



TRANS MOUNTAIN CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2019

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Trans Mountain Corporation ("TMC") are the responsibility of management and were authorized for issue by the Board of Directors on March 4, 2020. The consolidated financial statements have been prepared by TMC in accordance with accounting principles generally accepted in the United States of America. The financial statements of TMC's four wholly-owned subsidiaries for which it has responsibility have been consolidated with TMC. When alternative accounting methods exist, TMC has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments.

TMC maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the consolidated financial records are reliable, form a proper basis for the preparation of consolidated financial statements, and that TMC's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the consolidated financial statements principally through its Audit Committee. The Audit Committee reviews TMC's annual consolidated financial statements and reports its findings to the Board for its consideration and approval. The Audit Committee also meets with the Corporation's auditors to discuss auditing matters and financial reporting issues.

These consolidated financial statements have been audited by the Corporation's auditors, the Auditor General of Canada and PricewaterhouseCoopers LLP, whose report is presented separately.

As President & CEO of TMC and Vice President, Finance, we have reviewed TMC's consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position as at December 31, 2019, and financial performance and cash flows for the year ended December 31, 2019.

"signed"

Ian Anderson
President & CEO
Trans Mountain Corporation

"signed"

Heather Mark, CPA, CA
Vice President, Finance
Trans Mountain Corporation

March 4, 2020



INDEPENDENT AUDITORS' REPORT

To the Shareholder of Trans Mountain Corporation

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Trans Mountain Corporation and its subsidiaries (the Corporation), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at 31 December 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit

or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Trans Mountain Corporation and its wholly-owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of Trans Mountain Corporation and its wholly-owned subsidiaries.

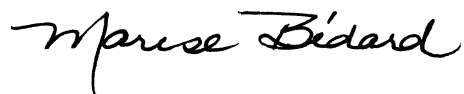
In our opinion, the transactions of Trans Mountain Corporation and its wholly-owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in US GAAP have been applied, except for the change in the method of accounting for leases as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Trans Mountain Corporation and its wholly-owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Trans Mountain Corporation and its wholly-owned subsidiaries to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.



Marise Bédard, CPA, CA
Principal
for the Interim Auditor General of Canada

Ottawa, Canada
4 March 2020



Chartered Professional Accountants

Calgary, Canada
4 March 2020

TRANS MOUNTAIN CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(In thousands of Canadian dollars)

	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018 ^(a)
Revenues		
Transportation revenue <i>(Note 4)</i>	357,298	116,365
Lease revenue <i>(Note 5)</i>	60,146	20,417
Other revenue	2,308	1,011
	419,752	137,793
Expenses		
Pipeline operating costs	120,300	42,769
Depreciation and amortization <i>(Notes 8, 10)</i>	100,551	33,615
Salaries and benefits	64,296	19,837
Taxes, other than income taxes	32,685	10,308
Administration	8,073	5,077
	325,905	111,606
Operating income	93,847	26,187
Equity allowance for funds used during construction	91,292	21,241
Interest expense, net of capitalized debt financing costs <i>(Note 17)</i>	(84,609)	(34,483)
Other, net	(1,708)	115
Foreign exchange (loss) gain <i>(Note 19)</i>	(289)	10
Income before income taxes	98,533	13,070
Income tax recovery (expense) <i>(Note 6)</i>	32,322	(3,532)
Net income	130,855	9,538

(a) 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 period ended December 31, 2018 only contain operations from September to December 2018.

The accompanying notes are an integral part of these consolidated financial statements.

TRANS MOUNTAIN CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands of Canadian dollars)

	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018 ^(a)
Net income	130,855	9,538
Other comprehensive income (loss), net of tax		
Currency translation adjustment	(14,812)	12,983
Pension and post-employment benefits <i>(Note 13)</i>	(7,189)	(5,646)
	(22,001)	7,337
Comprehensive income	108,854	16,875

(a) 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 period ended December 31, 2018 only contain operations from September to December 2018.

The accompanying notes are an integral part of these consolidated financial statements.

TRANS MOUNTAIN CORPORATION
CONSOLIDATED BALANCE SHEET
(In thousands of Canadian dollars)

As of December 31,	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	423,899	169,200
Restricted cash (Notes 2, 16)	-	500,000
Accounts receivable	62,801	142,712
Other current assets (Note 7)	19,511	30,670
	506,211	842,582
Property, plant and equipment (Note 8)	5,744,369	4,530,559
Right-of-use asset (Note 2)	67,659	-
Regulatory assets (Note 15)	40,853	24,568
Goodwill (Notes 3, 9)	888,098	888,098
Restricted investments (Note 2)	70,911	54,783
Restricted Cash (Note 2)	63,015	48,843
Deferred amounts and other assets (Note 10)	60,619	24,525
Total Assets	7,441,735	6,413,958
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 11)	305,868	120,687
Regulatory liabilities (Note 15)	196,888	102,695
Loans from parent (Note 16)	-	607,250
Other current liabilities (Note 12)	23,180	6,165
	525,936	836,797
Loans from parent (Note 16)	3,257,100	2,506,350
Deferred income taxes (Note 6)	584,885	618,780
Regulatory liabilities (Note 15)	131,185	212,500
Pension and post-employment benefits (Note 13)	87,297	74,931
Lease liabilities (Note 5)	51,955	-
Other deferred credits (Note 14)	12,748	9,325
Total Liabilities	4,651,106	4,258,683
Equity	2,790,629	2,155,275
Total Liabilities and Equity	7,441,735	6,413,958

Litigation, commitments and contingencies (Note 20)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

“signed”

William Downe
Director

“signed”

Brian Ferguson
Director

TRANS MOUNTAIN CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of Canadian dollars)

	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018 ^(a)
Operating activities		
Net income for the period	130,855	9,538
Items not affecting cash		
Depreciation and amortization	100,551	33,615
Equity allowance for funds used during construction	(91,292)	(21,241)
Deferred income taxes (Note 6)	(31,508)	1,662
Changes in non-cash working capital items (Note 18)	48,705	119,972
Total Cash and cash equivalents and Restricted cash provided by operating activities	157,311	143,546
Investing activities		
Capital expenditures	(1,070,066)	(189,170)
Internal use software expenditures	(10,094)	-
Purchase of restricted investments	(13,957)	(4,843)
Acquisition, net of cash and restricted cash acquired (Note 3)	-	(4,484,157)
Working capital settlement on acquisition (Note 3)	37,020	-
Total Cash and cash equivalents and Restricted cash used in investing activities	(1,057,097)	(4,678,170)
Financing activities		
Issuances of loans from parent (Note 16)	643,500	3,113,600
Repayment of loans from parent (Note 16)	(500,000)	-
Capital contributions (Note 16)	526,500	2,138,400
Total Cash and cash equivalents and Restricted cash provided by financing activities	670,000	5,252,000
Effects of exchange rate changes on Cash and cash equivalents and Restricted cash	(1,343)	667
Net (decrease) increase in Cash and cash equivalents and Restricted cash	(231,129)	718,043
Cash and cash equivalents and Restricted cash, beginning of period	718,043	-
Cash and cash equivalents and Restricted cash, end of period	486,914	718,043
Cash and cash equivalents, beginning of period	169,200	-
Restricted cash, beginning of period	548,843	-
Cash and cash equivalents and Restricted cash, beginning of period	718,043	-
Cash and cash equivalents, end of period	423,899	169,200
Restricted cash, end of period	63,015	548,843
Cash and cash equivalents and Restricted cash, end of period	486,914	718,043
Supplemental Disclosures of Cash Flow Information		
Cash interest paid, net of amounts capitalized	89,441	38,914
Cash paid for income taxes	538	-
Non-cash Investing and Financing		
Change in non-cash property, plant and equipment due to accruals and contractor advances	162,552	(7,781)
Increase in property, plant and equipment due to foreign currency translation	13,536	12,301
Right-of-use assets obtained in exchange of lease obligations	82,699	-

(a) 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 period ended December 31, 2018 only contain operations from September to December 2018.

The accompanying notes are an integral part of these consolidated financial statements.

TRANS MOUNTAIN CORPORATION
CONSOLIDATED STATEMENT OF EQUITY
(In thousands of Canadian dollars)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Equity
Balance at May 28, 2018	-	-	-	-	-
Capital contributions (<i>Note 16</i>)	2,064,150	74,250	-	-	2,138,400
Net income	-	-	9,538	-	9,538
Other comprehensive income (loss) income, net of tax	-	-	-	7,337	7,337
Balance at December 31, 2018	2,064,150	74,250	9,538	7,337	2,155,275
Capital contributions (<i>Note 16</i>)	-	526,500	-	-	526,500
Net income	-	-	130,855	-	130,855
Other comprehensive income (loss), net of tax	-	-	-	(22,001)	(22,001)
Balance at December 31, 2019	2,064,150	600,750	140,393	(14,664)	2,790,629

The accompanying notes are an integral part of these consolidated financial statements.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Trans Mountain Corporation (“the Corporation” or “TMC”) is a Federal Crown corporation, incorporated under the *Canada Business Corporations Act* on May 28, 2018 and was acquired by Canada TMP Finance Ltd. (“TMP Finance”) on May 31, 2018. TMC is a wholly owned subsidiary of TMP Finance, which is a wholly owned subsidiary of Canada Development Investment Corporation (“CDEV”). CDEV is wholly owned by Her Majesty in Right of Canada and is an agent Crown corporation. TMC is subject to the provisions of Part X of the *Financial Administration Act* and the provisions of the *Income Tax Act*.

