash, end of period</b>	<b>718,043</b>
Cash and cash equivalents, beginning of period	-
Restricted cash, beginning of period	-
<b>Cash and cash equivalents and Restricted cash, beginning of period</b>	<b>-</b>
Cash and cash equivalents, end of period	169,200
Restricted cash, end of period	548,843
<b>Cash and cash equivalents and Restricted cash, end of period</b>	<b>718,043</b>
<b>Supplemental Disclosures of Cash Flow Information</b>	
Cash interest paid, net of amounts capitalized	38,914
Cash paid for income taxes	-
<b>Non-cash Investing and Financing</b>	
Change in non-cash property, plant and equipment due to accruals and contractor advances	(7,781)
Increase in property, plant and equipment due to foreign currency translation	12,301

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

**TRANS MOUNTAIN CORPORATION**  
**CONSOLIDATED STATEMENT OF EQUITY**  
(In thousands of Canadian dollars)

<b>For the period from incorporation on May 28, 2018 to December 31, 2018</b>	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	<b>Total Equity</b>
Balance at May 28, 2018	-	-	-	-	-
Capital contributions ( <i>Note 16</i> )	2,064,150	74,250			<b>2,138,400</b>
Net income			9,538		<b>9,538</b>
Other comprehensive income, net of tax				7,337	<b>7,337</b>
<b>Balance at December 31, 2018</b>	<b>2,064,150</b>	<b>74,250</b>	<b>9,538</b>	<b>7,337</b>	<b>2,155,275</b>

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

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. General

Trans Mountain Corporation (“the Corporation” or “TMC”) is a Federal Crown corporation, incorporated under the *Canada Business Corporations Act* on May 28, 2018 and was acquired by Canada TMP Finance Ltd. (“TMP Finance”) on May 31, 2018. TMC is a wholly owned subsidiary of TMP Finance, which is a wholly owned subsidiary of Canada Development Investment Corporation (“CDEV”). CDEV is wholly owned by Her Majesty in Right of Canada and is an agent Crown corporation. TMC is subject to the provisions of Part X of the *Financial Administration Act* and the provisions of the *Income Tax Act*.

On May 29, 2018, the Government of Canada announced that it had entered into a share and unit purchase agreement with Kinder Morgan Inc. and Kinder Morgan Canada Limited (the “Purchase Agreement”) to acquire four entities: Trans Mountain Pipeline Limited Partnership (“TMP LP”) and its wholly owned subsidiary Trans Mountain Pipeline (Puget Sound) LLC (“Puget”), Trans Mountain Pipeline ULC (“TMP ULC”), and Kinder Morgan Canada Inc. (now renamed Trans Mountain Canada Inc. (“TMCI”). Together these entities, referred to as the “Target Entities”, own and manage the Trans Mountain pipeline system (“TMPL”) and the Puget Sound pipeline system (“Puget Sound”). TMPL has operated since 1953, and in its current configuration transports approximately 300,000 barrels per day of crude oil and refined petroleum from Edmonton, Alberta to Burnaby, British Columbia. As part of the purchase of TMP LP, the Corporation also acquired certain rights, designs and construction contracts related to the expansion of the TMPL known as the Trans Mountain Expansion Project (“TMEP”). Subject to government approval and if completed as currently anticipated, the TMEP will increase the capacity of the TMPL to 890,000 barrels per day. Puget owns the Puget Sound pipeline, which interconnects with TMPL at the international border near Sumas, British Columbia, and transports products to refineries in Washington State. TMP ULC is the General Partner of TMP LP, and TMCI employs the workforce that manages and operates the pipelines and related assets.

On August 31, 2018, as part of the Purchase Agreement, TMC completed the purchase of the Target Entities (the “Acquisition”) for cash consideration, net of cash acquired, of approximately \$4.44 billion. Refer to Note 3. As a result, these consolidated financial statements include operating results of TMC for the period from incorporation on May 28, 2018 to December 31, 2018 and the operating results of the wholly owned Target Entities, including the Trans Mountain Pipeline Reclamation Trust (the “Trust”) which is consolidated with the Corporation, for the period from Acquisition to December 31, 2018.

TMC’s mandate is to operate the existing TMPL and to complete the TMEP in a timely and commercially viable manner.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation***

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”), as contained in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”). The *Canada Business Corporations Act* subsection 71(1) requires the preparation of annual financial statements in accordance with Canadian GAAP. TMC applied for and received an exemption from this requirement, allowing TMC to use U.S. GAAP in the preparation of its consolidated financial statements for the period ending December 31, 2018. TMC believes that U.S. GAAP provides better comparability with industry peers and also better reflects the economic effects of the actions of regulatory bodies on its operations. In preparing these annual consolidated financial statements in accordance with U.S. GAAP, all significant intercompany items have been eliminated in consolidation.

In management’s opinion, all adjustments considered necessary for a fair statement of the financial position and operating results have been included in the accompanying consolidated financial statements.

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

TMC operates in one operating segment, as the chief operating decision maker reviews operating results at this level to assess financial performance and make resource allocation decisions.

These consolidated financial statements were authorized by the board of directors on March 4, 2019.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Use of Estimates***

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring certain assumptions with respect to values or conditions, which cannot be known with certainty at the time the consolidated financial statements are prepared. These estimates and assumptions affect the amounts reported for assets and liabilities, revenues and expenses during the reporting period, and the disclosures, including as it relates to contingent assets and liabilities at the date of the consolidated financial statements. These estimates are evaluated on an ongoing basis, utilizing historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from estimates. Any effects on the business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

In management's opinion, certain accounting policies are of more significance in the financial statement preparation process than others. Set out below are the principal accounting policies applied in the preparation of the accompanying consolidated financial statements.

#### ***Regulation***

The National Energy Board ("NEB") regulates TMP LP's operations. Puget's operations are regulated by the United States Federal Energy Regulatory Commission ("FERC") and the U.S. Department of Transportation Office of Pipeline Safety ("U.S. DOT").

The NEB exercises statutory authority over matters such as construction and operation of facilities, rates and ratemaking, and accounting practices for Canadian pipelines crossing a provincial or international border. To recognize the economic effects of the actions of the regulator, TMP LP applies the provisions of ASC 980 *Regulated Operations*, under which the timing of recognition of certain revenues and expenses may differ from that otherwise expected under U.S. GAAP for non-regulated businesses. The FERC exercises statutory authority over rates and ratemaking for U.S. interstate or international pipelines, including the Puget Sound pipeline, while the U.S. DOT regulates facilities operations.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates or paid out of the Trust to cover future abandonment costs in relation to the NEB's Land Matters Consultation Initiative ("LMCI"). Regulatory assets and liabilities are recognized based on the actions, or expected future actions, of the regulator. To the extent that the regulator's actions differ from expectations, the timing and amount of recovery or settlement of regulatory balances could differ from those recorded. See Note 15.

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 (interest during construction or "IDC") and, if approved by the regulator, a cost of equity component ("Equity AFUDC"), which are both capitalized based on rates set out in a regulatory agreement. In the absence of rate regulation, TMP LP would capitalize interest using a capitalization rate based on its cost of borrowing, whereas the capitalized equity component, the corresponding earnings during the construction phase and the subsequent depreciation would not be recognized.

