



MANAGEMENT REPORT

For the three and six month periods ended June 30, 2020

August 18, 2020

This Management Report (“Report”) should be read in conjunction with the unaudited condensed consolidated financial statements of Trans Mountain Corporation for the three and six month periods ended June 30, 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 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.

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.

The current design of TMPL supports a pipeline capacity of 300,000 barrels per day (“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.

Puget is a common carrier pipeline and the tolls on Puget may be 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.

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 full year of TMEP’s operation and expected to grow annually



thereafter. These projections are underpinned by long-term contractual commitments covering 80% of the system's 890,000 barrels a day of capacity.

On July 2, 2020, the Supreme Court of Canada dismissed all applications for leave to appeal the Federal Court of Appeal's February 4, 2020 dismissal of challenges to the Federal Government's approval of the TMEP.

Sumas Release

On June 13, 2020, TMC responded to a release at the Sumas Pump Station (the "Sumas Release") in Abbotsford, B.C. The pipeline was shut down and the release, estimated to be between 150-190 cubic metres (940-1195 barrels) of light crude, was fully contained on Trans Mountain property. Clean-up and response to the release began as soon as possible. The cause of the release related to a failed fitting on a small diameter (1") pipe connected to the mainline. No construction or expansion project activity was underway at the pump station. The pipeline was safely restarted on June 14, 2020. Monitoring of drinking water and air quality have not identified any risk to the public or community. Investigations by applicable Government Authorities and TMC are underway and environmental remediation activities continue at the site. A total of \$11.5 million in operating costs for the cleanup have been accrued as of June 30, 2020, the vast majority of which are expected to be recovered pursuant to the 2019-2021 Incentive Toll Settlement ("ITS").

COVID-19 Pandemic

Trans Mountain's first priority is the health and safety of our workforce, their families and our neighboring 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 safe operation of the Trans Mountain Pipeline System and the continued, safe construction of the TMEP. Trans Mountain has incurred \$0.6 million of direct COVID-19 related operating costs to date in 2020.

The reduction in global crude oil demand in 2020 resulting from the COVID-19 pandemic, coupled with the Russia-Saudi Arabia oil price war in the first quarter of 2020, resulted in significant decreases in crude oil prices, both globally and in the Western Canadian Sedimentary Basin. The rapidly changing environment has led to increased global crude oil storage levels. 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 AFUDC¹.

Financial Highlights (thousands of Canadian dollars, except throughput amounts)	Three months ended		Six months ended	
	2020	June 30 2019	2020	June 30 2019
Revenue	109,273	102,358	211,786	201,789
Adjusted EBITDA	45,527	49,244	92,041	97,778
Net Income	29,807	74,723	55,034	87,117
Cash provided by operating activities	(74,949)	(19,510)	17,824	89,002
Capital expenditures incurred	679,083	324,744	1,273,775	478,821
Average daily throughput				
Mainline deliveries (bpd)	293,000	317,000	295,000	314,000
Puget Sound Pipeline (bpd)	152,000	197,000	171,000	200,000
Westridge Marine Terminal (bpd)	68,000	29,000	60,000	22,000

Financial Position at (thousands of Canadian dollars)	June 30, 2020	December 31, 2019
Cash and cash equivalents and restricted cash	423,995	486,914
Total assets	8,694,574	7,441,735
Loans from parent	3,875,850	3,257,100

Revenue

Revenue (thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2020	2019	% Change	2020	2019	% Change
Transportation	92,843	86,485	7%	179,178	170,574	5%
Leases	16,016	15,413	4%	31,763	29,904	6%
Other	414	460	(10%)	845	1,311	(36%)
Total Revenue	109,273	102,358	7%	211,786	201,789	5%

Total revenue consists of income from three sources: transportation, leases and other. For the three month period ended June 30, 2020 total revenue increased by \$6.9 million to \$109.3 million

¹ 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.



as compared to \$102.4 million in the same period of the prior year. For the six months ended June 30, 2020, total revenue increased by \$10.0 million to \$211.8 million as compared to \$201.8 million in the prior year.

Transportation revenue in the second quarter of 2020 increased by \$6.3 million to \$92.8 million, as compared to \$86.5 million in the same period of the prior year. On a year to date basis, transportation revenue for the six months ended June 30, 2020 increased by \$8.6 million to \$179.2 million as compared to \$170.6 million in the same period of the prior year. The increase for both the three and six month periods ended June 30, 2020 compared to the same periods of the prior year is mainly due to higher cost recoveries on TMPL pursuant to the 2019-2021 Incentive Toll Settlement (“ITS”), partially offset by lower Puget throughput.