On August 31, 2018, TMC acquired four entities (the “Acquisition”): Trans Mountain Pipeline Limited Partnership (“TMP LP”) and its wholly owned subsidiary Trans Mountain Pipeline (Puget Sound) LLC (“Puget”), Trans Mountain Pipeline ULC (“TMP ULC”), and Kinder Morgan Canada Inc. (now renamed Trans Mountain Canada Inc. (“TMCI”). Together these entities, referred to as the “Target Entities”, own and manage the Trans Mountain pipeline (“TMPL”) and the Puget Sound pipeline (“Puget Sound”). TMPL has operated since 1953, and in its current configuration transports approximately 300,000 barrels per day of crude oil and refined petroleum from Edmonton, Alberta to Burnaby, British Columbia. As part of the purchase of TMP LP, the Corporation also acquired certain rights, designs and construction contracts related to the expansion of the TMPL known as the Trans Mountain Expansion Project (“TMEP”). If completed as currently anticipated, the TMEP will increase the capacity of the TMPL to 890,000 barrels per day. Puget owns the Puget Sound pipeline, which interconnects with TMPL at the international border near Sumas, British Columbia, and transports products to refineries in Washington State. TMP ULC is the General Partner of TMP LP, and TMCI employs the workforce that manages and operates the pipelines and related assets.

These consolidated financial statements include operating results of TMC and the wholly owned Target Entities, including the Trans Mountain Pipeline Reclamation Trust (the “Trust”) which is consolidated with the Corporation. 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 period ended December 31, 2018 only contain operations from September to December 2018.

TMC’s mandate is to operate the existing TMPL and Puget Sound and to complete the TMEP in a timely and commercially viable manner.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”), as contained in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”). The *Canada Business Corporations Act* subsection 71(1) requires the preparation of annual financial statements in accordance with Canadian GAAP. TMC applied for and received an exemption from this requirement, allowing TMC to use U.S. GAAP in the preparation of its consolidated financial statements for the year ended December 31, 2019. TMC believes that U.S. GAAP provides better comparability with industry peers and better reflects the economic effects of the actions of regulatory bodies on its operations. In preparing these annual consolidated financial statements in accordance with U.S. GAAP, all significant intercompany items have been eliminated on consolidation.

In management’s opinion, all adjustments considered necessary for a fair statement of the financial position and operating results have been included in the accompanying consolidated financial statements.

Amounts are stated in Canadian dollars, which is the functional currency of all of the Corporation’s operations, except for Puget which uses the U.S. dollar as its functional currency.

TMC operates in one operating segment, as the chief operating decision maker reviews operating results at this level to assess financial performance and make resource allocation decisions.

These consolidated financial statements were authorized by the board of directors on March 4, 2020. Subsequent events have been evaluated from December 31, 2019 to the date the consolidated financial statements were available for issue on March 4, 2020 and there are no subsequent events which would require adjustment to the consolidated financial statements and related disclosures.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Pronouncements

Leases — Topic 842

On January 1, 2019, TMC adopted Accounting Standards Updates (“ASU”) No. 2016-02, “Leases (Topic 842)” and a series of related accounting standard updates (collectively “Topic 842”) designed to establish a comprehensive new lease accounting model and design disclosures to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. Most significantly, the new standard clarifies the definition of a lease and requires a lessee to recognize a right-of-use (“ROU”) asset and a corresponding lease liability on the consolidated balance sheet for all leases with a term longer than twelve months. Leases are classified as operating or finance leases and the classification impacts the pattern of expense recognition in the consolidated statement of income. The standard does not have a significant impact on the Corporation’s lessor accounting.

A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. TMC applied the transition provision which allows the Corporation to apply the standard using the adoption date as the date of initial application, effectively allowing the Corporation to not apply the new guidance, including disclosure requirements, to comparative periods. The Corporation elected to apply the ‘package of practical expedients’, which permits an entity not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The practical expedient related to land easements was also elected allowing the accounting treatment for land easements on existing agreements as of January 1, 2019 to be carried forward. For certain leases, related to real estate where the Corporation is the lessee and merchant tanks where the Corporation is the lessor, the practical expedient not to separate the lease and non-lease components has been elected and the lease and non-lease components are accounted for as a single component.

The impact of Topic 842 on the consolidated balance sheet on January 1, 2019 resulted in recognition of ROU assets and lease liabilities for operating leases, while the accounting for finance leases was substantially unchanged. The following table illustrates the amounts recognized for operating leases as of January 1, 2019. There was no impact to beginning retained earnings.

	January 1, 2019
(In thousands of Canadian dollars)	
ROU asset	51,556
Lease liabilities – current	(9,501)
Lease liabilities – non-current	(42,055)

For more information, see “Leases” below and Note 5.

Internal-Use Software — ASU No. 2018-15

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance also requires the entity to amortize the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the arrangement. This guidance is effective January 1, 2021; however, early adoption is permitted. TMC elected to adopt this guidance effective January 1, 2019. The guidance was applied prospectively and did not have a material impact on the consolidated financial statements.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (*continued*)

Use of Estimates

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring certain assumptions with respect to values or conditions, which cannot be known with certainty at the time the consolidated financial statements are prepared. These estimates and assumptions affect the amounts reported for assets and liabilities, revenues and expenses during the reporting period, and the disclosures, including as it relates to contingent assets and liabilities at the date of the consolidated financial statements. These estimates are evaluated on an ongoing basis, utilizing historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from estimates. Any effects on the business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

In management's opinion, certain accounting policies are of more significance in the financial statement preparation process than others. Set out below are the principal accounting policies applied in the preparation of the accompanying consolidated financial statements.

Regulation

The Canada Energy Regulator ("CER"), previously known as the National Energy Board ("NEB"), regulates TMP LP's operations. Puget's operations are regulated by the United States Federal Energy Regulatory Commission ("FERC") and the U.S. Department of Transportation Office of Pipeline Safety ("U.S. DOT").

The CER exercises statutory authority over matters such as construction and operation of facilities, rates and ratemaking, and accounting practices for Canadian pipelines crossing a provincial or international border. To recognize the economic effects of the actions of the regulator, TMP LP applies the provisions of ASC 980 *Regulated Operations*, under which the timing of recognition of certain revenues and expenses may differ from that otherwise expected under U.S. GAAP for non-regulated businesses. The FERC exercises statutory authority over rates and ratemaking for U.S. interstate or international pipelines, including the Puget Sound, while the U.S. DOT regulates facilities operations.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates or paid out of the Trust to cover future abandonment costs in relation to the NEB's Land Matters Consultation Initiative ("LMCI"). Regulatory assets and liabilities are recognized based on the actions, or expected future actions, of the regulator. To the extent that the regulator's actions differ from expectations, the timing and amount of recovery or settlement of regulatory balances could differ from those recorded. See Note 15.

Allowance for funds used during construction ("AFUDC") is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. AFUDC includes both an interest component (interest during construction or "IDC") and, if approved by the regulator, a cost of equity component ("Equity AFUDC"), which are both capitalized based on rates set out in a regulatory agreement. In the absence of rate regulation, TMP LP would capitalize interest using a capitalization rate based on its cost of borrowing, whereas the capitalized equity component, the corresponding earnings during the construction phase and the subsequent depreciation would not be recognized.

Revenue Recognition

Revenue from contracts with customers is accounted for in accordance with ASC Topic 606. The unit of account in Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods and services) or a series of distinct goods or services provided over a period of time. Topic 606 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, to be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies *(continued)*

Revenue Recognition *(continued)*

Nature of Revenue

TMC provides crude oil and refined petroleum transportation and storage services. The regulated tariffs for the TMPL and Puget Sound are designed to provide revenues sufficient to recover the costs of providing transportation and storage services to shippers, including a return on invested capital. TMPL and Puget Sound are common carrier pipelines, generally providing services on a non-firm basis.

TMPL's revenue is adjusted according to terms prescribed in its toll settlement with shippers as approved by the CER. Differences between transportation revenue recognized pursuant to its toll settlement and actual toll receipts are recognized as regulatory assets or liabilities and are settled in future tolls.

Non-firm, interruptible ("spot") transportation and storage services are provided on the TMPL and the Puget Sound when and to the extent that it is determined capacity is available in these pipeline systems. The shippers typically pay a per-unit rate for actual quantities of product injected into/withdrawn from storage and/or transported.

Revenue from Contracts with Customers

The customer service contracts primarily include transportation service contracts. Generally, for the majority of these contracts: (i) the promise is to transfer (or stand ready to transfer) a series of distinct integrated services over a period of time, which is a single performance obligation; (ii) the transaction price includes fixed and/or variable consideration, which amount is determinable at contract inception and/or at each month end based on the right to invoice at month end for the value of services provided to the customer that month; and (iii) the transaction price is recognized as revenue over the service period specified in the contract (which can be a day, including each day in a series of promised daily services, a month, a year, or other time increment, including a deficiency makeup period) as the services are rendered using a time-based (passage of time) or units-based (units of service transferred) method for measuring transfer of control of the services and progress towards satisfying the performance obligation, based on the nature of the promised service (e.g., firm or non-firm) and the terms and conditions of the contract (e.g., contracts with or without makeup rights).

Firm services (also called uninterruptible services) are services that are promised to be available to the customer at all times during the period(s) covered by the contract, with limited exceptions. The firm service contracts are typically structured with take-or-pay or minimum volume provisions, which specify minimum service quantities a customer will pay for even if it chooses not to receive or use them in the specified service period. The transaction price is recognized as revenue in the specified service period as the promised units of services are transferred to the customer.