#### ***Revenue Recognition***

Revenue from contracts with customers is accounted for in accordance with ASC Topic 606. The unit of account in Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods and services) or a series of distinct goods or services provided over a period of time. Topic 606 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies *(continued)*

#### **Revenue Recognition *(continued)***

##### *Nature of Revenue*

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

TMPL's revenue is adjusted according to terms prescribed in its toll settlement with shippers as approved by the NEB. Differences between transportation revenue recognized pursuant to its toll settlement and actual toll receipts are recognized as regulatory assets or liabilities and are settled in future tolls.

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

##### *Revenue from Contracts with Customers*

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

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

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

#### **Leases**

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

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

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Pensions and post-employment benefits***

The differences between the fair value of each of the pension and other post-employment benefit plans' assets and the benefit obligations are recorded as either assets or liabilities on the accompanying consolidated balance sheet. Deferred plan costs and income—unrecognized losses and gains, unrecognized prior service costs and credits, and any remaining unamortized transition obligations—are recorded in "Accumulated other comprehensive income" until they are amortized as a component of benefit expense. See Note 13 for additional information regarding the pension and other post-employment benefit plans.

#### ***Income Taxes***

Income tax expense is based on an estimate of the effective tax rate in effect or to be in effect during the relevant periods. The changes in tax legislation are included in the relevant computations in the period in which such changes are enacted. The Corporation does business in various jurisdictions with differing laws concerning how income subject to each jurisdiction's tax regime is measured and at what effective rate such income is taxed, which requires an estimate of how income will be apportioned among the various jurisdictions in order to arrive at an overall effective tax rate. Changes in the effective rate, including any effect on previously recorded deferred taxes, are recorded in the period in which the need for such change is identified.

Deferred income tax assets and liabilities are recognized for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Deferred tax assets are reduced by a valuation allowance for the amount that is, more likely than not, to not be realized. While estimated future taxable income and prudent and feasible tax planning strategies are considered in determining the amount of the valuation allowance, any change in the amount that is expected to ultimately be realized will be included in income in the period in which such a determination is reached.

#### ***Foreign Currency***

Transactions in foreign currencies are initially recorded at the exchange rate in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars using the closing exchange rate at the balance sheet date. The resulting exchange rate differences are included in the consolidated statement of income.

The assets and liabilities of Trans Mountain Pipeline (Puget Sound) LLC, which uses U.S. dollars as its functional currency, are translated to Canadian dollars at period-end exchange rates. Income and expense items are translated at weighted-average rates of exchange prevailing during the period and its equity accounts are translated by using historical exchange rates. The cumulative translation adjustments balance is included in the "Accumulated other comprehensive income" balance on the consolidated statement of equity and would be recognized in earnings upon the sale of Puget.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid short-term investments with original maturities of three months or less.

#### ***Restricted Cash***

Cash and cash equivalents that are restricted as to withdrawal or usage are presented as restricted cash on the consolidated balance sheet and are presented as non-current to the extent they are to be used to satisfy long-term obligations. Restricted cash consists of cash in the Trust that is to be used to satisfy the NEB LMCI liabilities as well as cash held as security for letters of credit. See Note 16.

#### ***Accounts Receivable***

Provisions for losses on accounts receivable due from customers are established if it is determined to be probable that all or part of the outstanding balance will not be collected. Collectability is reviewed regularly and an allowance or adjustments are established as necessary using the specific identification method. As of December 31, 2018, there was no allowance for doubtful accounts recorded.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Inventories***

Inventories, which consist of materials and supplies, are valued at weighted-average cost, and are periodically reviewed for physical deterioration and obsolescence.

#### ***Property, Plant and Equipment, net***

Property, plant and equipment is recorded at historical cost. Expenditures are capitalized for construction, expansion, major renewals and betterments. Maintenance and repair costs are expensed as incurred. Expenditures are capitalized for project development if they are expected to have future benefit. Interest on borrowed funds is capitalized for non-rate-regulated assets. For rate-regulated assets, 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. IDC and interest capitalized on non-rate-regulated assets are referred to herein as “capitalized debt financing costs” and result in a reduction in interest expense. Equity AFUDC is recognized as other income in “Equity allowance for funds used during construction” in the accompanying consolidated statement of income.

Depreciation is recorded on a straight line basis over the assets estimated useful lives. Depreciation rates for regulated assets are approved by the regulator.

Construction work in progress stops accumulating AFUDC and begins depreciating when the assets are available for their intended use.

#### **Long-lived Asset Impairments**

Long-lived assets and investments are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or investment may not be recoverable. Impairment losses are recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

If triggering events exist, a review is completed of the carrying value of the long-lived assets, including property, plant and equipment as well as other intangibles, and any appropriate impairments are recorded prior to conducting the goodwill impairment test. Because the impairment test for long-lived assets held in use is based on undiscounted cash flows, there may be instances where an asset or asset group is not considered impaired, even when its fair value may be less than its carrying value, because the asset or asset group is recoverable based on the cash flows to be generated over the estimated life of the asset or asset group. In the period from incorporation on May 28, 2018 to December 31, 2018 there were no impairments recorded to long-lived assets.

#### **Acquisitions and Goodwill**

Business combinations are accounted for using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair values at the date of acquisition.

The excess, if any, of the fair value of the consideration transferred over the estimated fair value of the net assets acquired is classified as goodwill. Goodwill is not subject to amortization but must be tested for impairment at least annually. Goodwill is tested for impairment by comparing the fair value of a reporting unit with its carrying amount. To the extent the carrying amount of the reporting unit exceeds its fair value a loss is recognized for the excess. Goodwill is also evaluated for impairment to the extent events or conditions indicate a risk of possible impairment. Generally, the evaluation of goodwill for impairment involves a quantitative test, although under certain circumstances an initial qualitative evaluation may be sufficient to conclude that goodwill is not impaired without conducting the quantitative test.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (*continued*)

#### **Restricted Investments**

Restricted investments are long-term investments in Canadian government and Federal agency bonds held in the Trust. The restricted long-term investments by the Trust are to be used solely for the purposes of satisfying future abandonment costs under the NEB's LMCI. As of December 31, 2018 there are \$54.8 million of Restricted investments held by the Trust. There are related LMCI long-term obligations of an amount equal to the restricted cash and restricted investments recorded in Regulatory liabilities on the accompanying consolidated balance sheet. The restricted assets are measured at fair value with offsetting adjustments recorded to the LMCI liabilities. 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. Such techniques represent a Level 2 fair value measurement. See Note 15 regarding the amounts recorded in Regulatory liabilities.

#### **Asset Retirement Obligations ("ARO")**

Liabilities are recorded for obligations related to the retirement and removal of long-lived assets used in the Corporation's businesses. Liabilities are recorded for the fair value of asset retirement obligations on a discounted basis when they are incurred and can be reasonably estimated, which is typically at the time the assets are installed or acquired. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, and the initial capitalized costs are depreciated over the useful lives of the related assets. The liabilities are eventually extinguished when the asset is taken out of service.

