



TRANSMOUNTAIN

TRANS MOUNTAIN CORPORATION

MANAGEMENT REPORT

For the three and six months ended
June 30, 2019

August 20, 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 and six months ended June 30, 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 the existing TMPL and to complete the TMEP in a commercially viable manner.

TMC operates within the regulations of the NEB in a commercial manner, within compliance of environmental standards and expectations. 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 Second 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 and six months ended June 30, 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 – three months ended June 30, 2019

(Millions of Canadian dollars)	TMC's Financial Statements under U.S. GAAP	IFRS equivalent financial information*
Revenues	102.4	118.9
Adjusted EBITDA	49.2	64.9
Net Income / (loss)	74.7	53.1
Cash flow from operating activities	(19.5)	(25.1)

* 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 June 30, 2019, TMC revenues were \$102.4 million, composed of transportation revenue of \$86.5 million, lease revenue of \$15.4 million, and other revenue of \$0.5 million. Transportation revenue of \$86.5 million included \$76.5 million generated by TMPL and \$10.0 million generated by the Puget Sound pipeline.

Total throughput on TMPL averaged approximately 317,000 bpd, and throughput to Washington State on Puget averaged approximately 197,000 bpd for the three months. TMPL capacity throughout the three months was fully utilized, and TMPL was in apportionment every month. Adjusted EBITDA for the three months of \$49.2 million included revenues of \$102.4 million, less pipeline operating costs of \$27.3 million, salaries and benefits costs of \$15.3 million, property and sundry taxes of \$8.7 million, and administration costs of \$1.8 million.

Of the \$27.3 million of pipeline operating costs incurred in the three months, approximately \$12.9 million related to pipeline inspections and maintenance, right of way maintenance, and

other routine operating costs, approximately \$9.0 million related to electricity costs, and approximately \$5.4 million related to costs of environmental protection, fire protection, safety activities, and security measures, insurance, and regulatory oversight costs.

Net income for the three months of \$74.7 million included Adjusted EBITDA of \$49.2 million, less depreciation and amortization of \$25.1 million, plus equity AFUDC of \$20.3 million, less interest and other expenses of \$20.2 million and income tax expense recovery of \$50.6 million. The income tax expense recovery resulted from the Alberta government's June 2019 enactment of a progressive multi year corporate tax reduction which decreases the corporate tax rate from 12% to 8% by 2022. This had the effect of reducing TMC's blended Federal and Provincial statutory current tax rate to 26.69%, and its deferred tax rate to 24.55%.

Cash flow used in operating activities for the three months of \$19.5 million included a decrease of \$38.0 million in interest payable, an increase in accounts payable of \$10.4 million, and an increase in regulatory liabilities of \$7.0 million, largely due to collections of Westridge dock premiums in the three months. Westridge dock premiums are a mechanism of TMPL's toll agreement 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.

Operating Results Highlights – six months ended June 30, 2019

(Millions of Canadian dollars)	TMC's Financial Statements under U.S. GAAP	IFRS equivalent financial information *
Revenues	201.8	219.2
Adjusted EBITDA	97.7	114.9
Net Income / (loss)	87.1	43.2
Cash flow from operating activities	89.0	82.5

* 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 six months ended June 30, 2019, TMC revenues were \$201.8 million, composed of transportation revenue of \$170.6 million, lease revenue of \$29.9 million, and other revenue of \$1.3 million. Transportation revenue of \$170.6 million included \$150.6 million generated by TMPL and \$20.0 million generated by the Puget Sound pipeline.

Total throughput on TMPL averaged approximately 314,000 bpd, and throughput to Washington State on Puget averaged approximately 200,000 bpd for the six months. TMPL capacity

throughout the period was fully utilized, and TMPL was in apportionment every month. Adjusted EBITDA for the six months of \$97.7 million included revenues of \$201.8 million, less pipeline operating costs of \$51.0 million, salaries and benefits costs of \$31.5 million, property and sundry taxes of \$17.2 million, and administration and other costs of \$4.4 million.