Non-firm services (also called interruptible services) are the opposite of firm services in that such services are provided to a customer on an "as available" basis. Generally, there is no obligation to perform these services until a customer's periodic request for service is accepted. For the majority of the non-firm service contracts, the customer will pay only for the actual quantities of services it chooses to receive or use, and the transaction price is typically recognized as revenue as those units of service are transferred to the customer in the specified service period (typically a daily or monthly period).

Leases

The Corporation adopted Topic 842 on January 1, 2019 using the transition provision. As a result, the comparative period presented on the consolidated financial statements is reported under the previous lease standard.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies *(continued)*

Leases (continued)

Lessee

An arrangement is determined to be, or contain, a lease at inception. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Beginning January 1, 2019, the ROU asset and lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Leases in effect prior to January 1, 2019 are recognized at the present value of the remaining payments based on the lease term remaining as of January 1, 2019. For purposes of determining the lease liabilities, the lease term is deemed to include the renewal option when it is reasonably certain that it will be exercised. As most of TMC's leases do not provide an implicit rate, an incremental borrowing rate based on the lease term is used to determine the present value of the lease payments. The implicit rate is used when readily determinable. Where leases are subject to changes based on an index or rate, the lease liability is not remeasured based on these changes and instead, are treated as variable lease payments.

Leases are classified as either operating or finance leases. Operating leases are recognized as "Right-of-use assets" and corresponding liabilities are included in "Other current liabilities" and "Lease liabilities" on the accompanying consolidated balance sheet. Operating lease costs are recognized as a single lease cost on a straight-line basis over the lease term. Finance lease assets are included in "Property, plant, and equipment" and the corresponding liabilities are included in "Other current liabilities" and "Other deferred credits" on the accompanying consolidated balance sheet. Finance lease costs include recognition of interest expense on the lease liability and amortization of the ROU asset.

Prior to adoption of Topic 842, leases were evaluated and classified as either operating or capital leases. Capital leases which transfer substantially all of the risks and benefits incidental to ownership of the leased item, were capitalized at inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lessor

Leases where the Corporation is the lessor are classified and accounted for as operating leases. The Corporation recognizes lease payments as income over the lease term on a straight-line basis. Variable lease payments are recognized as income in the period in which the change in facts and circumstances on which these payments are based occur.

Prior to the adoption of Topic 842, leases where the Corporation is the lessor were also classified and accounted for as operating leases. Operating lease payments were recognized as lease revenue in the consolidated statement of income.

Pensions and post-employment benefits

The differences between the fair value of each of the pension and other post-employment benefit plans' assets and the benefit obligations are recorded as either assets or liabilities on the accompanying consolidated balance sheet. Deferred plan costs and income—unrecognized losses and gains, unrecognized prior service costs and credits, and any remaining unamortized transition obligations—are recorded in "Accumulated other comprehensive income" or as a regulatory asset or liability for certain regulated operations until they are amortized as a component of benefit expense. The service cost component of net benefit expense is recognized in "Salaries and benefits" and the other components of the net benefit expense are recognized in "Other, net" with the accompanying consolidated statement of income. See Note 13 for additional information regarding the pension and other post-employment benefit plans.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies *(continued)*

Income Taxes

Income tax expense is based on an estimate of the effective tax rate in effect or to be in effect during the relevant periods. The changes in tax legislation are included in the relevant computations in the period in which such changes are enacted. The Corporation does business in various jurisdictions with differing laws concerning how income subject to each jurisdiction's tax regime is measured and at what effective rate such income is taxed, which requires an estimate of how income will be apportioned among the various jurisdictions in order to arrive at an overall effective tax rate. Changes in the effective rate, including any effect on previously recorded deferred taxes, are recorded in the period in which the need for such change is identified.

Deferred income tax assets and liabilities are recognized for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Deferred tax assets are reduced by a valuation allowance for the amount that is, more likely than not, to not be realized. While estimated future taxable income and prudent and feasible tax planning strategies are considered in determining the amount of the valuation allowance, any change in the amount that is expected to ultimately be realized will be included in income in the period in which such a determination is reached.

Foreign Currency

Transactions in foreign currencies are initially recorded at the exchange rate in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars using the closing exchange rate at the balance sheet date. The resulting exchange rate differences are included in the consolidated statement of income.

The assets and liabilities of Puget, which uses U.S. dollars as its functional currency, are translated to Canadian dollars at period-end exchange rates. Income and expense items are translated at weighted-average rates of exchange prevailing during the period and its equity accounts are translated by using historical exchange rates. The cumulative translation adjustments balance is included in "Accumulated other comprehensive income" on the consolidated statement of equity and would be recognized in earnings upon the sale of Puget.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid short-term investments with original maturities of three months or less.

Restricted Cash

Cash and cash equivalents that are restricted as to withdrawal or usage are presented as restricted cash on the consolidated balance sheet and are presented as non-current to the extent they are to be used to satisfy long-term obligations. Restricted cash consists of cash in the Trust that is to be used to satisfy the LMCI liabilities as well as cash held as security for letters of credit.

Accounts Receivable

Provisions for losses on accounts receivable due from customers are established if it is determined to be probable that all or part of the outstanding balance will not be collected. Collectability is reviewed regularly and an allowance or adjustments are established as necessary using the specific identification method. As of December 31, 2019, there was no allowance for doubtful accounts recorded.

Inventories

Inventories, which consist of materials and supplies, are valued at weighted-average cost, and are periodically reviewed for physical deterioration and obsolescence.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies *(continued)*

Internal-Use Software

Internal-use software projects are recognized at historical cost and included in “Deferred amounts and other assets” on the accompanying consolidated balance sheet. TMC capitalizes costs incurred during the application development stage of internal-use software projects. In general, software assets are amortized on a straight-line basis over the assets estimated useful lives, commencing when the asset is available for use.

Property, Plant and Equipment

Property, plant and equipment is recorded at historical cost. Expenditures are capitalized for construction, expansion, major renewals and betterments. Maintenance and repair costs are expensed as incurred. Expenditures are capitalized for project development if they are expected to have future benefit. Interest on borrowed funds is capitalized for non-rate-regulated assets. For rate-regulated assets, AFUDC is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. IDC and interest capitalized on non-rate-regulated assets are referred to herein as “capitalized debt financing costs” and result in a reduction in interest expense. Equity AFUDC is recognized as other income in “Equity allowance for funds used during construction” in the accompanying consolidated statement of income.

Depreciation is recorded on a straight-line basis over the assets estimated useful lives. Depreciation rates for regulated assets are approved by the regulator.

Construction work in progress stops accumulating AFUDC and begins depreciating when the assets are available for their intended use.

Long-lived Asset Impairments

Long-lived assets and investments are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or investment may not be recoverable. Impairment losses are recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

If triggering events exist, a review is completed of the carrying value of the long-lived assets, including property, plant and equipment as well as other intangibles, and any appropriate impairments are recorded prior to conducting the goodwill impairment test. Because the impairment test for long-lived assets held in use is based on undiscounted cash flows, there may be instances where an asset or asset group is not considered impaired, even when its fair value may be less than its carrying value, because the asset or asset group is recoverable based on the cash flows to be generated over the estimated life of the asset or asset group. For the year ended December 31, 2019 there were no impairments recorded to long-lived assets.

Acquisitions and Goodwill

Business combinations are accounted for using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair values at the date of acquisition.

The excess, if any, of the fair value of the consideration transferred over the estimated fair value of the net assets acquired is classified as goodwill. Goodwill is not subject to amortization but must be tested for impairment at least annually. Goodwill is tested for impairment by comparing the fair value of a reporting unit with its carrying amount. To the extent the carrying amount of the reporting unit exceeds its fair value a loss is recognized for the excess. Goodwill is also evaluated for impairment to the extent events or conditions indicate a risk of possible impairment. Generally, the evaluation of goodwill for impairment involves a quantitative test, although under certain circumstances an initial qualitative evaluation may be sufficient to conclude that goodwill is not impaired without conducting the quantitative test.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (*continued*)

Restricted Investments

Restricted investments are long-term investments in Canadian government and Federal agency bonds held in the Trust. The restricted long-term investments by the Trust are to be used solely for the purposes of satisfying future abandonment costs under the LMCI. There are related LMCI long-term obligations of an amount equal to the restricted cash and restricted investments in the Trust recorded in Regulatory liabilities on the accompanying consolidated balance sheet. The restricted assets are measured at fair value with offsetting adjustments recorded to the LMCI liabilities. Fair values for the restricted investments are determined based on observable prices and inputs for similar instruments available in the market, utilizing widely accepted cash flow models to value such instruments. Such techniques represent a Level 2 fair value measurement. See Note 15 regarding the amounts recorded in Regulatory liabilities.

Asset Retirement Obligations (“ARO”)

Liabilities are recorded for obligations related to the retirement and removal of long-lived assets used in the Corporation's businesses. Liabilities are recorded for the fair value of asset retirement obligations on a discounted basis when they are incurred and can be reasonably estimated, which is typically at the time the assets are installed or acquired. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, and the initial capitalized costs are depreciated over the useful lives of the related assets. The liabilities are eventually extinguished when the asset is taken out of service.

Due to the lack of information that can be derived from past experience or industry practice, the timing and scope of future removal and site restoration costs for the Corporation's assets is not reasonably determinable. Therefore, no ARO is recognized in these consolidated financial statements. Also see Note 15 regarding pipeline abandonment surcharges retained in the Trust.