Due to the lack of information that can be derived from past experience or industry practice, the timing and scope of future removal and site restoration costs for the Corporation's assets is not reasonably determinable. Therefore, no ARO is recognized in these consolidated financial statements. Also see Note 15 regarding pipeline abandonment surcharges retained in the Trust.

#### **Environmental Matters**

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

Reviews of potential environmental issues and claims that could impact the Corporation's assets or operations are routinely conducted. These reviews assist in identifying environmental issues and estimating the costs and timing of remediation efforts. Environmental liabilities are also routinely adjusted to reflect changes in previous estimates. In making environmental liability estimations, the material effect of environmental compliance, pending legal actions against the Corporation, and potential third-party liability claims are considered. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in income in the period in which they are reasonably determinable. As of December 31, 2018, there was \$6.7 million accrued for outstanding environmental matters and are included in "Other current liabilities" and "Other deferred credits" within the accompanying Consolidated Balance Sheet.

## TRANS MOUNTAIN CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 3. Acquisition

On August 31, 2018, the Corporation closed the purchase of the Target Entities (the "Acquisition") for cash consideration of \$4.44 billion. The Acquisition has been accounted for as a business combination under the acquisition method of accounting as prescribed by ASC 805 *Business Combinations*.

The acquired assets and assumed liabilities are recorded at their estimated fair values at the date of acquisition as summarized below:

	<b>As of August 31, 2018</b>
<b>(In thousands of Canadian dollars)</b>	
Fair value of net assets acquired:	
Accounts receivable	76,349
Other current assets	22,930
Property, plant and equipment, net	4,349,243
Regulatory Assets	21,892
Deferred amounts and other assets	22,555
Restricted investments	49,151
Restricted cash	215
Accounts payable	(91,092)
Current regulatory liabilities	(106,077)
Other current liabilities	(4,883)
Deferred income taxes	(619,227)
Regulatory liabilities	(85,739)
Pension and post-employment benefits	(67,995)
Other deferred credits	(8,068)
	<b>3,559,254</b>
Goodwill	888,098
	<b>4,447,352</b>
<b>Purchase price:</b>	
Cash consideration, net of cash acquired	4,447,352
	<b>4,447,352</b>

Upon acquisition on August 31, 2018, the Target Entities held a non-revolving, unsecured construction credit facility in an aggregate principal amount of up to approximately \$1 billion to facilitate TMEP planning and construction work from May 29, 2018 until the close of the Acquisition. On the close of the Acquisition, there was \$559.8 million of outstanding borrowings under this facility. As an integrated part of closing the Acquisition, these amounts were repaid and this facility was terminated upon the Acquisition. The repayment of the facility was financed primarily using cash acquired in the Target Entities of \$502.2 million. As a result, the outstanding borrowings on this facility are not included in the net assets acquired.

## TRANS MOUNTAIN CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 3. Acquisition (*continued*)

The fair values of current assets including cash and cash equivalents, accounts receivable, and inventories and the fair values of current liabilities including credit facilities approximated their carrying values due to the short-term nature of these items. Other regulatory assets and liabilities arising from regulation by the NEB were also deemed to have fair values equal to their carrying values on acquisition.

The valuation methodologies described in ASC 820 *Fair Value Measurements and Disclosures* were applied to value the property, plant and equipment acquired. The fair value of the property, plant and equipment was determined using a market participant perspective based on discounted cash flows. The transaction was conducted with an assumption that a main purpose of the Acquisition is to build TMEP and included in the purchase price is \$1.1 billion of related construction work in progress. There is risk surrounding the completion of TMEP as the Federal Court of Appeal has halted construction and directed the NEB to conduct additional hearings and the Government of Canada to conduct additional consultations with Indigenous people affected by TMEP. There is uncertainty as to when permission may be granted to continue construction. In addition, the construction of TMEP, if resumed, will be faced with difficult terrain, risks of cost overruns and the potential for additional legal challenges. The discounted cash flow model used a scenario approach to incorporate the risks noted in relation to timing of project approval and potential delays in construction timing. Refer to Note 8 for additional details on key assumptions underlying cash flow estimates.

The purchase price resulted in goodwill of \$888.1 million, which is not deductible for tax purposes. The majority of goodwill on acquisition relates to the deferred income tax liability of approximately \$619.2 million as the deferred tax liability was recorded at an undiscounted basis rather than at its fair value. The remaining goodwill relates to economic benefits associated with the completion of TMEP, including the direct economic benefits that the completion of the TMEP creates for the existing pipeline system and changes in probabilities of construction due to court decisions that may affect the timing of construction.

There is a future contingent liability associated with the retirement and removal of the long-lived assets acquired. However, the timing and fair value is not reasonably determinable due to the lack of information that can be derived from past experience or industry practice. Therefore, no ARO is recognized in the fair value of the net assets acquired.

Acquisition related expenditures incurred in the period from incorporation on May 28, 2018 to December 31, 2018 were \$0.1 million.

During the fourth quarter, Goodwill decreased by \$81.2 million due to additional information obtained on the fair value of the net assets acquired and finalization of the purchase price, including a working capital adjustment. Deferred income taxes decreased by \$50.5 million, primarily due to additional information obtained on the fair value allocation amongst the components of property, plant, and equipment. Regulatory assets decreased by \$6.4 million due to additional information obtained on the fair values assigned to pension and related regulatory assets. The fair values of the assets and liabilities recognized are estimates and are subject to change within the measurement period, which is up to one year following the Acquisition date.

From the Acquisition close through December 31, 2018, the Target Entities have generated \$137.8 million in revenues and \$60.3 million in earnings before interest, taxes, and depreciation, which is defined as Revenues less Expenses other than Depreciation and amortization.

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**4. Revenue Recognition**

***Disaggregation of Revenues***

The following table presents revenues disaggregated by revenue source and type of revenue for each revenue source:

**For the period from incorporation on  
May 28, 2018 to December 31, 2018**

<b>(In thousands of Canadian dollars)</b>	
Transportation	
Fee-based services	98,950
Regulatory adjustment	17,415
Leases	20,417
Other	1,011
	<b>137,793</b>

***Contract Balances***

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. Contract assets are recognized in those instances where billing occurs subsequent to revenue recognition and the right to invoice the customer is conditioned on something other than the passage of time. For the period from incorporation on May 28, 2018 to December 31, 2018, there were no contract assets recognized. Contract liabilities are substantially related to capital improvements paid for in advance by certain customers, generally in the Corporation's non-regulated businesses, which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contracts.

The following table presents the activity in contract liabilities for the period from incorporation on May 28, 2018 to December 31, 2018:

<b>(In thousands of Canadian dollars)</b>	
Opening balance	-
Acquired on Acquisition	5,037
Transfer to Revenues	(197)
<b>Balance as of December 31, 2018</b>	<b>4,840</b>
Presented as:	
Other current liabilities ( <i>Note 11</i> )	212
Other deferred credits ( <i>Note 14</i> )	4,628
	<b>4,840</b>

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**4. Revenue Recognition (continued)**

**Revenue Allocated to Remaining Performance Obligations**

The following table presents the estimated revenue allocated to remaining performance obligations for contracted revenue that has not yet been recognized, representing the “contractually committed” revenue as of December 31, 2018 that will be invoiced or transferred from contract liabilities and recognized in future periods.