Lease revenue, which primarily relates to income earned on TMC’s tank leases, increased in 2020. For the three month period ended June 30, 2020, lease revenue totalled \$16.0 million, an increase of \$0.6 million, as compared to the \$15.4 million recognized in the same period of the prior year. For the six months ended June 30, 2020, lease revenue totalled \$31.8 million, an increase of \$1.9 million as compared to \$29.9 million in the same period of the prior year.

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

Expenses

Expenses (thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2020	2019	% Change	2020	2019	% Change
Pipeline operating costs	36,158	27,272	33%	62,858	50,978	23%
Depreciation and amortization	24,457	25,125	(3%)	48,825	50,167	(3%)
Salaries and benefits	17,553	15,331	14%	36,917	31,511	17%
Taxes, other than income taxes	8,593	8,687	(1%)	16,928	17,244	(2%)
Administration	1,442	1,824	(21%)	3,042	4,278	(29%)
Total	88,203	78,239	13%	168,570	154,178	9%

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 June 30, 2020 increased by \$8.9 million to \$36.2 million as compared to \$27.3 million in the same period of the prior year. The increase is primarily related to remediation costs related to the Sumas Release in June 2020, partially offset by lower pipeline integrity costs, due to the timing of when work is performed, and lower power costs. On a year to date basis, pipeline operating costs for the six months ended June 30, 2020 increased by \$11.9 million to \$62.9 million as compared to \$51.0 million in the same period of the prior year. The increase is due to remediation costs related to the Sumas



Release, higher security costs, and increased pipeline integrity costs, due to the timing of when work is performed, partially offset by lower power costs.

Depreciation and amortization expense for the three month period ended June 30, 2020 decreased by \$0.6 million to \$24.5 million, as compared to \$25.1 million in the same period of the prior year. For the six months ended June 30, 2020, depreciation expense decreased by \$1.4 million to \$48.8 million as compared to \$50.2 million in the same period of the prior year. The decrease for both the three and six months ended June 30, 2020 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 June 30, 2020 increased by \$2.3 million to \$17.6 million, as compared to \$15.3 million in the same period of the prior year. On a year to date basis, salaries and benefits expense increased by \$5.4 million to \$36.9 million for the six months ended June 30, 2020 compared to \$31.5 million in the same period of the prior year. The increase for both the three and six months ended June 30, 2020 is mainly due to higher costs associated with an increased workforce to support TMC's transition to a stand-alone organization.

Taxes, other than income taxes, for the three month period ended June 30, 2020 remained relatively consistent, decreasing by \$0.1 million to \$8.6 million, as compared to \$8.7 million in the same period of the prior year. For the six months ended June 30, 2020 taxes, other than income taxes, decreased by \$0.3 million to \$16.9 million, as compared to \$17.2 million in the same period of the prior year.

Administration expense for the three month period ended June 30, 2020 decreased by \$0.4 million to \$1.4 million, as compared to \$1.8 million in the same period of the prior year. The decrease is mainly due to increased capitalized administration costs and lower travel costs, partially offset by expenses associated with TMC's COVID-19 response. On a year to date basis, administration expenses for the six months ended June 30, 2020 decreased by \$1.3 million to \$3.0 million, as compared to \$4.3 million in the same period of the prior year. The decrease is due to increased capitalized administration costs associated with TMEP and lower travel expenses, partially offset by higher information technology costs associated with infrastructure improvements and expenses associated with TMC's COVID-19 response.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended June 30, 2020 decreased by \$3.7 million to \$45.5 million, as compared to \$49.2 million in the same period of the prior year. The decrease is due to lower transportation revenue, mainly due to lower Puget throughput and higher salaries and benefits costs. On a year to date basis, Adjusted EBITDA decreased by \$5.8 million for the six months ended June 30, 2020 to \$92.0 million, as compared to \$97.8 million in the same period of the prior year. The decrease is mainly due to higher salaries and benefits costs, higher pipeline operating costs, and lower Puget throughput, partially offset by lower administration costs.

Equity Allowance for funds used during construction (“AFUDC”)

Equity AFUDC for the three month period ended June 30, 2020 increased by \$20.0 million to \$40.3 million, as compared to \$20.3 million in the same period of the prior year. For the six month period ended June 30, 2020 equity AFUDC increased by \$36.4 million to \$74.3 million, as compared to \$37.9 million in the same period of the prior year. The significant increase for both the three and six months ended June 30, 2020, as compared to the same periods in the prior year, is due to the cumulative effect of the continued capital spending on the TMEP.