Environmental Matters

Environmental expenditures are capitalized or expensed, as appropriate. Certain environmental expenditures required in obtaining rights-of-way, regulatory approvals or permitting as part of construction are capitalized. Environmental costs that relate to an existing condition caused by past operations, which do not contribute to current or future revenue generation are accrued and expensed. Generally environmental liabilities are not discounted to a net present value and are recorded as environmental liabilities when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, recording of these accruals coincides with completion of a feasibility study or commitment to a formal plan of action. Receivables are recognized for anticipated associated insurance recoveries when such recoveries are deemed to be virtually certain. Environmental liabilities assumed in a business combination are recorded at estimated fair value, where appropriate.

Reviews of potential environmental issues and claims that could impact the Corporation's assets or operations are routinely conducted. These reviews assist in identifying environmental issues and estimating the costs and timing of remediation efforts. Environmental liabilities are also routinely adjusted to reflect changes in previous estimates. In making environmental liability estimations, the material effect of environmental compliance, pending legal actions against the Corporation, and potential third-party liability claims are considered. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in income in the period in which they are reasonably determinable. As of December 31, 2019 and 2018, there was \$7.3 million and \$6.7 million, respectively accrued for outstanding environmental matters and are included in “Other current liabilities” and “Other deferred credits” within the accompanying consolidated balance sheet.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisition

On August 31, 2018, the Corporation closed the Acquisition for cash consideration of \$4.44 billion. In February 2019, the remaining working capital adjustments of \$37.0 million were received. The Acquisition has been accounted for as a business combination under the acquisition method of accounting as prescribed by ASC 805 *Business Combinations*.

The acquired assets and assumed liabilities are recorded at their estimated fair values at the date of acquisition as summarized below:

	August 31, 2018
(In thousands of Canadian dollars)	
Fair value of net assets acquired:	
Accounts receivable	76,349
Other current assets	22,930
Property, plant and equipment, net	4,349,243
Regulatory Assets	21,892
Deferred amounts and other assets	22,555
Restricted investments	49,151
Restricted cash	215
Accounts payable and accrued liabilities	(91,092)
Current regulatory liabilities	(106,077)
Other current liabilities	(4,883)
Deferred income taxes	(619,227)
Regulatory liabilities	(85,739)
Pension and post-employment benefits	(67,995)
Other deferred credits	(8,068)
	3,559,254
Goodwill	888,098
	4,447,352
Purchase price:	
Cash consideration, net of cash acquired	4,447,352
	4,447,352

Upon acquisition on August 31, 2018, the Target Entities held a non-revolving, unsecured construction credit facility in an aggregate principal amount of up to approximately \$1 billion to facilitate TMEP planning and construction work from May 29, 2018 until the close of the Acquisition. On the close of the Acquisition, there was \$559.8 million of outstanding borrowings under this facility. As an integrated part of closing the Acquisition, these amounts were repaid and this facility was terminated upon the Acquisition. The repayment of the facility was financed primarily using cash acquired in the Target Entities of \$502.2 million. As a result, the outstanding borrowings on this facility are not included in the net assets acquired.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Acquisition (continued)

The fair values of current assets including cash and cash equivalents, accounts receivable, and inventories and the fair values of current liabilities including credit facilities approximated their carrying values due to the short-term nature of these items. Other regulatory assets and liabilities arising from regulation by the CER were also deemed to have fair values equal to their carrying values on acquisition.

The valuation methodologies described in ASC 820 *Fair Value Measurements and Disclosures* were applied to value the property, plant and equipment acquired. The fair value of the property, plant and equipment was determined using a market participant perspective based on discounted cash flows. The transaction was conducted with an assumption that a main purpose of the Acquisition is to build TMEP and included in the purchase price is \$1.1 billion of related construction work in progress. The discounted cash flow model used a scenario approach to incorporate the risks noted in relation to timing of project approval and potential delays in construction timing.

The purchase price resulted in goodwill of \$888.1 million, which is not deductible for tax purposes. The majority of goodwill on acquisition relates to the deferred income tax liability of approximately \$619.2 million as the deferred tax liability was recorded at an undiscounted basis rather than at its fair value. The remaining goodwill relates to economic benefits associated with the completion of TMEP, including the direct economic benefits that the completion of the TMEP creates for the existing pipeline system. Refer to Note 9 for discussion of goodwill as of December 31, 2019.

There is a future contingent liability associated with the retirement and removal of the long-lived assets acquired. However, the timing and fair value is not reasonably determinable due to the lack of information that can be derived from past experience or industry practice. Therefore, no ARO is recognized in the fair value of the net assets acquired.

Acquisition related expenditures incurred in the period from incorporation on May 28, 2018 to December 31, 2018 were \$0.1 million. From the Acquisition close through December 31, 2018, the Target Entities generated \$137.8 million in revenues and \$60.3 million in earnings before interest, taxes, and depreciation, which is defined as Revenues less Expenses other than Depreciation and amortization.

4. Revenue Recognition

Disaggregation of Revenues

The following table presents revenues disaggregated by revenue source and type of revenue for each revenue source:

	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018
(In thousands of Canadian dollars)		
Transportation		
Fee-based services	367,607	98,950
Regulatory adjustment	(10,309)	17,415
	357,298	116,365
Leases	60,146	20,417
Other	2,308	1,011
	419,752	137,793

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Revenue Recognition (continued)

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. Contract assets are recognized in those instances where billing occurs subsequent to revenue recognition and the right to invoice the customer is conditioned on something other than the passage of time. For the year ended December 31, 2019 and for the period from incorporation on May 28, 2018 to December 31, 2018, there were no contract assets recognized. Contract liabilities are substantially related to capital improvements paid for in advance by certain customers, generally in the Corporation's non-regulated businesses, which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contracts.

The following table presents the activity in contract liabilities:

	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018
(In thousands of Canadian dollars)		
Opening balance	4,840	-
Additions	385	-
Acquired on Acquisition	-	5,037
Transfer to Revenues	(597)	(197)
Ending balance	4,628	4,840
Presented as:		
Other current liabilities (Note 12)	213	212
Other deferred credits (Note 14)	4,415	4,628
	4,628	4,840

Revenue Allocated to Remaining Performance Obligations

The following table presents the estimated revenue allocated to remaining performance obligations for contracted revenue that has not yet been recognized, representing the "contractually committed" revenue as of December 31, 2019 that will be invoiced or transferred from contract liabilities and recognized in future periods.

Year	Estimated Revenue
(In thousands of Canadian dollars)	
2020	39,968
2021	39,860
2022	3,580
2023	213
2024	213
Thereafter	3,565
Total	87,399

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Revenue Recognition *(continued)*

Revenue Allocated to Remaining Performance Obligations

The contractually committed revenue primarily consists of service customer contracts, which have minimum volume commitment payment obligations. The actual revenue recognized on these customer contracts can vary depending on the service provided and the contractually committed revenue for purposes of the tabular presentation above is generally limited to the minimum revenue committed to under these customer contracts. Based on the following practical expedients that were elected to be applied, the contractually committed revenue amounts generally exclude remaining performance obligations for: (i) contracts with index-based pricing or variable volume attributes in which such variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct service that forms part of a series of distinct services; (ii) contracts with an original expected duration of one year or less; and (iii) contracts for which revenue is recognized at the amount for which there is a right to invoice for services performed.

5. Leases

Lessee

TMC incurs operating lease costs related primarily to real estate buildings, land, and office equipment. The operating leases have remaining lease terms ranging from one to 85 years. Some leases have options to extend the lease which are included in the lease term for purposes of determining the lease liabilities when it is reasonably certain that the renewal option will be exercised. As of December 31, 2019, the weighted average remaining operating lease term was 30.5 years and the weighted average discount rate was 5.19%.

For the year ended December 31, 2019, the following amounts were recognized related to operating leases:

(In thousands of Canadian dollars)	
Lease cost:	
Operating lease cost ^(a)	14,690
Short-term and variable cost	2,634
Total operating lease cost	17,324
Other information:	
Operating cash flows from operating leases	(2,828)
Investing cash flows from operating leases	(11,304)
Amortization of operating ROU assets	11,697

(a) Includes \$11.3 million of capitalized lease costs.

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Leases (continued)

Lessee (continued)

Lease Maturity analysis

The operating lease payments under non-cancellable leases, excluding short-term leases, as of December 31, 2019 are as follows:

	December 31, 2019
(In thousands of Canadian dollars)	
2020	16,376
2021	11,724
2022	8,401
2023	4,735
2024	4,083
Thereafter	105,013
Total undiscounted cash flows	150,332
Less: imputed interest	(82,115)
Total operating lease liabilities	68,217
Presented as:	
Other current liabilities (<i>Note 12</i>)	16,262
Lease liabilities	51,955

As of December 31, 2019, TMC had entered into leases related to real estate buildings which had not yet commenced. The undiscounted future lease payments on these leases is \$0.2 million.

