



## MANAGEMENT REPORT

For the three month period ended March 31, 2020

May 13, 2020

This Management Report (“Report”) should be read in conjunction with the unaudited condensed consolidated financial statements of Trans Mountain Corporation for the three month period ended March 31, 2020 (“TMC’s Financial Statements”) as well as the audited consolidated financial statements and notes of Trans Mountain Corporation for the year ended December 31, 2019, and Trans Mountain Corporation’s Management Report for the year ended December 31, 2019. TMC’s Financial Statements are prepared in accordance with U.S. GAAP. All financial measures in this Report are presented in Canadian dollars unless otherwise indicated.

Throughout this Report, the terms “we”, “us”, “our”, and “TMC” refer to Trans Mountain Corporation and its subsidiaries. Abbreviations and acronyms that are not defined in the document are defined in the glossary at the end of the Report.

## Our Mandate

TMC’s mandate is to own and operate the Trans Mountain Pipeline System and to complete the related expansion in a commercially viable manner. TMC operates in compliance with applicable laws, rules and regulations and to ensure the business is managed in a commercial manner in accordance with environmental standards and expectations. TMC will complete the expansion in alignment with the Federal Government’s direction and priority to provide increased access to international markets for Canadian crude oil producers.

## About Our Business

TMC is a Federal Crown corporation and is a wholly owned subsidiary of Canada TMP Finance Ltd., which in turn is a wholly owned subsidiary of Canada Development Investment Corporation. TMC conducts operations through four entities: Trans Mountain Pipeline Limited Partnership and its wholly owned subsidiary Trans Mountain Pipeline (Puget Sound) LLC, Trans Mountain Pipeline ULC, and Trans Mountain Canada Inc. Together these entities own and operate the Trans Mountain Pipeline System, consisting of the Trans Mountain pipeline and the Puget Sound pipeline, and the Trans Mountain Expansion Project (“TMEP”).

### Trans Mountain Pipeline

The Trans Mountain pipeline (“TMPL”) has been in operation since 1953 and transports crude oil and refined petroleum products from Alberta to the lower mainland of British Columbia. In its current configuration, TMPL is approximately 1,150 kilometers long, beginning near Edmonton, Alberta and terminating in Burnaby, British Columbia. Twenty-three active electrically powered pump stations and four terminals located in Edmonton, Kamloops, Sumas and Burnaby, along with the Westridge Marine Terminal, facilitate movements on the system. The system includes tanks with a capacity of nearly 11 million barrels in total, mainly at Edmonton (8 million barrels) and Burnaby (1.7 million barrels). The remaining tanks are located at Kamloops, Sumas, and the Westridge Marine Terminal.



The current design of TMPL supports a pipeline capacity of 300,000 bpd based on a commodity mix of 20% heavy and 80% light. The operational capacity on TMPL will vary on a month to month basis depending on the type and proportion of commodities transported as well as system downtime that may be required to address operational needs such as maintenance.

TMPL is a common carrier pipeline and as such does not have customer specific contracts. Transportation service on the pipeline is governed by a tariff, rules and regulations for service and a toll structure, as approved by the Canada Energy Regulator (“CER”).

As of today, TMPL remains the only pipeline that transports petroleum from the Western Canadian Sedimentary Basin to the West Coast. It is also the only pipeline providing Canadian producers with direct access to world market pricing through a Canadian port. This has led to a steady demand for space on the pipeline.

#### Puget Sound Pipeline

The Puget Sound pipeline (“Puget”), owned by Trans Mountain Pipeline (Puget Sound) LLC, has been in operation since 1954. Puget transports crude oil from the Canada-US border near the Sumas Terminal to Washington State refineries in Anacortes and Ferndale.

Puget is approximately 111 kilometers long. One pump station and two tanks with total capacity of approximately 200,000 barrels facilitate movements on the system. The system has total throughput capacity of approximately 240,000 bpd when transporting primarily light oil. The U.S. Federal Energy Regulatory Commission regulates the Puget tariff, and the U.S. Department of Transportation regulates its safety and integrity.

Puget is a common carrier pipeline and the tolls on Puget are adjusted annually in accordance with the Federal Energy Regulatory Commission rate indexing system.