Of the \$51.0 million of pipeline operating costs incurred in the six months, approximately \$20.9 million related to pipeline inspections and maintenance, right of way maintenance, and other routine operating costs, approximately \$20.6 million related to electricity costs, and approximately \$9.5 million related to costs of environmental protection, fire protection, safety activities, and security measures, insurance, and regulatory oversight costs.

Net income for the six months of \$87.1 million included Adjusted EBITDA of \$97.7 million, less depreciation and amortization of \$50.2 million, plus equity AFUDC of \$37.9 million, less interest and other expenses of \$44.6 million and income tax expense recovery of \$46.3 million. The income tax expense recovery resulted from changes in Alberta tax rates in June 2019, as noted above.

Cash flow provided by operating activities of \$89.0 million included collections of trade and other accounts receivable totalling \$51.6 million and an increase in regulatory liabilities of \$20.8 million, largely due to collections of Westridge dock premiums in the six months.

Capital expenditures incurred – for the three and six months ended June 30, 2019

(Millions of Canadian dollars)	Three months	Six months
Maintenance capital	9.5	14.1
Non-TMEP expansion capital	-	-
TMEP*	313.3	462.8
Total	322.8	476.9

* The IFRS equivalent capital expenditures incurred on TMEP included in CDEV's Financial Statements were \$288.2 million for the three months and \$417.2 million for the six months due to the value of capitalized interest under IFRS being lower than the regulator approved rates for the debt and equity components of AFUDC.

Capital expenditures incurred in the Trans Mountain Entities for the three and six months ended June 30, 2019 was largely focused on the TMEP. A total of \$313.3 million was spent on TMEP in the three month period (\$462.8 million in the six month period), related to long lead time materials that were received largely in the second quarter of 2019, and continued work on detailed design and planning.

Maintenance capital expenditures incurred for the three months totalled \$9.5 million (\$14.1 million for the six months), driven by mainline repairs (\$2.8 million for three months, \$5.4 million for six months), watercourse crossings (\$1.4 million for three months, \$1.6 million for six months), tank inspections (\$0.9 million for three and six months), and emergency flow restriction devices and valves (\$0.6 million for three months, \$0.9 million for six months). The remaining

spending related to a number of smaller projects including containment and security 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 commodity releases. 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 six months ended June 30, 2019, all of TMC's health and safety measures out performed industry rates. 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 six 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 six months ended June 30, 2019 was 1.12, higher than our three year average of 0.88 and lower than 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 six months ended June 30, 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 approval of TMEP

On June 18, 2019, the Governor in Council released Order in Council P.C. 2019-0820, approving the TMEP and directing the NEB to issue a Certificate of Public Convenience and Necessity and related amending orders with respect to the TMEP.

The TMEP team also completed an update of the project execution plan in June, reflecting current market conditions impacting resource availability and cost and the implementation of evolving practices and standards across the project, including enhanced environmental measures, security, quality, and Indigenous inclusion. TMC's Board of Directors has evaluated and approved the updated TMEP execution plan, and the TMEP team is fully engaged in preparing for construction to commence later this summer.

On July 19, 2019, the NEB announced that NEB decisions and orders issued prior to the August 2018 Federal Court of Appeal decision will remain valid, unless the NEB determines that relevant circumstances have materially changed.

2019 Financial Outlook

For its first full year of operations in 2019, TMC expects its existing operations to generate Adjusted EBITDA of between \$185 million and \$190 million. This is a slight improvement from our last forecast of \$180 million to \$188 million and has increased based on revised throughput expectations of 310,000 bpd on TMPL (up from 302,000 bpd) and 195,000 bpd on the Puget Sound pipeline (up from 171,000 bpd).

TMC is restarting construction activities of the TMEP now that NEB approval has been received. Capital expenditures (including AFUDC) on the TMEP is expected to total approximately \$1.6 billion in 2019. Additional expenditures of approximately \$86 million is expected on other capital projects and asset retirements, up from our March 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.