Undiscounted future gross minimum lease payments reported under previous lease guidance for operating leases as of December 31, 2018 are as follows:

	December 31, 2018
(In thousands of Canadian dollars)	
2019	9,734
2020	5,813
2021	5,601
2022	4,167
2023	2,254
Thereafter	106,464
Total undiscounted future gross minimum lease payments	134,033
Previously included in capital commitments	(13,424)
Additional arrangements and adjustments	(6,380)
Total rental commitments previously disclosed	114,229

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Leases (continued)

Lessor

Operating leases in which the Corporation is the lessor relate to merchant tanks owned by the Corporation and housing located along the pipeline right of way or in the proximity of pump stations. These leases have remaining lease terms of up to 20 years, some of which have extension options of up to 5 years per the renewal term. The agreement terms on certain merchant tanks are subject to automatic renewal for successive 5-year terms unless terminated by either party within the specified notice period. In relation to the same merchant tanks, the Corporation retains the right to relinquish the right of the lessee to use any specified tank, or multiples of such, if the assets are required for regulated service and the appropriate notice period of approximately 2 years is given. Options for a lessee to renew the contract are not included as part of future minimum operating lease revenues. None of the Corporation's leases allow the lessee to purchase the lease asset.

The practical expedient to not separate lease and non-lease components was elected under these agreements where the Corporation acts as the lessor. Examples of such non-lease components include the services associated with the operation of the various merchant tanks. Variable lease payments related to the service of operating certain merchant tanks have been excluded from the future operating lease revenues due to their variability dependent on the use of the merchant tanks, market conditions and pricing, occurrence or non-occurrence of certain events or based on other factors controlled by TMC as lessor.

For the year ended December 31, 2019, lease income for merchant tank operating leases recognized in "Lease revenue" for year ended December 31, 2019 totalled \$60.1 million, which included the variable lease payments described above, and lease income related to housing operating leases recognized in "Other revenue" totalled \$0.2 million.

The future undiscounted minimum operating lease revenues based on contractual agreements are as follows.

(In thousands of Canadian dollars)	
2020	51,214
2021	49,541
2022	47,937
2023	42,373
2024	40,759
Thereafter	415,800
Total	647,624

As of December 31, 2019, the amounts recognized in Property, plant and equipment that represent operating lease assets where the Corporation is the lessor total \$509.5 million at cost with a net book value of \$488.6 million.

6. Income Taxes

Components of the income tax provision are as follows:

	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018
(In thousands of Canadian dollars)		
Current tax (recovery) expense	(814)	1,870
Deferred tax (recovery) expense	(31,508)	1,662
Total Income tax (recovery) expense	(32,322)	3,532

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Income Taxes (continued)

As a result of an Alberta corporate tax rate reduction in June 2019 from 12% to 8%, the blended Federal and Provincial (Alberta and BC) deferred tax rate was reduced to 24.67% in 2019 from 27% in 2018. This tax rate reduction resulted in a deferred income tax recovery for the year ended December 31, 2019. The current tax rate was also reduced from 27% in 2018 to 26.71% in 2019 as a result of the Alberta corporate tax rate reduction.

The difference between the statutory income tax and the effective income tax recognized is summarized below.

(In thousands of Canadian dollars)	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018
Statutory income tax expense	26,318	3,529
Increase (decrease) as a result of:		
Non-deductible expenditures	312	107
Foreign tax rate differential	(1,293)	(146)
Difference between current and deferred tax rate	(1,482)	-
Deferred tax rate change	(53,437)	-
Other	(2,740)	42
Total income tax (recovery) expense	(32,322)	3,532

Deferred tax assets and liabilities result from the following:

December 31, (In thousands of Canadian dollars)	2019	2018
Deferred tax assets		
Non capital losses	50,181	19,329
Reserves	28,917	17,845
Total Deferred tax assets	79,098	37,174
Deferred tax liabilities		
Property, plant and equipment	(663,983)	(655,954)
Total deferred tax liabilities	(663,983)	(655,954)
Net non-current deferred tax liability	(584,885)	(618,780)

Expiration Periods for Deferred Tax Assets: There were non-capital loss carryforwards as of December 31, 2019 and 2018 of \$203.0 million and \$71.6 million, respectively which will start to expire in 2037.

Unrecognized Tax Benefits: There were no unrecognized tax benefits as of December 31, 2019 and 2018.

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Other Current Assets

December 31, (In thousands of Canadian dollars)	2019	2018
Prepaid expenses and deposits	5,859	5,326
Inventory	6,509	6,048
Regulatory assets (Note 15)	7,143	19,296
	19,511	30,670

8. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

December 31, (In thousands of Canadian dollars)	Useful Life in Years	2019	2018
Pipelines	30-64	1,121,924	1,090,659
Tanks and Station Equipment	5-45	1,843,619	1,844,169
Other	5-40	24,786	17,575
Accumulated depreciation, depletion, and amortization		(130,667)	(33,138)
		2,859,662	2,919,265
Construction work in progress		2,575,075	1,301,614
Land		309,632	309,680
Property, plant and equipment		5,744,369	4,530,559

Depreciation and amortization expense charged against property, plant and equipment was \$100.3 million for the year ended December 31, 2019 and \$33.6 million for the period from incorporation on May 28, 2018 to December 31, 2018.

Equity AFUDC and capitalized debt financing costs charged against property, plant and equipment totalled \$91.3 million and \$58.6 million, respectively for the year ended December 31, 2019 and \$21.2 million and \$13.6 million, respectively for the period from incorporation on May 28, 2018 to December 31, 2018, which was primarily related to the TMEP. See Note 2 for more details on the regulatory concept of AFUDC.

As of December 31, 2019, construction work in progress related to the TMEP was \$2.5 billion, compared to \$1.3 billion as of December 31, 2018. The balance as of December 31, 2018 included the fair value recognized on Acquisition and approximately \$184.1 million incurred by the Corporation after the Acquisition in the period from incorporation on May 28, 2018 to December 31, 2018. These costs have been capitalized and are included in "Property, plant and equipment" on the accompanying consolidated balance sheet.

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Goodwill

The changes in the carrying amount of goodwill were as follows:

	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018
(In thousands of Canadian dollars)		
Opening balance	888,098	-
Goodwill acquired (<i>Note 3</i>)	-	888,098
Ending balance	888,098	888,098

A goodwill impairment test was performed as of December 31, 2019 and did not result in an impairment charge. The fair value of the reporting unit was estimated using an income-based approach based on the discounted cash flows. The estimate of fair value required the use of significant unobservable inputs, including assumptions related to the timing of TMEP construction, discount rate, and changes in cost estimates, and therefore, the fair value is representative of a Level 3 fair value. The total approved project cost estimate for the TMEP is \$12.6 billion, which includes \$1.7 billion of financial carrying costs, and the project is expected to be in-service by the end of 2022. For purposes of determining the fair value, the estimate of discounted cash flows included probability-weighted scenarios of various in-service dates for the TMEP, including in-service dates of 2022, 2023, and a potential scenario where TMEP would not be put in service. The estimate of discounted cash flows was determined using a discount rate of approximately 8.6% which reflects the time value of money based on the risks associated with the Corporation's assets that have not otherwise been incorporated in the cash flow estimates.

Changes in these key assumptions would impact the fair value of the reporting unit which could result in impairment. In reference to a base valuation with an estimated in-service date at the end of 2022, sensitivity analysis of key assumptions was performed. An increase in the assumed discount rate by 25 basis points on the expected cash flows would result in a reduction to the fair value of the reporting unit by approximately \$600 million. If project costs increase by \$600 million, this would result in a reduction to the fair value by approximately \$200 million. If there is a one-year delay to the in-service date of the project, this would result in a reduction to the fair value by approximately \$900 million.

10. Deferred Amounts and Other Assets

December 31,	2019	2018
(In thousands of Canadian dollars)		
Prepaid construction advances	39,490	18,983
Internal-use software	9,874	-
Pension and post-employment benefits (<i>Note 13</i>)	6,006	2,765
Other	5,249	2,777
	60,619	24,525

Depreciation and amortization expense charged against "Deferred amounts and other assets" related to internal-use software was \$0.3 million for the year ended December 31, 2019 and nil for the period from incorporation on May 28, 2018 to December 31, 2018.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Accounts Payable and Accrued Liabilities

December 31, (In thousands of Canadian dollars)	2019	2018
Trade accounts payable and other accrued liabilities	71,263	69,563
Property, plant and equipment accrued liabilities	234,605	51,124
	305,868	120,687

12. Other Current Liabilities

December 31, (In thousands of Canadian dollars)	2019	2018
Operating lease liabilities (Note 5)	16,262	-
Environmental accrual	3,641	4,019
Contract liabilities and other deferred revenue	1,470	1,820
Pension and post-employment benefits (Note 13)	1,293	326
Other	514	-
	23,180	6,165

13. Pension and Post-employment Benefits

TMCI sponsors pension plans covering eligible Canadian employees and retirees (the Legacy and TMCI plans). Legacy plans are closed to new participants. The plans include registered defined benefit pension plans (the Legacy plan includes a defined contribution component and is included in the following disclosures), and supplemental unfunded arrangements which provide pension benefits in excess of Income Tax Act limits. Post-employment benefits other than pension are also provided for qualified retired employees.

Retirement benefits under the defined benefit plans are based on employees' years of credited service and pensionable earnings. Contributions for the defined benefit component of the plans are based on independent actuarial valuations. The most recent actuarial valuation for the defined benefit pension plans for funding purposes was completed as of December 31, 2018. Contributions for the defined contribution component of the Legacy plan were based on pensionable earnings.

Certain employees are eligible to receive supplemental benefits under the defined benefit plans. The supplemental plans provide pension benefits in excess of Income Tax Act limits, but consistent with the plan formula. The TMCI supplemental plan is unfunded and the Legacy supplemental plan is secured by a letter of credit.