Year	Estimated Revenue
<b>(In thousands of Canadian dollars)</b>	
2019	30,677
2020	30,761
2021	30,677
2022	2,800
2023	213
Thereafter	3,778
<b>Total</b>	<b>98,906</b>

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

**5. Income Taxes**

Components of the income tax provision are as follows:

	<b>For the period from incorporation on May 28, 2018 to December 31, 2018</b>
<b>(In thousands of Canadian dollars)</b>	
Current tax expense (benefit)	1,870
Deferred tax expense	1,662
<b>Total Income tax expense</b>	<b>3,532</b>

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Income Taxes (continued)**

The difference between the statutory income tax determined at a combined Federal and Provincial rate of 27% and the effective income tax is summarized as follows:

**For the period from incorporation on  
May 28, 2018 to December 31, 2018**

<b>(In thousands of Canadian dollars)</b>	
Statutory income tax	3,529
Increase (decrease) as a result of:	
Non-deductible expenditures	107
Foreign tax rate differential	(146)
Other	42
<b>Total</b>	<b>3,532</b>

Deferred tax assets and liabilities result from the following:

**As of December 31, 2018**

<b>(In thousands of Canadian dollars)</b>	
Deferred tax assets	
Non capital losses	19,329
Reserves	17,845
<b>Total Deferred tax assets</b>	<b>37,174</b>
Deferred tax liabilities	
Property, plant and equipment	(655,954)
<b>Total deferred tax liabilities</b>	<b>(655,954)</b>
<b>Net non-current deferred tax liability</b>	<b>(618,780)</b>

*Expiration Periods for Deferred Tax Assets:* As of December 31, 2018, there were non-capital loss carryforwards of \$71.6 million, which will start to expire in 2037.

*Unrecognized Tax Benefits:* There were no unrecognized tax benefits as of December 31, 2018.

**6. Other Current Assets**

**As of December 31, 2018**

<b>(In thousands of Canadian dollars)</b>	
Prepaid expenses and deposits	5,326
Inventory	6,048
Regulatory assets (Note 15)	19,296
	<b>30,670</b>

## TRANS MOUNTAIN CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. Property, Plant and Equipment, net

As of December 31, 2018, the property, plant and equipment, net consisted of the following:

	Useful Life in Years	As of December 31, 2018
<b>(In thousands of Canadian dollars)</b>		
Pipelines	30-64	1,090,659
Tanks and Station Equipment	5-45	1,844,169
Other	5-40	17,575
Accumulated depreciation, depletion, and amortization		(33,138)
		2,919,265
Construction work in progress		1,301,614
Land		309,680
Property, plant and equipment, net		4,530,559

Depreciation, depletion, and amortization expense charged against property, plant and equipment for the period from incorporation on May 28, 2018 to December 31, 2018 was \$33.6 million.

As of December 31, 2018, construction work in progress related to TMEP was \$1.3 billion, of which the Corporation incurred approximately \$184.1 million after the Acquisition. These costs have been capitalized and are included in Property, plant and equipment, net on the accompanying consolidated balance sheet.

### 8. Goodwill

The changes in the carrying amount of goodwill for the period from incorporation on May 28, 2018 to December 31, 2018 were as follows:

<b>(In thousands of Canadian dollars)</b>	
Balance as of May 28, 2018	-
Goodwill acquired ( <i>Note 3</i> )	888,098
Balance as of December 31, 2018	888,098

A goodwill impairment test was performed as of December 31, 2018 and did not result in an impairment charge. The fair value of the reporting unit was estimated using an income-based approach based on the discounted cash flows. The estimate of fair value required the use of significant unobservable inputs representative of a Level 3 fair value measurement (as defined in Note 19), including assumptions related to timing of TMEP project approval and potential delays in construction timing, discount rate, and changes in cost estimates. The estimate of discounted cash flows was determined using a discount rate of approximately 9% which reflects the time value of money based on the risks associated with the Corporation's assets that have not otherwise been incorporated in the cash flow estimates. The estimate of discounted cash flows also considered probability-weighted scenarios of various in-service dates for the TMEP ranging from 2023 to 2026, including potential scenarios where TMEP would not be put in service due to construction not being completed.

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Goodwill (continued)**

Changes in these key assumptions would impact the fair value of the reporting unit and could result in impairment. For the period from incorporation to December 31, 2018, a 25 basis point increase in the assumed discount rate on expected cash flows would result in an impairment of approximately \$55 million and an increase in the cost estimates of TMEP by 10% would result in a reduction to the fair value of approximately \$235 million, but would not result in an impairment charge. Each year of delay in the TMEP construction results in a decrease in the fair value of the reporting unit by approximately \$300 million.

**9. Deferred Amounts and Other Assets**

	<b>As of December 31, 2018</b>
<b>(In thousands of Canadian dollars)</b>	
Prepaid construction advances	18,983
Pension and post-employment benefits (Note 13)	2,765
Other	2,777
	<b>24,525</b>

**10. Accounts Payable**

	<b>As of December 31, 2018</b>
<b>(In thousands of Canadian dollars)</b>	
Accounts payable trade	69,563
Property, plant and equipment accrued liabilities	51,124
	<b>120,687</b>

**11. Other Current Liabilities**

	<b>As of December 31, 2018</b>
<b>(In thousands of Canadian dollars)</b>	
Environmental accrual	4,019
Contract liabilities and other deferred revenue	1,820
Pension and post-employment benefits (Note 13)	326
	<b>6,165</b>

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. Debt**

***Fair Value of Financial Instruments***

The carrying value and estimated fair value of debt balances are disclosed below:

<b>December 31, 2018</b>	<b>Carrying value</b>	<b>Estimated fair value</b>
<b>(In thousands of Canadian dollars)</b>		
Total debt	3,113,600	3,113,600

Level 2 input values were used to measure the estimated fair value of the long term debt balance as of December 31, 2018. Long-term debt is due to parent. Refer to Note 16.

**13. Pension and post-employment benefits**

Included in the acquired liabilities of the Target Entities in Note 3 are Pension and post-employment benefits liabilities. TMCI sponsors pension plans covering eligible Canadian employees and retirees (the Legacy and TMCI plans). Legacy plans are closed to new participants. The plans include registered defined benefit pension plans (the Legacy plan includes a defined contribution component and is included in the following disclosures), and supplemental unfunded arrangements which provide pension benefits in excess of Income Tax Act limits. Post-employment benefits other than pension are also provided for qualified retired employees.

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

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

Other post-employment benefits ("OPEB") are provided to current and future retirees and their dependents, including depending on circumstance, supplemental health, dental and life insurance coverage. Medical benefits under those OPEB plans may be subject to deductibles, co-payment provisions, dollar caps and other limitations on the amount of employer costs, and the Corporation reserves the right to change these benefits. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determination, considering, among other factors, health care cost escalation. The most recent actuarial valuation for accounting purposes was completed as of December 31, 2018.

