



TRANSMOUNTAIN

TRANS MOUNTAIN CORPORATION

MANAGEMENT REPORT

For the three and nine months ended
September 30, 2019

November 19, 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 nine months ended September 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 Canada Energy Regulator ("CER"), previously known as the National Energy Board, 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 Third 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 nine months ended September 30, 2019. Although TMC was incorporated May 28, 2018 there were no operations until the acquisition of the Target Entities on August 31, 2018. Therefore, the comparative period operating results for the periods ended September 30, 2018 only contain September 2018 operations.

Operating Results Highlights – three months ended September 30, 2019

	TMC's Financial Statements under U.S. GAAP		IFRS equivalent financial information ^(a)	
	Three months ended September 30,		Three months ended September 30,	
(Millions of Canadian dollars)	2019	2018 ^(b)	2019	2018 ^(b)
Revenues	106.6	32.0	128.7	32.7
Adjusted EBITDA	47.3	14.8	69.7	15.4
Net Income (loss)	20.2	1.7	4.6	(4.5)
Cash flow (used in) provided by operating activities	(11.9)	69.1	(12.0)	68.2

(a) 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.

(b) Comparative period operating results for the periods ended September 30, 2018 only contain September 2018 operations given the acquisition of the Target Entities on August 31, 2018.

For the three-month period ended September 30, 2019, TMC revenues of \$106.6 million were composed of transportation revenue of \$90.9 million, lease revenue of \$15.1 million, and other revenue of \$0.6 million. Transportation revenue of \$90.9 million included \$80.1 million generated by TMPL and \$10.8 million generated by the Puget Sound pipeline. For the three-month period ended September 30, 2018, TMC revenues of \$32.0 million were composed of transportation revenue of \$26.8 million, lease revenue of \$5.1 million, and other revenue of \$0.1 million. Transportation revenue of \$26.8 million included \$24.3 million generated by TMPL and \$2.5 million generated by the Puget Sound pipeline. For the three-month period ended September 30, 2019, total throughput on TMPL averaged approximately 316,000 bpd, and

throughput to Washington State on Puget averaged approximately 207,000 bpd compared to 294,000 bpd on TMPL and 151,000 bpd on Puget for September 2018. TMPL capacity throughout both periods was fully utilized, and TMPL was in apportionment every month.

For the three-month period ended September 30, 2019, Adjusted EBITDA of \$47.3 million included revenues of \$106.6 million, less pipeline operating costs of \$33.9 million, salaries and benefits costs of \$16.1 million, property and sundry taxes of \$8.3 million, and administration costs of \$0.9 million. For the three-month period ended September 30, 2018, Adjusted EBITDA of \$14.8 million included revenues of \$32.0 million, less pipeline operating costs of \$8.9 million, salaries and benefits costs of \$5.1 million, property and sundry taxes of \$2.7 million, and administration costs of \$0.6 million.

For the three-month period ended September 30, 2019, the pipeline operating costs of \$33.9 million included approximately \$19.6 million related to pipeline inspections and maintenance, right of way maintenance, and other routine costs, approximately \$8.6 million related to electricity costs, and approximately \$5.7 million related to costs of environmental protection, fire protection, safety activities, security measures, insurance, and regulatory oversight. For the three-month period ended September 30, 2018, the pipeline operating costs of \$8.9 million included approximately \$4.6 million related to pipeline inspections and maintenance, right of way maintenance, and other routine operating costs, approximately \$2.5 million related to electricity costs, and approximately \$1.8 million related to costs of environmental protection, fire protection, safety activities, security measures, insurance, and regulatory oversight costs.

For the three-month period ended September 30, 2019, Net income of \$20.2 million included Adjusted EBITDA of \$47.3 million, less depreciation and amortization of \$25.1 million, plus equity AFUDC of \$24.6 million, less interest and other expenses of \$20.3 million and income tax expense of \$6.3 million. For the three-month period ended September 30, 2018, Net income of \$1.7 million included Adjusted EBITDA of \$14.8 million, less depreciation and amortization of \$9.3 million, plus equity AFUDC of \$5.1 million, less interest and other expenses of \$8.3 million and income tax expense of \$0.6 million. The effective tax rate decreased to 23.93% for the three-month period ended September 30, 2019 from 26.67% for the three-month period ended September 30, 2018 due to the Alberta government enacting in June 2019 a progressive multi-year corporate tax rate reduction from 12% in 2018 to 8% by 2022. This tax rate change reduced the blended Federal and Provincial (Alberta and BC) deferred tax rate to 24.55% in 2019 from 27% in 2018.