Other post-employment benefits ("OPEB") are provided to current and future retirees and their dependents, including depending on circumstance, supplemental health, dental and life insurance coverage. Medical benefits under those OPEB plans may be subject to deductibles, co-payment provisions, dollar caps and other limitations on the amount of employer costs, and the Corporation reserves the right to change these benefits. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determination, considering, among other factors, health care cost escalation. The most recent actuarial valuation for accounting purposes was completed as of December 31, 2019.

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Post-employment Benefits (continued)

Benefit Obligation, Plan Assets, and Funded Status

The following table provides information about the pension and OPEB plans.

	Year ended		For the period from	
	December 31, 2019		May 28, 2018 to	
	Pension	OPEB	Pension	OPEB
(In thousands of Canadian dollars)				
Change in benefit obligation:				
Benefit obligation, opening	257,424	17,623	-	-
Acquisition	-	-	256,380	18,122
Service cost	8,583	416	2,722	141
Interest cost	9,007	606	2,937	206
Actuarial loss (gain)	29,611	1,728	(4,595)	(571)
Benefits paid	(9,704)	(823)	(3,123)	(275)
Participant contributions	2,975	-	790	-
Expenses paid	(696)	-	(231)	-
Plan amendments	1,053	-	2,544	-
Benefit obligation, ending	298,253	19,550	257,424	17,623
Change in plan assets:				
Fair value of plan assets, opening	202,555	-	-	-
Acquisition	-	-	208,070	-
Return on plan assets	30,754	-	(6,150)	-
Employer contributions	9,335	823	3,199	275
Participant contributions	2,975	-	790	-
Benefits paid	(9,704)	(823)	(3,123)	(275)
Expenses paid	(696)	-	(231)	-
Fair value of plan assets, ending	235,219	-	202,555	-
Funded Status – net liability	63,034	19,550	54,869	17,623
Presented as follows:				
Non-current benefit asset (a)	6,006	-	2,765	-
Current benefit liability (b)	(470)	(823)	(326)	-
Non-current benefit liability (c)	(68,570)	(18,727)	(57,308)	(17,623)
	(63,034)	(19,550)	(54,869)	(17,623)

(a) Amounts included in "Deferred amounts and other assets" on the consolidated balance sheet (Note 10).

(b) Amounts included in "Other current liabilities" on the consolidated balance sheet (Note 12).

(c) Amounts included in "Pension and post-employment benefits" on the consolidated balance sheet.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Post-employment Benefits *(continued)*

Components of Accumulated Other Comprehensive Income

The following table details the amounts of pre-tax accumulated other comprehensive loss related to the pension and OPEB plans, which are included in “Accumulated other comprehensive income” on the accompanying consolidated balance sheet as of December 31, 2019 and 2018, excluding \$1.1 million in amounts recoverable through TMPL tolls as of December 31, 2018.

December 31,	2019		2018	
	Pension	OPEB	Pension	OPEB
(In thousands of Canadian dollars)				
Unrecognized net actuarial loss (gain)	12,802	1,157	4,666	(571)
Unrecognized prior service cost	3,319	-	2,544	-
Accumulated other comprehensive loss (gain)	16,121	1,157	7,210	(571)

Actuarial gains and losses and prior service costs deferred in accumulated other comprehensive income are amortized into income over either the period of expected future service of active participants, or over the expected future lives of inactive plan participants. It is anticipated that approximately \$0.3 million of pre-tax accumulated other comprehensive loss will be recognized as part of the net periodic benefit cost in 2020 which relates to unrecognized prior service cost. Pension and OPEB benefits expense associated with labour attributable to TMPL’s regulated operations is incorporated as part of the fixed costs under the terms of the 2019-2021 Incentive Toll Settlement (“ITS”) and a flow through cost item in the 2016-2018 ITS.

Plan Assets

The investment policies and strategies for the assets of the pension plans are established by the Pension Committee (the “Committee”), which is responsible for investment decisions and management oversight of the plans. The stated philosophy of the Committee is to manage these assets in a manner consistent with the purpose for which the plans were established and the time frame over which the plans’ obligations need to be met. The objectives of the investment management program are to (i) meet or exceed plan actuarial earnings assumptions over the long term and (ii) provide a reasonable return on assets within established risk tolerance guidelines and to maintain the liquidity needs of the plans with the goal of paying benefit and expense obligations when due. In seeking to meet these objectives, the Committee recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. In order to reduce portfolio risk and volatility, the Committee has adopted a strategy of using multiple asset classes.

As of December 31, 2019, the target asset allocation for the Legacy plans was 95% fixed income and 5% equity. The target allocation for the TMCI plans were 45% fixed income and 55% equity.

Below are the details of the pension plan assets by class and a description of the valuation methodologies used for assets measured at fair value.

Level 1 assets’ fair values are based on quoted market prices for the instruments in actively traded markets. Included in this level are cash and exchange traded mutual funds. These investments are valued at the closing price reported on the active market on which the individual securities are traded.

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and post-employment benefits (continued)

Plan Assets (continued)

Listed below are the fair values of the pension plans' assets that are recorded at fair value by class and categorized by fair value measurement:

December 31,	Pension Assets	
	2019	2018
(In thousands of Canadian dollars)		
Measured within Level 1 of fair value hierarchy		
Cash	6,286	5,468
Mutual funds (a)	228,933	197,087
	235,219	202,555

(a) Mutual funds were invested in approximately 70% fixed income and 30% equity for the year ended December 31, 2019 and for the period from incorporation on May 28, 2018 to December 31, 2018.

Expected Payment of Future Benefits and Employer Contributions

Following are the expected future benefit payments as of December 31, 2019:

	Pension	OPEB
(In thousands of Canadian dollars)		
2020	11,015	823
2021	11,548	843
2022	11,927	860
2023	12,494	878
2024	12,977	902
2025-2029	68,574	4,763

In 2020, employer contributions are expected to be approximately \$9.2 million and \$0.8 million for the pension and OPEB plans, respectively.

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Post-employment Benefits (continued)

Actuarial Assumptions

Benefit obligations and net benefit cost are based on actuarial estimates and assumptions. The following table details the weighted-average actuarial assumptions used in determining the benefit obligation and net benefit costs of the pension and OPEB plans:

December 31,	2019		2018	
	Pension	OPEB	Pension	OPEB
Assumptions related to benefit obligations:				
Discount rate	3.12%	3.13%	3.81%	3.82%
Rate of compensation increase	3.75%	N/A	4.00%	N/A
Assumptions related to benefit costs:				
Discount rate for benefit obligations	3.81%	3.82%	3.69%	3.69%
Discount rate for interest on benefit obligations	3.57%	3.52%	3.51%	3.44%
Discount rate for service cost	3.89%	3.95%	3.76%	3.79%
Discount rate for interest on service cost	3.73%	3.91%	3.64%	3.76%
Expected return on plan assets	4.63%	N/A	4.24%	N/A
Rate of compensation increase	4.00%	N/A	4.00%	N/A

The expected long-term rates of return on plan assets were determined by combining a review of the historical returns realized within the portfolio, the investment strategy included in the plans' investment policy, and capital market projections for the asset classes in which the portfolio is invested and their target weightings of each asset class.

Actuarial estimates for the OPEB plan benefit obligation assumed a weighted-average annual rate of increase in the per capita cost of covered health care benefits of 5.28% gradually decreasing to 4.00% by the year 2040. Assumed health care cost trends have a significant effect on the amounts reported for OPEB plans. A sensitivity analysis was performed for significant assumptions. A one-percentage point change in assumed rates would have the following effect for the year ended and as of December 31, 2019:

	1% increase	1% decrease
(In thousands of Canadian dollars)		
Health care cost trend rate:		
Aggregate of service cost and interest cost	110	(81)
Accumulated post-employment benefit obligation	1,420	(1,129)
Discount rate:		
Accumulated post-employment benefit obligation	(2,589)	3,296
Net periodic benefit cost	208	(183)

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Post-employment Benefits (continued)

Components of Net Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

The components of net benefit cost and other amounts recognized in pretax other comprehensive loss related to the pension and OPEB plans for the year ended December 31, 2019 and for the period from incorporation on May 28, 2018 to December 31, 2018, excluding \$1.1 million in regulatory amounts amortized as a component of net benefit expense for the year ended December 31, 2019, are as follows:

	Year ended December 31, 2019		For the period from May 28, 2018 to December 31, 2018	
	Pension	OPEB	Pension	OPEB
(In thousands of Canadian dollars)				
Components of net benefit cost:				
Service cost	8,583	416	2,722	141
Interest cost	9,007	606	2,937	206
Expected return on plan assets	(9,278)	-	(3,113)	-
Amortization of prior service cost	278	-	-	-
Net benefit cost	8,590	1,022	2,546	347
Other changes recognized in other comprehensive loss (income):				
Net loss (gain) arising during the period	8,136	1,728	4,666	(571)
Prior service cost arising during the period	1,053	-	2,544	-
Amortization of prior service cost	(278)	-	-	--
Total recognized in total other comprehensive loss (income)	8,911	1,728	7,210	(571)
Total recognized in net benefit cost and other comprehensive loss (income)	17,501	2,750	9,756	(224)

14. Other Deferred Credits

December 31,	2019	2018
(In thousands of Canadian dollars)		
Contract liabilities and other deferred revenue	6,733	6,692
Environmental liabilities	3,706	2,633
Finance lease liabilities	2,309	-
	12,748	9,325

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Accounting for Regulatory Activities

The following table summarizes the regulatory asset and liability balances. The current regulatory assets are included in “Other current assets” within the consolidated balance sheet.