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Pension and post-employment benefits (continued)**

**Benefit Obligation, Plan Assets, and Funded Status**

The following table provides information about our pension and OPEB plans.

	Pension	OPEB
<b>(In thousands of Canadian dollars)</b>		
<b>Change in benefit obligation:</b>		
Benefit obligation as of May 28, 2018	-	-
Acquisition	256,380	18,122
Service cost	2,722	141
Interest cost	2,937	206
Actuarial gain	(4,595)	(571)
Benefits paid	(3,123)	(275)
Participant contributions	790	-
Expenses paid	(231)	-
Plan amendments	2,544	-
Benefit obligation as of December 31, 2018	257,424	17,623
<b>Change in plan assets:</b>		
Fair value of plan assets as of May 28, 2018	-	-
Acquisition	208,070	-
Return on plan assets	(6,150)	-
Employer contributions	3,199	275
Participant contributions	790	-
Benefits paid	(3,123)	(275)
Expenses paid	(231)	-
Fair value of plan assets as of December 31, 2018	202,555	-
<b>Funded Status – net liability as of December 31, 2018</b>	<b>54,869</b>	<b>17,623</b>
Presented as follows:		
Non-current benefit asset (a)	2,765	-
Current benefit liability (b)	326	-
Non-current benefit liability (c)	57,308	17,623
	<b>54,869</b>	<b>17,623</b>

(a) Amounts included in Deferred amounts and other assets on the consolidated balance sheet.

(b) Amounts included in Other current liabilities on the consolidated balance sheet.

(c) Amounts included in Pension and post-employment benefits on the consolidated balance sheet.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 13. Pension and post-employment benefits *(continued)*

#### *Components of Accumulated Other Comprehensive Income*

The following table details the amounts of pre-tax accumulated other comprehensive loss related to the pension and OPEB plans, which are included on the accompanying consolidated balance sheet as of December 31, 2018, excluding \$1.1 million in accumulated other comprehensive loss for amounts recoverable through TMPL tolls which are accounted for as regulatory assets or liabilities.

	Pension	OPEB
<b>(In thousands of Canadian dollars)</b>		
Unrecognized net actuarial loss (gain)	4,666	(571)
Unrecognized prior service cost	2,544	
Accumulated other comprehensive loss (gain)	<b>7,210</b>	<b>(571)</b>

Actuarial gains and losses and prior service costs deferred in accumulated other comprehensive income are amortized into income over either the period of expected future service of active participants, or over the expected future lives of inactive plan participants. It is anticipated that approximately \$0.2 million of pre-tax accumulated other comprehensive loss will be recognized as part of the net periodic benefit cost in 2019 which relates to unrecognized prior service cost. Pension and OPEB benefits expense associated with labour attributable to TMPL's regulated operations is considered a flow through cost under the terms of the Incentive Toll Settlement ("ITS").

#### *Plan Assets*

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

As of December 31, 2018, the target asset allocation for the Legacy plans was 90% fixed income and 10% equity. The target allocation for the TMCI plans were 45% fixed income and 55% equity.

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

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

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Pension and post-employment benefits (continued)**

Listed below are the fair values of the pension plans' assets that are recorded at fair value by class and categorized by fair value measurement as of December 31, 2018:

<b>Pension Assets</b>	
<b>(In thousands of Canadian dollars)</b>	
<b>Measured within Level 1 of fair value hierarchy</b>	
Cash	5,468
Mutual funds (a)	197,087
	<b>202,555</b>

(a) Mutual funds were invested in 70% fixed income and 30% equity in the period from incorporation on May 28, 2018 to December 31, 2018.

**Expected Payment of Future Benefits and Employer Contributions**

Following are the expected future benefit payments as of December 31, 2018:

	<b>Pension</b>	<b>OPEB</b>
<b>(In thousands of Canadian dollars)</b>		
2019	9,893	823
2020	10,244	847
2021	10,639	865
2022	10,996	880
2023	11,383	897
2024-2028	61,327	4,744

In 2019, we expect to contribute approximately \$10.0 million and \$0.8 million to our pension and OPEB plans, respectively.

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Pension and post-employment benefits (continued)**

**Actuarial Assumptions**

Benefit obligations and net benefit cost are based on actuarial estimates and assumptions. The following table details the weighted-average actuarial assumptions used in determining the benefit obligation and net benefit costs of the pension and OPEB plans as of December 31, 2018:

	<b>Pension</b>	<b>OPEB</b>
Assumptions related to benefit obligations:		
Discount rate	3.81%	3.82%
Rate of compensation increase	4.00%	N/A
Assumptions related to benefit costs:		
Discount rate for benefit obligations	3.69%	3.69%
Discount rate for interest on benefit obligations	3.51%	3.44%
Discount rate for service cost	3.76%	3.79%
Discount rate for interest on service cost	3.64%	3.76%
Expected return on plan assets	4.24%	N/A
Rate of compensation increase	4.00%	N/A

Actuarial estimates for the OPEB plan assumed a weighted-average annual rate of increase in the per capita cost of covered health care benefits of 5.55%, gradually decreasing to 4.50% by the year 2035. Assumed health care cost trends have a significant effect on the amounts reported for OPEB plans. A one-percentage point change in assumed health care cost trends would have the following effects:

<b>(In thousands of Canadian dollars)</b>	
One-percentage point increase:	
Aggregate of service cost and interest cost	50
Accumulated post-employment benefit obligation	1,210
Net periodic benefit cost	50
One-percentage point decrease:	
Aggregate of service cost and interest cost	(37)
Accumulated post-employment benefit obligation	(968)
Net periodic benefit cost	(37)

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Pension and post-employment benefits (continued)**

**Actuarial Assumptions (continued)**

A one-percentage point change in discount rate would have the following effects on the amounts reported for OPEB plans:

<b>(In thousands of Canadian dollars)</b>	
One-percentage point increase:	
Accumulated post-employment benefit obligation	(2,208)
Net periodic benefit cost	12
One-percentage point decrease:	
Accumulated post-employment benefit obligation	2,786
Net periodic benefit cost	(2)

**Components of Net Benefit Cost and Other Amounts Recognized in Other Comprehensive Income**

The components of net benefit cost and other amounts, excluding \$1.1 million in amounts recoverable through tolls, recognized in pretax other comprehensive loss related to the pension and OPEB plans are as follows:

	<b>Pension</b>	<b>OPEB</b>
<b>(In thousands of Canadian dollars)</b>		
<b>Components of net benefit cost:</b>		
Service cost	2,722	141
Interest cost	2,937	206
Expected return on plan assets	(3,113)	-
Net benefit cost	2,546	347
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive loss:</b>		
Net loss (gain) arising during the period	4,666	(571)
Prior service cost arising during the period	2,544	-
Total recognized in total other comprehensive loss (income)	7,210	(571)
Total recognized in net benefit cost and other comprehensive loss (income)	9,756	(224)

**14. Other Deferred Credits**

**December 31, 2018**

<b>(In thousands of Canadian dollars)</b>	
Contract liabilities and other deferred revenue	6,692
Environmental liabilities	2,633
	9,325

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 15. Accounting for Regulatory Activities

The following table summarizes the regulatory asset and liability balances. The current regulatory assets are included in "Other current assets" within the Consolidated Balance Sheet.