Cash flow used in operating activities for the three-month period ended September 30, 2019 of \$11.9 million included a decrease of \$35.4 million in accounts payable and an increase in deferred amounts and other assets of \$40.9 million, largely due to additional construction advances in the period. This was offset by an increase in interest payable of \$35.5 million. For the three-month period ended September 30, 2018 cash flow provided by operating activities of \$69.1 million included an increase in accounts payable of \$33.6 million, an increase in interest payable of \$12.8 million, and an increase in regulatory liabilities of \$23.8 million, primarily due to collections of

Westridge dock premiums in the period. 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 CER. 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 – nine months ended September 30, 2019

(Millions of Canadian dollars)	TMC's Financial Statements under U.S. GAAP		IFRS equivalent financial information ^(a)	
	Nine months ended September 30, 2019	For the period from May 28 to September 30, 2018 ^(b)	Nine months ended September 30, 2019	For the period from May 28 to September 30, 2018 ^(b)
Revenues	308.4	32.0	347.9	32.7
Adjusted EBITDA	145.1	14.8	184.7	15.4
Net Income / (loss)	107.3	1.7	47.8	(4.5)
Cash flow from operating activities	77.1	69.1	73.5	68.2

(c) 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.

(d) Comparative period operating results for the periods ended September 30, 2018 only contain September 2018 operations given the acquisition of the Target Entities on August 31, 2018.

For the nine-month period ended September 30, 2019, TMC revenues were \$308.4 million, composed of transportation revenue of \$261.5 million, lease revenue of \$45.0 million, and other revenue of \$1.9 million. Transportation revenue of \$261.5 million included \$230.7 million generated by TMPL and \$30.8 million generated by the Puget Sound pipeline. For the period from incorporation on May 28, 2018 to September 30, 2018, TMC revenues of \$32.0 million were composed of transportation revenue of \$26.8 million, lease revenue of \$5.1 million, and other revenue of \$0.1 million. Transportation revenue of \$26.8 million included \$24.3 million generated by TMPL and \$2.5 million generated by the Puget Sound pipeline. For the nine-month period ended September 30, 2019, total throughput on TMPL averaged approximately 315,000 bpd, and throughput to Washington State on Puget averaged approximately 202,000 bpd compared to 294,000 bpd on TMPL and 151,000 bpd on Puget for September 2018. TMPL capacity throughout both periods was fully utilized, and TMPL was in apportionment every month.

For the nine-month period ended September 30, 2019, Adjusted EBITDA of \$145.1 million included revenues of \$308.4 million, less pipeline operating costs of \$84.9 million, salaries and

benefits costs of \$47.6 million, property and sundry taxes of \$25.6 million, and administration costs of \$5.2 million. For the period from incorporation on May 28, 2018 to September 30, 2018, Adjusted EBITDA of \$14.8 million included revenues of \$32.0 million, less pipeline operating costs of \$8.9 million, salaries and benefits costs of \$5.1 million, property and sundry taxes of \$2.7 million, and administration costs of \$0.6 million.

For the nine-month period ended September 30, 2019, the pipeline operating costs of \$84.9 million included approximately \$40.5 million related to pipeline inspections and maintenance, right of way maintenance, and other routine operating costs, approximately \$29.2 million related to electricity costs, and approximately \$15.2 million related to costs of environmental protection, fire protection, safety activities, security measures, insurance, and regulatory oversight costs. For the period from incorporation on May 28, 2018 to September 30, 2018, the pipeline operating costs of \$8.9 million included approximately \$4.6 million related to pipeline inspections and maintenance, right of way maintenance, and other routine operating costs, approximately \$2.5 million related to electricity costs, and approximately \$1.8 million related to costs of environmental protection, fire protection, safety activities, security measures, insurance, and regulatory oversight costs.