December 31, (In thousands of Canadian dollars)	2019	2018
Bulk oil cargo fee (“BOCF”)	6,018	-
Under-collections of transportation revenue and capacity incentives	1,125	19,296
Total current regulatory assets (<i>Note 7</i>)	7,143	19,296
Bulk oil cargo fee (“BOCF”) - TMEP	40,853	24,568
Total non-current regulatory assets	40,853	24,568
Total regulatory assets	47,996	43,864
Westridge dock premium	179,936	95,338
Over-collections of transportation revenue and capacity incentives	11,162	2,992
Redirect fee	5,790	2,379
Bulk oil cargo fee (“BOCF”)	-	1,986
Total current regulatory liabilities	196,888	102,695
Westridge dock premium	57,068	156,309
Pipeline abandonment surcharge	74,117	56,191
Total non-current regulatory liabilities	131,185	212,500
Total regulatory liabilities	328,073	315,195

Under/Over-collections of transportation revenue and capacity incentives

For 2019, tolls were governed by the terms of the 2019 - 2021 Incentive Toll Settlement (“ITS”). The ITS is a negotiated settlement between TMP ULC, its shippers, and the Canadian Association of Petroleum Producers, as approved by the NEB (now known as the CER). Under the terms of the ITS, tolls are designed to recover an approved rate of return on capital, an allowance for income taxes, and estimated operating expenses and depreciation for the upcoming year. Differences between expected and actual toll proceeds cause a transportation revenue variance (an under or over collection of revenue) in a given year. These under or over collections are recorded as regulatory assets or liabilities, respectively, and they are collected from or refunded to shippers via toll adjustments in subsequent years.

Bulk oil cargo fee (“BOCF”)

The BOCF is intended to provide the Western Canada Marine Response Corporation (“WCMRC”) with funds for spill response and is collected from shippers based on volume of commodities moved through the WCMRC’s response area. TMP LP remits the BOCF related to traffic through the Westridge Marine Terminal (the “dock”) to WCMRC and collects it from TMPL shippers through a tariff provision.

On January 19, 2016, the NEB approved an alternative funding mechanism for WCMRC to enhance spill response capability for expected traffic increases related to the TMEP (the “TMEP BOCF”). The TMEP BOCF is remitted to WCMRC by TMP LP and is to be recovered through TMPL tolls in the 5 years after TMEP in-service.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Accounting for Regulatory Activities (continued)

Westridge dock premium

On April 12, 2006, the NEB approved the inclusion of a Westridge dock premium in the TMPL tariff structure as a means of allocating capacity to shippers at the Westridge dock. 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 incorporated into the following year's toll filings. The timing of such tariff reductions vary depending on the toll filing which is agreed with the shippers and approved annually by the NEB, 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 year to year.

Redirect fee

Shippers are charged an alternate delivery point fee for deliveries to destinations other than the designated delivery point upon nomination. These fees do not result in revenue, because they are collected on behalf of the shippers merely as a means of organizing scheduling and are not compensation for providing services. These collections are recorded as regulatory liabilities and are refunded to shippers via toll adjustments in subsequent years.

Pipeline abandonment surcharges

Amounts represent collection of surcharges related to future pipeline abandonment which is retained in the Trust. The Trust was established in 2015 in the Province of Alberta to set aside funds collected through pipeline abandonment surcharges over a collection period established by the NEB. The use of amounts in the Trust is restricted to pay future abandonment costs.

16. Transactions with Related Parties

Affiliate Activities

The Corporation is related in terms of common ownership to all Canadian federal government departments, agencies and Crown corporations. The Corporation may enter into transactions with some of these entities in the normal course of business.

Loans from Parent

On August 29, 2018, TMC entered into a credit agreement with TMP Finance (the "Credit Agreement") which established the following facilities: the "Acquisition Facility", a non-revolving term loan facility, to be used to fund the acquisition of the Target Entities and for working capital and operating requirements of the Target Entities; the "Construction Facility", a revolving construction credit facility, to be used primarily to finance the TMEP construction; and the "NEB Facility", a revolving credit facility, designed to meet the NEB mandated financial capacity requirements. The facilities have an interest rate of 5% on amounts drawn and a standby fee of 0.065% on the unadvanced portion. TMC also entered into a funding agreement with TMP Finance dated August 30, 2018 (the "Funding Agreement") under which cash proceeds of each funding request are comprised of 55% debt funding in accordance with the Credit Agreement and the remaining 45% of cash proceeds are comprised of equity funding.

As of December 31, 2018, \$500 million was drawn on the NEB facility to collateralize a letter of credit to Kinder Morgan Inc., which in turn secured the existing line of credit from Kinder Morgan until the NEB approved replacement of the line of credit from Kinder Morgan Inc. with a new financial arrangement. The related cash was presented as Restricted cash on the accompanying consolidated balance sheet as of December 31, 2018.

On January 27, 2019 the Acquisition Facility credit limit was reduced from \$5 billion to the amount of the outstanding borrowings of \$2.5 million.

On March 25, 2019, the Corporation entered into a line of credit agreement with TMP Finance for \$500 million (the "Financial Capacity Line of Credit") which replaced the NEB Facility. Following NEB approval, the execution of the Financial Capacity Line of Credit allowed the agreement with Kinder Morgan Inc. to be terminated and the \$500 million held as collateral in restricted cash was used to repay the outstanding amount on the NEB Facility. The Financial Capacity Line of Credit matures 5 years following the date of the advance or as otherwise extended in accordance with the agreement and has an interest rate of 5% on amounts drawn and a standby fee of 0.3% on the unadvanced portion.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Transactions with Related Parties (continued)

Loans from Parent (continued)

On July 30, 2019, an Amended Credit Agreement and an Amended and Restated Funding Agreement was executed which states a Maximum Funding Amount in respect of Construction Costs of \$2.4 billion up to December 31, 2019 and \$3.8 billion thereafter, which may be increased to \$4 billion at the discretion of TMP Finance. The Amended Credit Agreement also amended the borrowing amount under the Construction Facility from \$1 billion to 55% of the Maximum Funding Amount and extended the Construction Facility maturity date from August 28, 2019 to August 28, 2023. Under these amended agreements, no funding or advance requests under the Construction Facility can be made after December 31, 2020 (which may be extended at the discretion of TMP Finance).

The total available credit as of December 31, 2019 and outstanding amounts as of December 31, 2019 and 2018 with TMP Finance are shown in the table below. There are no required payments on the borrowings until maturity. The facilities mature on the earlier of the maturity date, which is August 29, 2023 and August 28, 2023 for the Acquisition Facility and Construction Facility, respectively, and the in the event of certain changes in ownership. There are no financial covenants.

December 31, (In thousands of Canadian dollars)	2019		2018
	Total available credit	Outstanding amount	Outstanding amount
Acquisition Facility	2,506,350	2,506,350	2,506,350
Construction Facility	1,320,000	750,750	107,250
Financial Capacity Line of Credit	500,000	-	-
NEB Facility	-	-	500,000
		3,257,100	3,113,600
Presented as:			
Current loans from parent		-	607,250
Long-term loans from parent		3,257,100	2,506,350
		3,257,100	3,113,600

For the year ended December 31, 2019 and for the period from incorporation on May 28, 2018 to December 31, 2018, the interest rate on the facilities and the line of credit was 5% and interest expense of \$146.0 million and \$51.7 million, respectively was recorded. Commitment fees of \$1.8 million and \$0.8 million were also incurred for the year ended December 31, 2019 and for the period from incorporation on May 28, 2018 to December 31, 2018, respectively on the undrawn portion of available credit of the credit facilities and the line of credit.

Equity Contributions

Pursuant to the Funding Agreement and concurrent with the borrowings against the facilities TMP Finance subscribed to 2,064,150 common shares in the Corporation ("Common Shares") at a price of \$1,000 per Common Share for aggregate gross proceeds of \$2.1 billion and contributed additional capital of \$74.3 million for the period from incorporation on May 28, 2018 to December 31, 2018.

For the year ended December 31, 2019, pursuant to the Funding Agreement and concurrent with the borrowings against the Construction Facility, TMP Finance contributed additional capital of \$526.5 million, which represents 45% of the total funds received.

TRANS MOUNTAIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Interest Expense, net of capitalized debt financing costs

(In thousands of Canadian dollars)	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018
Interest expense on loan from parent	146,016	51,733
Commitment fees on loan from parent	1,816	809
Capitalized debt financing costs	(58,573)	(13,628)
Interest income and other	(4,650)	(4,431)
	84,609	34,483

18. Change of Operating Assets and Liabilities

The table below represents the changes in operating non-cash working capital.

(In thousands of Canadian dollars)	(Increase)/ Decrease in Operating Working Capital	
	Year ended December 31, 2019	For the period from May 28, 2018 to December 31, 2018
Accounts receivable	42,822	(29,290)
Deferred amounts and other assets	8,657	(9,195)
Regulatory assets	(16,285)	(2,676)
Accounts payable and accrued liabilities	1,722	36,833
Pension and post-employment benefits	546	(799)
Regulatory liabilities	10,707	122,590
Lease liabilities	558	-
Other liabilities and deferred credits	(22)	2,509
	48,705	119,972

19. Risk Management and Financial Instruments

Credit Risk

The Corporation is exposed to credit risk on cash and cash equivalents and accounts receivable, which is the risk that a customer or other counterparty will fail to perform an obligation or settle a liability, resulting in a financial loss to the business. A majority of the Corporation's customers operate in the oil and gas exploration and development, or energy marketing or transportation industries. There may be exposure to long-term downturns in energy commodity prices, including the price for crude oil, or other credit events impacting these industries and customers' ability to pay for services.