Interest expense

Interest Expense (thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2020	2019	%	2020	2019	% Change
Interest and commitment fees on loans from parent	45,593	33,266	37%	86,896	71,596	21%
Capitalized debt financing costs	(23,331)	(13,003)	79%	(42,993)	(24,298)	77%
Interest income and other	(717)	(247)	190%	(2,368)	(3,003)	(21%)
Interest Expense, net of capitalized debt financing costs	21,545	20,016	8%	41,535	44,295	(6%)

The increase in total interest and commitment fees from TMC’s parent and capitalized debt financing costs for both the three and six months ended June 30, 2020, as compared to the same periods in the prior year, is due to the continued capital spending on TMEP and the corresponding increase in long-term debt levels year over year.

Income tax

Income tax expense for the three and six month periods ended June 30, 2020 totalled \$9.8 million and \$17.9 million, respectively representing effective tax rates of 24.7% and 24.5%, respectively; as compared to income tax recoveries for the three and six months ended June 30, 2019 of \$50.6 million and \$46.3 million, respectively. The significant income tax recoveries recognized in the prior year was due to the decrease in the Alberta corporate tax rate in the second quarter of 2019. The effective tax rates for the three and six month periods ended June 30, 2020 were consistent with the statutory rate of 24.67%.

Net Income

Net income for the three month period ended June 30, 2020 decreased by \$44.9 million to \$29.8 million, as compared to \$74.7 million in the same period of the prior year. The decrease is mainly due to the \$60.4 million increase in income tax expense, due to the significant income tax recovery recognized in the prior year, coupled with the \$3.7 million decrease in Adjusted EBITDA and the \$1.5 million increase in interest expense, partially offset by the \$20.0 million increase in equity AFUDC.

Net income for the six month period ended June 30, 2020 decreased by \$32.1 million to \$55.0 million, as compared to \$87.1 million in the same period of the prior year. The decrease is mainly due to the \$64.2 million increase in income tax expense, due to the significant income tax recovery recognized in the prior year, and the \$5.7 million decrease in Adjusted EBITDA. These decreases were partially offset by the \$36.4 million increase in equity AFUDC and the \$2.8 million decrease in interest expense, due to increased capitalized interest, both of which were a result of increased capital spending on TMEP.

Capital Expenditures

Capital Expenditures (thousands of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
TMEP capital	674,343	313,284	1,250,638	462,844
Non-TMEP capital	4,740	11,460	23,137	15,977
Total	679,083	324,744	1,273,775	478,821

Capital expenditures for the three and six month periods ended June 30, 2020 increased significantly over the same periods of the prior year. The increase is due to activity on the TMEP. A total of \$674.3 million and \$1,250.6 million respectively, was incurred on TMEP for the three and six month periods ended June 30, 2020. Work continued at the Lower Mainland terminals with foreshore expansion at the Westridge Marine Terminal and preparation work for installation of tanks at the Burnaby Terminal. Preliminary work commenced in Kamloops to support pipeline construction later this summer. In Alberta, work is underway in various phases of construction. In the Greater Edmonton area, pipeline construction is nearing completion. In the Yellowhead region, some construction activities were demobilized for spring break up in the second quarter, but preparation activities have continued for construction restart in early July. In the Jasper-Mount Robson area, reactivation work is underway and several river crossings have been completed.

For the three and six month periods ended June 30, 2020, Non-TMEP capital expenditures totalled \$4.7 million and \$23.1 million respectively, 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 during the first six months of 2020:

	2020	Three-year average	
		TMC	Industry ⁽¹⁾
Health and Safety			
Avoidable Vehicle Incident Rate (per million miles driven)	0.00	0.49	1.23
Total Recordable Injury Rate ⁽²⁾			
Employees	0.29	0.38	0.41
Contractors	0.00	1.06	1.37
Contractors - TMEP	0.41 ⁽⁴⁾	N/A	1.50
Environment			
Commodity Releases Rate ⁽³⁾	0.80	0.52	0.19
Volume of releases(m ³) ⁽³⁾	151.15	1.76	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 June 30, 2020

During the first six months 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 m³ was the threshold used for performance comparison. During the first six months of 2020, there was one commodity releases that met this threshold. The Sumas Release occurred on June 13, 2020 and resulted in a release of light crude oil estimated to be between 150-190 cubic metres (940-1195 barrels), which was fully contained on Trans Mountain property.

Business Risks

In addition to the risks associated with the COVID-19 pandemic, 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 the TMEP, TMC is exposed to project execution risks typical of major 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;
- demonstrations, protests or civil disobedience that impact construction execution and/or operations;
- 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.