For the nine-month period ended September 30, 2019, Net income of \$107.3 million included Adjusted EBITDA of \$145.1 million, less depreciation and amortization of \$75.3 million, plus equity AFUDC of \$62.4 million, less interest and other expenses of \$64.9 million and income tax recovery of \$40.0 million. For the period from incorporation on May 28, 2018 to September 30, 2018, Net income of \$1.7 million included Adjusted EBITDA of \$14.8 million, less depreciation and amortization of \$9.3 million, plus equity AFUDC of \$5.1 million, less interest and other expenses of \$8.3 million and income tax expense of \$0.6 million. The income tax expense recovery in the nine-month period ended September 30, 2019 resulted from the Alberta government's June 2019 enactment of a progressive multi-year corporate tax reduction as discussed above.

Cash flow from operating activities for the nine-month period ended September 30, 2019 of \$77.1 million included a decrease in accounts receivable \$50.4 million, an increase in interest payable of \$35.5 million, and an increase in regulatory liabilities of \$14.1 million. This was offset by an increase in deferred amounts and other assets of \$57.9 million, primarily related to additional construction advances, and a decrease in operating accounts payable of \$34.0 million. For the period from incorporation on May 28, 2018 to September 30, 2018, cash flow provided by operating activities of \$69.1 million included an increase in accounts payable of \$33.6 million, an increase in interest payable of \$12.8 million, and an increase in regulatory liabilities of \$23.8 million, primarily due to collections of Westridge dock premiums in the period.

Capital expenditures incurred – for the three and nine-month periods ended September 30, 2019

(Millions of Canadian dollars)	TMC's Financial Statements under U.S. GAAP		IFRS equivalent financial information ^(a)	
	Three months ended	Nine months ended	Three months ended	Nine months ended
	September 30, 2019	September 30, 2019	September 30, 2019	September 30, 2019
Maintenance capital	26.0	40.1	27.5	41.6
Non-TMEP expansion capital	1.6	1.6	1.6	1.6
TMEP	408.4	871.2	378.4	795.6
Total	436.0	912.9	407.5	838.8

(a) 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. The IFRS equivalent capital expenditures incurred differ primarily 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 for TMC for the three and nine-month periods ended September 30, 2019 was largely focused on the TMEP. A total of \$408.4 million and \$871.2 million was incurred on TMEP for the three and nine-month periods ended September 30, 2019, respectively. The expenditures related to long lead time materials that were received largely in the second and third quarter of 2019, continued work on detailed design and planning, and work commencing in the Lower Mainland.

Maintenance capital expenditures incurred for the three and nine-month periods ended September 30, 2019 totalled \$26.0 million and \$40.1 million, respectively driven by watercourse crossings (\$10.9 million and \$12.6 million for three and nine-month periods ended September 30, 2019, respectively), mainline repairs (\$5.5 million and \$10.9 million for three and nine-month periods ended September 30, 2019, respectively), tank inspections (\$3.2 million and \$4.2 million for three and nine-month periods ended September 30, 2019, respectively), pump station optimization (\$3.3 million and \$3.8 million for three and nine-month periods ended September 30, 2019, respectively), and emergency flow restriction devices and valves (\$0.7 million and \$1.7 million for three and nine-month periods ended September 30, 2019, respectively). The remaining expenditures related to a number of smaller projects including station upgrades and containment and security upgrades.

Non-TMEP expansion capital primarily related to Edmonton tank upgrades (\$1.6 million for the three and nine-month periods ended September 30, 2019).

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 nine-month period ended September 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 nine-month period ended September 30, 2019 was also zero, lower than our three-year average of 0.55 and industry's three-year average of 0.41. 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 nine-month period ended September 30, 2019 was 1.24, 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 nine-month period ended September 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

Construction resumes on the TMEP

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

On August 22, 2019 construction was restarted on the TMEP. The receiving and staging of long lead time materials continued from Q2 2019. Construction contractors were mobilized and construction work resumed along the route, including at the Burnaby Terminal, the Westridge Marine Terminal and in Alberta.

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 which is consistent with our previous forecast.

TMC is restarting construction activities of the TMEP now that NEB approval has been received. Capital expenditures (including AFUDC) on the TMEP is forecasted to total approximately \$1.3 billion in 2019. Expenditures on other capital projects is expected to total approximately \$80 million, down slightly from our June forecast of \$85 million due to timing of projects.

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.