**As of December 31, 2018**

<b>(In thousands of Canadian dollars)</b>	
Under-collections of transportation revenue and capacity incentives	19,296
<b>Total current regulatory assets (Note 6)</b>	<b>19,296</b>
Bulk oil cargo fee ("BOCF") - TMEP	24,568
<b>Total non-current regulatory assets</b>	<b>24,568</b>
<b>Total regulatory assets</b>	<b>43,864</b>
Westridge dock premium	95,338
Over-collections of transportation revenue and capacity incentives	2,992
Redirect fee	2,379
Bulk oil cargo fee ("BOCF")	1,986
<b>Total current regulatory liabilities</b>	<b>102,695</b>
Westridge dock premium	156,309
Pipeline abandonment surcharge	56,191
<b>Total non-current regulatory liabilities</b>	<b>212,500</b>
<b>Total regulatory liabilities</b>	<b>315,195</b>

#### *Under/Over-collections of transportation revenue and capacity incentives*

For 2018, tolls were governed by the terms of the 2016 - 2018 Incentive Toll Settlement ("ITS"). The ITS is a negotiated settlement between TMP ULC, its shippers, and the Canadian Association of Petroleum Producers, as approved by the NEB. Under the terms of the ITS, tolls are designed to recover an NEB-approved rate of return on capital, an allowance for income taxes, and estimated operating expenses and depreciation for the upcoming year. Differences between expected and actual toll proceeds cause a transportation revenue variance (an under or over collection of revenue) in a given year. These under or over collections are recorded as regulatory assets or liabilities, respectively, and they are collected from or refunded to shippers via toll adjustments in subsequent years.

#### *Bulk oil cargo fee ("BOCF")*

The BOCF is intended to provide the Western Canada Marine Response Corporation ("WCMRC") with funds for spill response and is collected from shippers based on volume of commodities moved through the WCMRC's response area. TMP LP remits the BOCF related to traffic through the Westridge Marine Terminal (the "dock") to WCMRC and collects it from TMPL shippers through a tariff provision.

On January 19, 2016, the NEB approved an alternative funding mechanism for WCMRC to enhance spill response capability for expected traffic increases related to the TMEP (the "TMEP BOCF"). The TMEP BOCF is remitted to WCMRC by TMP LP and is to be recovered through TMPL tolls in the 5 years after TMEP in-service.

## **TRANS MOUNTAIN CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **15. Accounting for Regulatory Activities (continued)**

##### *Westridge dock premium*

On April 12, 2006, the NEB approved the inclusion of a Westridge dock premium in the TMPL tariff structure as a means of allocating capacity to shippers at the Westridge dock. The premiums collected do not result in revenue, and are recorded as regulatory liabilities because they are refundable to shippers in future periods through tariff reductions incorporated into the following year's toll filings. The timing of such tariff reductions vary depending on the toll filing which is agreed with the shippers and approved annually by the NEB, but is generally one year or more. Customer demand for capacity at the dock determines the amount of premiums collected and therefore, the amount added to the regulatory liability can vary year to year.

##### *Redirect fee*

Shippers are charged an alternate delivery point fee for deliveries to destinations other than the designated delivery point upon nomination. These fees do not result in revenue, because they are collected on behalf of the shippers merely as a means of organizing scheduling and are not compensation for providing services. These collections are recorded as regulatory liabilities and are refunded to shippers via toll adjustments in subsequent years.

##### *Pipeline abandonment surcharges*

Amounts represent collection of surcharges related to future pipeline abandonment which is retained in the Trust. The Trust was established in 2015 in the Province of Alberta to set aside funds collected through pipeline abandonment surcharges over a collection period established by the NEB. The use of amounts in the Trust is restricted to pay future abandonment costs.

#### **16. Transactions with Related Parties**

##### ***Affiliate Activities***

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.

During the period from incorporation on May 28, 2018 to December 31, 2018, \$0.2 million in management, legal, accounting and other administrative costs from TMP Finance were recorded in "Administration" in the accompanying consolidated statement of income. See Long-term debt from parent below for interest expense terms.

##### ***Accounts Payable***

Accounts payable includes \$0.2 million due to parent. Amounts are non-interest bearing and are due on demand.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. Transactions with Related Parties (continued)

#### Loans from Parent

TMC signed a credit agreement with TMP Finance dated August 29, 2018 (the "Credit Agreement"). Under the terms of the Credit Agreement, three separate credit facilities (the "Facilities") were established:

- The "Acquisition Facility", a non-revolving term loan facility, to be used to fund the acquisition of the Target Entities and for working capital and operating requirements of the Target Entities, with the limit available for 150 days from the Credit Agreement date. This facility matures on the earlier of the date TMC ceases to own more than 50% of the equity of any of the Target Entities, the date the pipeline assets are sold to a third party, or 5 years following the date of the Credit Agreement.
- The "Construction Facility", a revolving construction credit facility, to be used to repay outstanding debt in the Target Entities at Acquisition, and for TMEP spending in 2018 or later. This facility matures on the earlier of the date TMC ceases to own more than 50% of the equity of any of the Target Entities, the date the pipeline assets are sold to a third party, or one year following the date of the Credit Agreement, subject to extension for an additional year under certain conditions, including ministerial approvals.
- The "NEB Facility", a revolving credit facility. The NEB requires operators of major pipelines to demonstrate a minimum of \$1 billion of financial capacity to respond to spills or other emergencies. For TMPL, this requirement has been met through a combination of insurance coverage and a \$500 million line of credit available from Kinder Morgan Inc. The NEB Facility is designed to allow TMC to collateralize a letter of credit to Kinder Morgan Inc., securing the existing line of credit, until such time as the NEB approves replacement of the line of credit from Kinder Morgan Inc. with a new financial arrangement. The NEB facility will expire at the time of such NEB approval.

The credit facility limits, undrawn amounts, and outstanding borrowings on the Facilities as of December 31, 2018 are as follows. There are no required payments on the Facilities until maturity.

Credit facility	Credit facility limit	Undrawn amount	Outstanding borrowings
<b>(In thousands of Canadian dollars)</b>			
Acquisition facility <sup>(1)</sup>	5,000,000	2,493,650	2,506,350
Construction facility	1,000,000	892,750	107,250
NEB facility	500,000	-	500,000
			3,113,600
Current loans from parent			607,250
Non-current loans from parent			2,506,350
			3,113,600

(1) While the Acquisition facility limit was \$5 billion as of December 31, 2018, the specified purpose of the funds was limited to the Acquisition and the availability period ended subsequent to December 31, 2018. No additional borrowings may be drawn on this facility.

As of December 31, 2018, the \$500 million drawn on the NEB Facility is held as restricted cash to backstop the \$500 million letter of credit issued to Kinder Morgan Inc., which secures a \$500 million line of credit, issued to TMP ULC in order to satisfy the NEB financial capacity requirements, as noted above. There are also a total of \$48.2 million of letters of credit issued. The funding to back stop the letters of credit was borrowed under the Credit Agreement through Acquisition Facility draws and equity contributions and the related cash is presented as Restricted cash on the accompanying consolidated balance sheet.