The exposure to credit risk is limited by requiring shippers who fail to maintain specified credit ratings or a suitable financial position to provide acceptable security, generally in the form of guarantees from credit worthy parties or letters of credit from well rated financial institutions.

Cash and cash equivalents are held with major financial institutions, minimizing the risk of non-performance by counter parties.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Risk Management and Financial Instruments *(continued)*

Foreign Currency Transactions and Translation

The Corporation is exposed to foreign currency risk from foreign currency transaction gains or losses resulting from a change in exchange rates between the functional currency of an entity and the currency in which a transaction is denominated. Unrealized and realized gains and losses generated from these transactions are recorded in Foreign exchange (loss) gain in the accompanying consolidated statement of income. Management does not believe that the exposure to foreign currency transactions is significant.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations, including commitments, as they become due. Liquidity risk is managed by ensuring access to sufficient funds to meet obligations. Cash requirements are forecasted to ensure funding is available to settle financial liabilities when they become due. The primary sources of liquidity and capital resources are funds generated from operations and loans from parent. See Note 16. Given the significant expenditures expected in connection with the TMEP, TMC will require the continued availability of future financing from TMP Finance in order to proceed with the project.

Interest Rate Risk

The Corporation does not have significant exposure to interest rate risk as loans from its parent are at fixed interest rates and there were no floating interest rate instruments throughout the period or at the balance sheet date, so exposure to interest rate risk would arise on refinancing.

Significant Shippers

For the year ended December 31, 2019, there were six customers that each individually represented between 11-18% of total revenue. For the period from the date of incorporation on May 28, 2018 to December 31, 2018, there were four customers that each individually represented between 10-14% of total revenue.

Fair Value Measurements

Financial assets or liabilities measured at fair value are not carried on a recurring basis, other than the Trust described in Note 15. The fair value of other financial instruments not measured at fair value is disclosed. The fair value of financial instruments reflects management's best estimate of market value based on generally accepted valuation techniques or models and are supported by observable market prices and rates. When such values are not available, a discounted cash flow analysis from applicable yield curves based on observable market inputs is used to estimate fair value.

Fair Value of Financial Instruments

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The fair value of the financial instruments is classified according to the following hierarchy based on the observable inputs used to value the instrument:

- Level 1— inputs to the valuation methodology are quoted prices unadjusted for identical assets or liabilities in active markets;
- Level 2— inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (i.e. derived from prices); and
- Level 3 — inputs to the valuation model are not based on observable market data.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Risk Management and Financial Instruments (*continued*)

Fair Value of Financial Instruments (continued)

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment considering factors specific to an asset or liability and may affect placement within the fair value hierarchy. Level 1 is used for the fair value of cash, cash equivalents and restricted cash and level 2 is used for restricted investments. Due to the short-term or on demand nature of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities, the carrying amounts for these balances are determined to approximate fair value.

20. Litigation, Commitments and Contingencies

Legal Proceedings

The Corporation is subject to various legal and regulatory actions and proceedings which arise in the normal course of business. While the final outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolution of such actions and proceedings will not have a material impact on the Corporation's financial position or results of operations. When it is determined a loss is probable of occurring and is reasonably estimable, an undiscounted liability for such contingencies is accrued based on the best estimate using information available at that time. If the estimated loss is a range of potential outcomes and there is no better estimate within the range, the amount is accrued at the low end of the range. Contingencies are disclosed where an adverse outcome may be material, or in the judgment of management, it is concluded that the matter should otherwise be disclosed. There were accruals of \$0.3 million and \$0.8 million for outstanding legal proceedings as of December 31, 2019 and 2018, respectively.

TMEP Litigation

The TMEP has been subject to various legal actions to challenge the federal government's approval of the TMEP.

On April 25, 2018, the B.C. Lieutenant Governor in Council referred a question to the B.C. Court of Appeal regarding the constitutionality of draft legislation seeking to impose a requirement for a "hazardous substance permit" on all persons having possession, charge or control of a certain volume of "heavy oil" in the course of operating an industry, trade or business. The draft legislation, if enacted, would likely apply to the TMEP. On June 18, 2018, the Court granted 20 persons participatory status in the reference matter, including Trans Mountain Pipeline ULC. The Court heard the reference case on March 18 to March 22, 2019. On May 24, 2019, the Court unanimously opined that it is not within the authority of the B.C. Legislature to enact the proposed legislation. The Province of B.C. filed its Notice of Appeal to the Supreme Court of Canada ("SCC") on June 14, 2019. The Supreme Court of Canada set a hearing date of January 16, 2020. The SCC rendered a decision on the appeal from the bench, dismissing the appeal for the reasons stated by the BC Court of Appeal.

On August 30, 2018, the Federal Court of Appeal ("FCA" or "the Court") released its judgment in the matter of Tsleil-Waututh Nation et al. v. Attorney General of Canada et al. ("Tsleil-Waututh"). In its decision, the Court quashed the Order in Council approving the TMEP and remitted the matter to the Governor in Council ("GIC") to remedy two areas: the scope of the NEB's review, and Phase III consultations with Indigenous peoples. On the scope of the NEB's review, the Court decided that the NEB's review of the TMEP unjustifiably excluded TMEP related shipping from the TMEP's definition. The Court determined the GIC must require the NEB to reconsider its recommendation and related conditions. On Phase III consultations with Indigenous peoples, the Court determined that the Government of Canada must re-do its Phase III consultations before the TMEP could be submitted again to the GIC for approval.

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 has incorporated these conditions into the TMEP project execution plan.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Litigation, Commitments and Contingencies (*continued*)

TMEP Litigation (continued)

On June 18, 2019, the GIC issued a new Order in Council approving the TMEP and directing the NEB to grant a Certificate of Public Convenience and Necessity (“CPCN”) for the TMEP. The NEB issued the amended CPCN on June 21, 2019, subject to 156 conditions. Further, following consideration of public comments, on July 19, 2019, the NEB issued its decision that it would rely on decisions and orders with respect to the TMEP that were issued prior to the FCA’s decision in Tsleil-Waututh.

Twelve parties/groups filed motions with the FCA for leave (the “Leave Motions”) to judicially review the new Order in Council re-approving the TMEP. In general, the Leave Motions argue that the NEB, the Government of Canada, and/or the GIC failed to comply with the FCA’s decision in Tsleil-Waututh in the NEB’s Reconsideration hearing and the Phase III consultation process. On September 4, 2019, the FCA dismissed six of the Leave Motions and granted Leave to Appeal for the other six applications. Two of the six parties for whom Leave to Appeal was granted withdrew from further proceedings with the FCA. Final argument was heard on December 16-18, 2019. The FCA released its decision on February 4, 2020, dismissing the applications of all applicants. The applicants have 60 days within which to file for any appeal to the Supreme Court of Canada (“SCC”).

On November 4, 2019, the six applicants for whom the Leave Motions were dismissed by the FCA filed appeals to the SCC. Timing for resolution on this is currently unknown.

In addition to the judicial reviews of the NEB Recommendation Report and GIC’s order at the FCA, two judicial review proceedings were commenced at the Supreme Court of B.C. by the Squamish Nation and the City of Vancouver. The petitions alleged a duty and failure to consult or accommodate First Nations, and generally, among other claims, that the Province did not conduct a proper provincial environmental assessment before issuing the provincial Environmental Assessment Certificate (“EAC”). The Squamish and Vancouver judicial review proceedings were heard in October and November 2017, respectively, and on May 24, 2018, the court dismissed both proceedings. Appeals to the B.C. Court of Appeal (“BCCA”) were filed by Vancouver and Squamish and were heard together on May 6 to May 8, 2019. The BCCA released its decision on September 17, 2019. The BCCA dismissed the applications to quash the EAC but allowed both appeals for the limited extent of remitting the conditions to the respective provincial Ministers for reconsideration and consequent adjustment in light of the changes the NEB made to its original report in the reconsideration. The BCCA stated that provincial authority did not extend to “order[ing] assessments that the [NEB] expressly refused to order” and must be limited to conditions within the province’s jurisdiction. The Court dismissed all other claims including those related to additional provincial assessment, public consultation, and Indigenous consultation and accommodation.

Commitments

As of December 31, 2019, irrevocable commitments related to property, plant, and equipment were \$186.2 million, which consists primarily of commitments related to the TMEP.

Other operating commitments as of December 31, 2019 were \$2.4 million.

21. Recent Accounting Pronouncements

Accounting Standards Updates (“ASU”) Not Yet Adopted as of December 31, 2019

Financial Instruments — Topic 326

On June 16, 2016, the FASB issued ASU No. 2016-13, “*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*” followed by a series of related accounting standard updates (Collectively referred to as “Topic 326”). Topic 326 modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. Topic 326 will be effective as of January 1, 2022 and earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. Recent Accounting Pronouncements (continued)

Accounting Standards Updates (“ASU”) Not Yet Adopted as of December 31, 2019 (continued)

Post-employment benefits — ASU No. 2018-14

In August 2018, the FASB issued ASU No. 2018-14, “*Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.*” This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-employment plans. ASU No 2018-14 will be effective as of January 1, 2022, and earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.

Income taxes — ASU No. 2019-12

In December 2019, the FASB issued ASU No. 2019-12, “*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.*” This ASU simplifies the accounting for income taxes by removing certain exceptions for recognizing deferred taxes and adds guidance to reduce complexity in certain areas. ASU No 2019-12 will be effective as of January 1, 2022, and earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.