#### Trans Mountain Expansion Project

The TMEP will constitute a twinning of the existing pipeline from Edmonton, Alberta to Burnaby, BC. When constructed, it will create a pipeline system with nominal capacity of 890,000 bpd, an increase from the 300,000 bpd existing capacity. For more information on TMEP, please see our website at [www.transmountain.com](http://www.transmountain.com).

Shippers have signed contracts for transportation service on the TMEP and have made 15 and 20 year commitments that total roughly 80 per cent of the proposed capacity in the expanded Trans Mountain Pipeline. These shippers represent or are affiliates of some of the largest producing, marketing and refining companies in the Western Canada Sedimentary Basin and have direct access to large volumes of crude oil and refined products as a result of their business operations.

#### Recent Developments

On February 4, 2020, the Federal Court of Appeal dismissed challenges to the Federal Government’s approval of the TMEP.



On February 7, 2020, TMC announced a revised cost estimate for the TMEP of \$12.6 billion with service expected to start by the end of 2022. TMC’s projected Adjusted EBITDA is expected to be at least \$1.5 billion in the first year of TMEP’s operation and expected to grow annually. These projections are underpinned by long-term contractual commitments covering 80% of the system’s 890,000 barrels a day of capacity.

#### COVID-19 Pandemic

Trans Mountain’s first priority is the health and safety of our workforce, their families and our communities. During the COVID-19 pandemic, Trans Mountain and its construction contractors have been working diligently together to ensure adherence to all advice and direction from government and health officials both provincially and federally, while ensuring the uninterrupted safe operation of the Trans Mountain Pipeline System and the continued, safe construction of the TMEP.

The reduction in global crude oil demand resulting from the COVID-19 pandemic, coupled with oversupply concerns following the now resolved Russia-Saudi Arabia price war, has resulted in significant decreases in crude oil prices, both globally and in the Western Canadian Sedimentary Basin. The rapidly changing environment has resulted in increased global crude oil storage levels which are at or near capacity. This has resulted in production curtailments throughout Western Canada. To date, the Trans Mountain pipeline has remained at capacity, however management is closely monitoring market developments and revising our forecasts as necessary.

## 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 disclosed by other entities. Adjusted EBITDA 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.

<b>Financial Highlights</b> <b>(thousands of Canadian dollars, except throughput amounts)</b>	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Revenue	102,513	99,431
Adjusted EBITDA	46,514	48,534
Net Income	25,227	12,394
Cash provided by operating activities	92,772	108,512
Capital expenditures incurred	594,692	154,077
Average daily throughput		
Mainline deliveries (bpd)	297,000	311,000
Puget Sound Pipeline (bpd)	191,000	203,000
Westridge Marine Terminal (bpd)	52,000	16,000

<b>Financial Position at (thousands of Canadian dollars)</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Cash and cash equivalents and restricted cash	218,350	486,914
Total assets	7,735,187	7,441,735
Loans from parent	3,367,100	3,257,100

### **Revenue**

<b>Revenue (thousands of Canadian dollars)</b>	<b>Three months ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>% Change</b>
Transportation	86,335	84,089	3%
Leases	15,747	14,491	9%
Other	431	851	(49%)
<b>Total Revenue</b>	<b>102,513</b>	<b>99,431</b>	<b>3%</b>

Total revenue consists of income from three sources: transportation, leases and other. For the three month period ended March 31, 2020 total revenue increased by \$3.1 million to \$102.5 million as compared to \$99.4 million in the same period of the prior year.

Transportation revenue in the first quarter of 2020 increased by \$2.2 million to \$86.3 million, as compared to \$84.1 million in the same period of the prior year. The increase is mainly due to changes in cost recoveries on TMPL pursuant to the 2019-2021 Incentive Toll Settlement (“ITS”).

Lease revenue primarily relates to income earned on TMC’s tank leases. In the three month period ended March 31, 2020, lease revenue totalled \$15.7 million, an increase of \$1.2 million, as compared to the \$14.5 million recognized in the same period of the prior year. The increase is mainly due to higher lease fees year over year.

Other revenue mainly relates to pipe rack revenue earned at TMC’s terminals and other minor revenue items.