The Facilities have an interest rate of 5% and from the period from incorporation on May 28, 2018 to December 31, 2018, \$51.7 million of interest expense was recorded in "Interest expense, net of capitalized debt financing costs" in the accompanying consolidated statement of income. Commitment fees of \$0.8 million were also incurred in the period.

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Transactions with Related Parties (continued)**

**Equity Contributions**

TMC signed a funding agreement with TMP Finance dated August 30, 2018 (the "Funding Agreement") under which cash proceeds of each funding request are comprised of 55% debt funding in accordance with the Credit Agreement and the remaining 45% of cash proceeds are comprised of equity funding. Pursuant to the Funding Agreement and concurrent with the borrowings against the Facilities on August 31, 2018, TMP Finance subscribed to 2,064,150 common shares in the Corporation ("Common Shares") at a price of \$1,000 per Common Share for aggregate gross proceeds of \$2.1 billion. Subsequent to the funding on August 31, 2018 and concurrent with borrowings against the Facilities, TMP Finance contributed additional capital of \$74.3 million.

**17. Interest Expense, net of capitalized debt financing costs**

**For the period from incorporation on  
May 28, 2018 to December 31, 2018**

<b>(In thousands of Canadian dollars)</b>	
Interest expense on loan from parent	51,733
Commitment fees on loan from parent	809
Capitalized debt financing costs	(13,628)
Interest income	(4,431)
	34,483

**18. Change of Operating Assets and Liabilities**

The table below represents the changes in operating non-cash working capital for the period from incorporation on May 28, 2018 to December 31, 2018.

**(Increase)/ Decrease in Operating  
Working Capital**

<b>(In thousands of Canadian dollars)</b>	
Accounts receivable	(29,290)
Other current assets	(7,710)
Deferred charges and other assets	(1,485)
Regulatory assets	(2,676)
Accounts payable	36,833
Current regulatory liabilities	(3,382)
Other current liabilities	1,269
Other deferred credits	1,240
Pension and post-employment benefits	(799)
Regulatory liabilities <sup>(1)</sup>	125,972
	119,972

(1) The increase in regulatory liabilities is primarily related to additional Westridge dock premiums collected. Refer to Note 15.

# **TRANS MOUNTAIN CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **19. Risk Management and Financial Instruments**

#### ***Credit Risk***

The Corporation is exposed to credit risk on Cash and cash equivalents and Accounts receivable, which is the risk that a customer or other counterparty will fail to perform an obligation or settle a liability, resulting in a financial loss to the business. A majority of the Corporation's customers operate in the oil and gas exploration and development, or energy marketing or transportation industries. There may be exposure to long-term downturns in energy commodity prices, including the price for crude oil, or other credit events impacting these industries and customers' ability to pay for services.

The exposure to credit risk is limited 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.

Cash and cash equivalents are held with major financial institutions, minimizing the risk of non-performance by counter parties.

#### ***Foreign Currency Transactions and Translation***

The Corporation is exposed to foreign currency risk from foreign currency transaction gains or losses resulting from a change in exchange rates between the functional currency of an entity and the currency in which a transaction is denominated. Unrealized and realized gains and losses generated from these transactions are recorded in Foreign exchange (loss) gain in the accompanying consolidated statement of income. Management does not believe that the exposure to foreign currency transactions is significant.

#### ***Liquidity risk***

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations, including commitments, as they become due. Liquidity risk is managed by ensuring access to sufficient funds to meet obligations. Cash requirements are forecasted 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 Long-term debt from parent. See Note 16. Given the significant expenditures expected in connection with the TMEP, TMC will require the continued availability of future financing from TMP Finance in order to proceed with the project.

#### ***Interest rate risk***

The Corporation does not have significant exposure to interest rate risk as loans from its parent are at fixed interest rates and there were no floating interest rate instruments throughout the period or at the balance sheet date.

#### ***Significant shippers***

For the period from the date of incorporation on May 28, 2018 to December 31, 2018, there were four customers that each individually represented between 10-14% of total revenue.

#### ***Fair value measurements***

Financial assets or liabilities measured at fair value are not carried on a recurring basis, other than the Trust described in Note 15. The fair value of other financial instruments not measured at fair value is disclosed. The fair value of financial instruments reflects management's best estimate of market value based on generally accepted valuation techniques or models and are supported by observable market prices and rates. When such values are not available, a discounted cash flow analysis from applicable yield curves based on observable market inputs is used to estimate fair value.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 19. Risk Management and Financial Instruments (*continued*)

#### *Fair value of financial instruments*

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The fair value of the financial instruments is classified according to the following hierarchy based on the observable inputs used to value the instrument:

- Level 1— inputs to the valuation methodology are quoted prices unadjusted for identical assets or liabilities in active markets;
- Level 2— inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (i.e. derived from prices); and
- Level 3 — inputs to the valuation model are not based on observable market data.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment considering factors specific to an asset or liability and may affect placement within the fair value hierarchy. Level 1 and Level 2 are used for the fair value of cash and cash equivalents and restricted investments, respectively. Due to the short-term or on demand nature of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable, the carrying amounts for these balances are determined to approximate fair value.

### 20. Litigation, Commitments and Contingencies

#### *Legal proceedings*

The Corporation is subject to various legal and regulatory actions and proceedings which arise in the normal course of business. While the final outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolution of such actions and proceedings will not have a material impact on the Corporation's financial position or results of operations. When it is determined a loss is probable of occurring and is reasonably estimable, an undiscounted liability for such contingencies is accrued based on the best estimate using information available at that time. If the estimated loss is a range of potential outcomes and there is no better estimate within the range, the amount is accrued at the low end of the range. Contingencies are disclosed where an adverse outcome may be material, or in the judgment of management, it is concluded that the matter should otherwise be disclosed. There were accruals of \$0.8 million for outstanding legal proceedings as of December 31, 2018.

#### *TMEP Litigation*

The TMEP has been subject to various legal actions, including Federal Court of Appeal proceedings to challenge the federal government's approval of the TMEP, *Tsleil-Waututh Nation et al. v. Attorney General of Canada et al.* ("*Tsleil-Waututh*").

On April 25, 2018, the B.C. Lieutenant Governor in Council referred a question to the B.C. Court of Appeal regarding the constitutionality of draft legislation seeking to impose a requirement for a "hazardous substance permit" on all persons having possession, charge or control of a certain volume of "heavy oil" in the course of operating an industry, trade or business. The draft legislation, if enacted, would likely apply to TMEP. On June 18, 2018, the Court granted 20 persons participatory status in the reference matter, including Trans Mountain Pipeline ULC. The Court has scheduled a hearing on the referenced matter to begin on March 18, 2019. As a result of the filing or resolution of this or any related reference matter, among other potential impacts, there may be significant changes to TMEP plans, further obligations or restrictions may be imposed or TMEP may be stopped altogether.

