



TRANSMOUNTAIN

TRANS MOUNTAIN CORPORATION

MANAGEMENT REPORT

For the three months ended
March 31, 2019

May 23, 2019

This Management Report (“Report”) should be read in conjunction with the condensed consolidated financial statements and notes of Trans Mountain Corporation for the three months ended March 31, 2019 (“TMC’s Financial Statements”), which have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). All financial measures in this Report are presented in Canadian dollars unless otherwise indicated.

This Report should also be read in conjunction with our December 31, 2018 audited Consolidated Financial Statements and notes and our December 31, 2018 Management Report.

Throughout this Report, the terms “we”, “us”, “our”, “TMC”, and “the Company” refer to Trans Mountain Corporation and its subsidiaries. Capitalized and abbreviated terms and acronyms used but not otherwise defined in this Report are defined in our December 31, 2018 Management Report.

Forward-looking information

In certain sections of this Report we discuss our business strategy and outlook, and comment on financial resources, capital spending, and other expectations of management. This is forward-looking information. We disclose forward-looking information to help the reader understand management's assessment of our future plans and financial outlook. Statements that are forward-looking generally include words like anticipate, expect, believe, may, will, should, estimate, or other similar words.

Forward-looking statements do not guarantee future performance. Actual results could be different due to incorrect assumptions, risks or uncertainties related to our business, or events that happen after the date of this Report.

Our forward-looking information is based on assumptions and expectations and is subject to risks and uncertainties, including:

Assumptions

- expected operating and financial results including planned changes in our business
- expectations or projections about strategies and goals for growth and expansion
- expected cash flows and availability of funds from our immediate parent and financing source, Canada TMP Finance Ltd
- potential costs, schedules and completion dates for planned projects, including projects under construction, permitting and in development
- planned and unplanned outages of our pipelines and related assets
- integrity and reliability of our assets
- expected outcomes relating to regulatory processes and legal proceedings, and potential changes in laws and regulations
- the expected impact of future accounting changes, commitments and contingent liabilities

- expected industry, market and economic conditions.
- future demand for space on our pipeline systems
- inflation rates and commodity prices
- interest, tax and foreign exchange rates

Risks and uncertainties

- our ability to successfully implement our strategic priorities and whether they will yield the expected financial and operational results and benefits
- the operating performance of our pipelines and related assets
- competitive factors in the pipeline sector
- the available supply and price of energy commodities
- performance and credit risk of our counterparties
- regulatory and legal decisions and outcomes, and potential changes in laws and regulations
- changes in market commodity prices, the political environment & economic conditions in Canada and globally
- construction execution and completion of capital and operations projects, including reliance on the availability, performance and expertise of a suitably skilled and qualified workforce and third party contractors
- costs for labour, equipment and materials
- interest, tax and foreign exchange rates
- cyber security, confidentiality, and data integrity
- technological developments
- natural hazards (floods, landslides, seismic activity, etc.)

Forward-looking information should not be used for anything other than its intended purpose, as actual results could vary.

Additional information about our business and the related risks is included in our December 31, 2018 Management Report.

Our Mandate

TMC's mandate is to operate TMPL, and to complete the related expansion project, if approved, in a timely and commercially viable manner.

TMC operates within the regulations of the NEB in a commercial manner, within compliance of environmental standards and expectations. If it is approved, TMC will complete the TMEP in alignment with the Government's direction and priority to provide increased access to international markets for Canadian crude oil producers.

2019 First Quarter Financial Highlights

Non-GAAP measures

We make use of certain financial measures that do not have a standardized meaning under U.S. GAAP because we believe they improve management's ability to evaluate our operating performance and compare results between periods. These are known as non-GAAP measures, and may not be similar to measures provided by other entities. Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization and equity AFUDC) is a non-GAAP measure we use to evaluate our operating performance absent the impact of financing decisions, non-cash depreciation and amortization, and non-cash equity AFUDC.

Comparable measures

This Report reflects financial results for the three months ended March 31, 2019. As TMC was incorporated on May 28, 2018 and acquired the Trans Mountain Entities on August 31, 2018, comparable prior year figures are not available.

Operating Results Highlights – for the three months ended March 31, 2019

(Millions of Canadian dollars)	TMC's Financial Statements under U.S. GAAP	As disclosed in CDEV's Financial Statements under IFRS*
Revenues	99.4	100.3
Adjusted EBITDA	48.5	48.9
Net Income / (loss)	12.4	(9.6)
Cash flow from operating activities	108.5	105.4

* The adjustments made by CDEV to consolidate the financial results of TMC into CDEV's Consolidated Financial Statements are detailed in the notes to CDEV's Consolidated Financial Statements.

For the three months ended March 31, 2019, TMC revenues were \$99.4 million, composed of transportation revenue of \$84.1 million, lease revenue of \$14.5 million, and other revenue of \$0.9 million. Transportation revenue of \$84.1 million included \$74.1 million generated by TMPL and \$10.0 million generated by Puget.

Total throughput on TMPL averaged approximately 311,000 bpd, and throughput to Washington State on Puget averaged approximately 203,000 bpd for the three months. Pipeline capacity throughout the three months was fully utilized, and TMPL was in apportionment every month. Adjusted EBITDA for the three months of \$48.5 million included revenues of \$99.4 million, less pipeline operating costs of \$23.7 million, salaries and benefits costs of \$16.2 million, property and business taxes of \$8.6 million, and administration costs of \$2.5 million.