### **Expenses**

<b>Expenses (thousands of Canadian dollars)</b>	<b>Three months ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>% Change</b>
Pipeline operating costs	26,700	23,706	13%
Depreciation and amortization	24,368	25,042	(3%)
Salaries and benefits	19,364	16,180	20%
Taxes, other than income taxes	8,335	8,557	(3%)
Administration	1,600	2,454	(35%)
<b>Total</b>	<b>80,367</b>	<b>75,939</b>	<b>6%</b>

Pipeline operating costs and taxes, other than income taxes, on the TMPL are largely treated as flow through costs to TMC’s customers in the ITS agreement. Depreciation and amortization, salaries and benefits, and administration costs related to the TMPL are largely recovered from TMC’s customers through the capital recovery and fixed cost components of the ITS..



Pipeline operating costs for the three month period ended March 31, 2020 increased by \$3.0 million to \$26.7 million, as compared to \$23.7 million incurred in the same period of the prior year. The increase is mainly due to the timing of when pipeline integrity work was performed coupled with higher security costs in the first quarter of 2020, partially offset by lower power costs.

Depreciation and amortization expense for the three month period ended March 31, 2020 decreased by \$0.6 million to \$24.4 million, as compared to \$25.0 million in the same period of the prior year. The decrease is mainly due to the completion of a required depreciation study which lowered depreciations rates on several asset categories effective January 1, 2020.

Salaries and benefits expense for the three month period ended March 31, 2020 increased by \$3.2 million to \$19.4 million, as compared to \$16.2 million in the same period of the prior year. The increase is mainly due to higher costs associated with an increase in the workforce.

Taxes, other than income taxes, for the three month period ended March 31, 2020 remained relatively consistent, decreasing by \$0.3 million to \$8.3 million, as compared to \$8.6 million in the same period of the prior year.

Administration expense for the three month period ended March 31, 2020 decrease by \$0.9 million to \$1.6 million, as compared to \$2.5 million in the same period of the prior year. The decrease is mainly due to increased capitalized administration costs, partially offset by higher information technology costs associated with infrastructure improvements.

#### ***Adjusted EBITDA***

Adjusted EBITDA for the three month period ended March 31, 2020 decreased by \$2.0 million to \$46.5 million as compared to \$48.5 million in the same period of the prior year. The decrease is mainly due to higher salaries and benefits and pipeline operating costs, which were only partially offset by increased revenue and lower and administration costs.

#### ***Equity Allowance for funds used during construction ("AFUDC")***

Equity AFUDC for the three month period ended March 31, 2020 increased by \$16.4 million to \$34.0 million as compared to \$17.6 million in the same period of the prior year. The significant increase is due to the cumulative effect of the continued capital spending on the TMEP.

### ***Interest expense***

TMC incurred interest costs, net of interest income, of \$39.7 million in the three month period ended March 31, 2020, an increase of \$4.1 million as compared to the \$35.6 million incurred in the same period of the prior year. Of the amount incurred in the three month period ended March 31, 2020, \$20.0 million was expensed and \$19.7 million was capitalized compared to \$24.3 million expensed and \$11.3 million capitalized in the same period of prior year. The increase in total interest costs is due to higher long-term debt levels as a result of the continued capital spending on TMEP. There was also an increase in the amount of interest capitalized due to the continued capital spend on TMEP.

### ***Income tax***

Income tax expense for the three month period ended March 31, 2020 totalled \$8.1 million, representing an effective tax rate of 24.3%, as compared to income tax expense in the same period of prior year of \$4.3 million, representing an effective tax rate of 25.6%. The decrease in the effective income tax rate is mainly due to the decrease in the Alberta corporate tax rate enacted in June 2019.

### ***Net Income***

Net income for the three month period ended March 31, 2020 increased by \$12.8 million and totalled \$25.2 million, as compared to \$12.4 million in the same period of the prior year. The increase is mainly due to the \$16.4 million increase in equity AFUDC and the \$4.3 million decrease in interest expense due to increase capitalized interest, both due to increased capital spending on TMEP, partially offset by a \$2.0 million decrease in Adjusted EBITDA.