On August 30, 2018, the Federal Court of Appeal ("FCA" or "the Court") released its judgment in the matter of *Tsleil-Waututh*. In its decision, the Court quashed the Order in Council approving the TMEP and remitted the matter to the Governor in Council to remedy two areas: the scope of the NEB's review, and Phase III consultation of Indigenous peoples. On the scope of the NEB's review, the Court decided that the NEB's review of the TMEP unjustifiably excluded the species at risk impacts from marine shipping and tanker traffic related to the project. The Court determined the Governor in Council must require the NEB to reconsider its recommendation and related conditions. The Government of Canada established a timeline for this review to be completed by February 22, 2019. See Note 22.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 20. Litigation, Commitments and Contingencies (*continued*)

#### *TMEP Litigation (continued)*

On Phase III consultation of Indigenous peoples, the Court determined that the Government of Canada must re-do its Phase III consultation, and that only after that consultation is completed and any accommodation made (if accommodation is deemed necessary) can the TMEP again be submitted to the Governor in Council for approval. It is uncertain, however, if the Governor in Council will grant its approval and issue a new Order in Council or, in the event the Governor in Council 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.

In addition to the judicial reviews of the NEB recommendation report and Governor in Council's order at the Federal Court of Appeal, two judicial review proceedings were commenced at the Supreme Court of B.C. by the Squamish Nation and the City of Vancouver. The petitions alleged a duty and failure to consult or accommodate First Nations, and generally, among other claims, that the Province did not conduct a proper provincial environmental assessment before issuing the Provincial Environmental Assessment Certificate ("EAC"). The Squamish and Vancouver judicial review proceedings were heard in October and November 2017, respectively, and on May 24, 2018, the court dismissed both proceedings. Appeals to the BC Court of Appeal ("BCCA") were filed by Vancouver and Squamish respectively on June 22, 2018 and June 25, 2018. The Squamish appeal hearing is scheduled for April 10 and April 11, 2019. The Vancouver appeal hearing has not yet been set, but is expected to be heard in Q2 2019. The decisions for both are expected to be issued between Q4 2019 and Q2 2020. It is unclear at this time how the Federal Court of Appeal decision in *Tsleil-Waututh* may affect these proceedings.

#### **Commitments**

##### *Capital Commitments*

As of December 31, irrevocable commitments for purchases of property, plant, and equipment were \$319.4 million, which consists primarily of commitments related to TMEP.

##### *Leases*

The table below depicts future gross minimum rental commitments under operating leases as of December 31, 2018:

	<b>Commitment</b>
<b>(In thousands of Canadian dollars)</b>	
2019	5,286
2020	4,684
2021	4,144
2022	2,817
2023	1,692
Thereafter	95,606
<b>Total minimum payments</b>	<b>114,229</b>

The remaining terms on the operating leases range from one to 59 years. Total lease and rental expenses for the period from incorporation on May 28, 2018 to December 31, 2018 were \$1.1 million.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 21. Recent Accounting Pronouncements

#### ***Adoption of New Accounting Pronouncements***

##### *ASU No. 2017-04*

On January 26, 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment (Topic 350)" to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The Corporation early adopted this standard effective for the period from incorporation on May 28, 2018 to December 31, 2018 with no impact to the consolidated financial statements. Refer to Note 8.

#### ***Accounting Standards Updates ("ASU") Not Yet Adopted as of December 31, 2018***

##### *Topic 842*

On February 25, 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*." This ASU establishes a comprehensive new lease accounting model, which requires substantially all leases, with the exception for leases with a term of one year or less, to be recorded on the balance sheet as a lease liability measured as the present value of the future lease payments with a corresponding right-of-use asset. The ASU also requires disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases.

On January 25, 2018, the FASB issued ASU No. 2018-01, "*Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*." This ASU permits an entity to elect a transition practical expedient to not apply the provisions of ASU No. 2016-02 to land easements that existed or expired before the effective date of ASU No. 2016-02 and that were not previously accounted for as leases under the previous lease guidance in ASC Topic 840 "Leases."

On July 30, 2018, the FASB issued ASU No. 2018-11, "*Leases (Topic 842): Targeted Improvements*." This ASU permits an entity to elect an additional transition method to the existing modified retrospective transition requirements. Under the new transition method, an entity could adopt the provisions of ASU No. 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with the previous lease guidance in ASC Topic 840. ASU No. 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present.

On December 19, 2018, the FASB issued ASU No. 2018-20, "*Leases (Topic 842): Narrow-Scope Improvements for Lessors*." This ASU provides an accounting policy election that permits lessors to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. The ASU also provides additional requirements for the treatment of certain lessor costs and clarifies the accounting by lessors for variable payments that relate to both a lease component and a non-lease component.

ASU No. 2016-02 is effective as of January 1, 2020, with early adoption permitted. The Corporation plans to early adopt this new standard effective on January 1, 2019 and use the effective date as the date as our date of initial application. Consequently, comparative financial information will not be restated. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The new standard provides a number of optional practical expedients in transition. The Corporation expects to elect the 'package of practical expedients', which permits an entity not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs.

Management is in the process of reviewing the Corporation's lease agreements in light of Topic 842 guidance, evaluating internal control changes to support management in the accounting for and disclosure of leasing activities. While management is still in the process of completing an implementation evaluation of ASU No. 2016-02, currently the most significant changes expected to the consolidated financial statements relate to the recognition of a lease liability and offsetting right-of-use asset in the consolidated balance sheet for operating leases.

## **TRANS MOUNTAIN CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **21. Recent Accounting Pronouncements (continued)**

*ASU No. 2016-13 and 2018-19*

On June 16, 2016, the FASB issued ASU No. 2016-13, *“Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.”* This ASU modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses.

ASU 2018-19, *“Codification Improvements to Topic 326, Financial Instruments – Credit Losses”*, was issued in November 2018 to amend the relevant codification, align the implementation date for nonpublic entities’ annual financial statements with the implementation date for their interim financial statements, and clarify the scope of the previous guidance. The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20 and should instead be accounted for in accordance with Topic 842, Leases. ASU No. 2016-13 as amended by ASU 2018-19 will be effective for fiscal years beginning after December 15, 2020 including interim periods within those fiscal years. Earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.

*ASU No. 2018-14*

In August 2018, the FASB issued ASU No. 2018-14, *“Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.”* This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-employment plans. ASU No 2018-14 will be effective as of January 1, 2022, and earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.

#### **22. Subsequent events**

Subsequent events have been evaluated from December 31, 2018 to the date the consolidated financial statements were available for issue on March 4, 2019.

On February 22, 2019, the NEB released its reconsideration report, in which the NEB concluded that the TMEP is in the Canadian public interest. The NEB recommended that the GIC approve the TMEP subject to 156 conditions, which are measures that the NEB can enforce upon TMPL and the TMEP under its authority as regulator. The NEB’s report also contained 16 recommendations to the GIC, which relate to items outside the scope of the NEB’s authority and beyond the control of TMPL or the TMEP, but within the authority of the GIC. Management believes the conditions are reasonable and the Corporation is working to address the conditions and recommendations included in the report. At this time, it is not possible to determine the financial impact of these conditions and measures.