Of the \$23.7 million of pipeline operating costs incurred in the three months, approximately \$8.1 million related to pipeline inspections and maintenance, right of way maintenance, and other

routine operating costs, approximately \$11.6 million related to electricity costs, and approximately \$4.0 million related to costs of environmental protection, fire, safety, and security, insurance, and regulatory oversight costs.

Net income for the three months of \$12.4 million included Adjusted EBITDA of \$48.5 million, less depreciation and amortization of \$25.0 million, plus equity AFUDC of \$17.6 million, less interest and other expenses of \$24.4 million and income tax expense of \$4.3 million.

Cash flow from operating activities of \$108.5 million was primarily driven by collections of trade and other accounts receivable totalling \$63.5 million, an increase in interest payable of \$38.0 million, a decrease in accounts payable of \$20.0 million, and an increase in regulatory liabilities of \$13.8 million, largely due to collections of Westridge dock premiums in the three months. The Westridge dock premiums are a mechanism of the ITS that acts as a means of allocating capacity to shippers at the Westridge Marine Terminal. 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. The timing of such tariff reductions varies depending on the toll filing which is agreed with the shippers and approved annually by the NEB. The period of recovery can vary 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 from period to period.

Capital spending – for the three months ended March 31, 2019

(Millions of Canadian dollars)	
Maintenance capital	4.6
Non-TMEP expansion capital	-
TMEP*	149.5
Total	154.1

* As disclosed in CDEV's Financial Statements under IFRS, the capital expenditures on TMEP were \$129 million due to the value of capitalized interest being lower than the regulator approved rates for the debt and equity components of AFUDC.

Capital spending in the Trans Mountain Entities for the three months ended March 31, 2019 was largely focused on the TMEP. A total of \$149.5 million was spent on TMEP, related to safely standing down construction activities following the August 30, 2018 FCA ruling, and continued work in areas not impacted by the FCA ruling such as planning and detailed engineering and design.

Maintenance capital spending for the three months totalled \$4.6 million, driven by mainline repairs (\$2.6 million), emergency flow restriction devices and valves (\$0.3 million), security upgrades (\$0.2 million). The remaining spending of approximately \$1.5 million related to a number of smaller projects including tank inspections and repairs, containment upgrades, and natural hazard mitigation.

Environment, Health and Safety

As part of our Environment Health and Safety program TMC tracks its performance against its own previous three year average and that of the pipeline industry in the areas of vehicle safety, worker safety, and releases of the commodities we transport. Tracking against our own historical performance drives continuous improvement which is an integral part of all our programs and comparing against industry provides a means to assess the effectiveness of our operations against our peers.

For the three months ended March 31, 2019, all of TMC's health and safety measures outperformed industry rates, and all were less than TMC's own three year average. The Company had zero avoidable vehicle accidents, better than both our three year average of 0.45 and the industry three year average of 1.42 incidents per million miles driven. Our employee Total Recordable Injury Rate ("TRIR") for the three months was also zero, lower than our three year average of 0.41 and industry's of 0.55. We also had zero employee lost time incidents, as compared to our three year average of 0.09 and industry average of 0.1. The TRIR for contractor injuries in the quarter was also zero, lower than our average of 0.88 and the industry average of 1.50.

While we track all commodity releases, industry data for releases greater than 5 US gallons (0.12 bbl) was the threshold used for performance comparison. We track both the number and the volume of releases which are normalized by calculating an incident rate per billion barrel miles ("bn bbl-mi"). For the three months ended March 31, 2019 we had zero recordable releases, compared to our three year average rate of 0.52, and the industry average of 0.22.

Recent Developments

NEB reconsideration report

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.

2019 – 2021 Incentive Toll Settlement

On March 5, 2019 the NEB approved the terms of a 2019 – 2021 Incentive Toll Settlement ("ITS") as negotiated between Trans Mountain, its shippers, and the Canadian Association of Petroleum Producers ("CAPP"). The terms of the ITS address the determination of annual revenue requirements and tolls on the TMPL system.

2019 Financial Outlook

For its first full year of operations in 2019, TMC expects its existing operations to generate Adjusted EBITDA of between \$180 million and \$188 million. This is a slight improvement from our last forecast of \$180 million to \$185 million and has increased based on revised throughput expectations of 302,000 bpd on TMPL (up from 292,000 bpd) and 171,000 bpd on Puget (up from 145,000 bpd).

TMC is maintaining readiness to restart construction of the TMEP in the event that Trans Mountain receives the required approvals for the project. Capital spending (including AFUDC) on the TMEP, if approved, would total approximately \$1.6 billion in 2019. Additional spending of approximately \$86 million is expected on other capital projects and asset retirements, up from our last forecast of \$58 million due to incremental planned work on pump station optimization on TMPL. The pump station optimization includes replacement of motors at seven pump stations along the TMPL, and the installation of variable speed drives to replace control valves currently used at these stations. This project is expected to come into service in Q2 of 2020, and is expected to improve power efficiency and generate a slight throughput increase.

These projections are based on a number of assumptions, including:

- Continued strong demand for transportation to the West Coast of Canada and into Washington State.
- A financing mix of 55% debt and 45% equity from TMP Finance, with an interest rate of 5% on debt.
- A USD/CAD exchange rate of 1 USD = 1.27 CAD.

Actual results may vary from our expectations.