### ***Capital Expenditures***

<b>Capital Expenditures (thousands of Canadian dollars)</b>	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
TMEP capital	576,295	149,560
Non-TMEP capital	18,397	4,517
<b>Total</b>	<b>594,692</b>	<b>154,077</b>

Capital expenditures for the three month period ended March 31, 2020 increased significantly over the same period of the prior year. The increase is due to activity on the TMEP. A total of \$576.3 million was incurred on TMEP for the three month period ended March 31, 2020. Work continued at the Lower Mainland terminals with considerable progress made on the foreshore expansion at the Westridge Marine Terminal and ongoing work to prepare for installation of tanks at Burnaby Terminal. In Alberta, work is underway in various phases of construction with pipe in the ground in the Yellowhead region and Greater Edmonton area as well as reactivation work in Jasper-Mount Robson and work progressing on a number of trenchless crossings. For the three month period ended March 31, 2020, Non-TMEP capital expenditures totalled \$18.4 million, which primarily included expenditures related to the System Optimization Project, with

the balance relating to routine capital projects to maintain the TMPL in a safe and reliable operating condition.

## 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. The following table provides a summary of TMC’s Environment, Health and Safety program from existing operations in the first quarter of 2020:

Environment, Health and Safety	2020	Three year average	
		TMC	Industry <sup>(1)</sup>
Avoidable Vehicle Incident Rate (per million miles driven)	0.00	0.49	1.23
Total Recordable Injury Rate <sup>(2)</sup>			
Employees	0.30	0.38	0.41
Contractors	0.00	1.03	1.37
Contractors - TMEP	0.42 <sup>(4)</sup>	N/A	1.50
Commodity Releases Rate <sup>(3)</sup>	0.00	0.52	0.19
Volume of releases(m <sup>3</sup> ) <sup>(3)</sup>	0.00	0.76	12.45

(1) Industry rates provided by CEPA (Canadian Energy Pipeline Association) except for Contractor rates which are provided by NAICS (North American Industry Classified System).

(2) Total Recordable Injury Rate: number of recordable incidents X 200,000 divided by number of hours worked.

(3) Release rates are per 1,000 km of operating pipeline.

(4) Measured from the commencement of the project to March 31, 2020

During the first quarter of 2020, all of TMC’s health and safety measures have outperformed TMC’s own three-year average, as well as the three-year industry average. The injuries that occurred in 2020 were primarily the result of strains, cuts, and other soft tissue injuries; none were life altering.

While we track all commodity releases, industry data for releases greater than 1.5 m<sup>3</sup> was the threshold used for performance comparison. During the first quarter of 2020, there were no commodity releases that met this threshold.

## Business Risks

In addition to the risks associated with the COVID-19 pandemic previously discussed, refer to TMC’s Management Report for the year ended December 31, 2019 for more information about our business risks, which have not changed substantially since December 31, 2019.

### Existing Operations

There are limited risks due to economic factors on existing operations. Most costs and revenues of the business are in Canadian dollars, resulting in limited foreign exchange exposure. On Puget,

revenues and most costs are in U.S. dollars, leading to limited foreign exchange exposure within the Puget entity, but resulting in some exposure to foreign currency translation when TMC converts Puget's results to Canadian dollars on consolidation.

Tolls for transportation service on the Canadian portion of the existing TMPL are regulated by the CER and governed by the terms of the ITS, which provides significant financial risk mitigation.

TMC's existing operations are subject to a variety of physical hazards and risks typical of most large diameter transmission pipelines.

#### TMEP Project Risks

As it relates to the construction of TMEP, TMC is exposed to project execution risks typical of pipeline construction projects of this size and scale. Completion of the TMEP will require significant capital expenditures, and TMC will require the continued availability of financing from its parent Canada TMP Finance Ltd. in order to complete the TMEP.

### 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, widespread epidemics or pandemics, and 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.

#### Glossary

<b>AFUDC</b>	Allowance for Funds Used During Construction. A component of construction cost in regulated utilities representing the cost of capital deployed during construction of new assets. AFUDC contains a cost of borrowed funds component and a return on equity component.
<b>Bpd</b>	Barrels per day
<b>U.S. GAAP</b>	Generally accepted accounting principles in the United States of America