

Management's Responsibility for Financial Statements

The accompanying condensed consolidated financial statements of Trans Mountain Corporation ("TMC") are the responsibility of management and were authorized for issue by the Board of Directors on May 23, 2019. The condensed 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 condensed consolidated financial statements, and that TMC's assets are properly accounted for and adequately safeguarded.

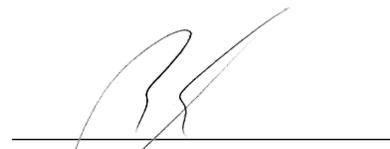
The Board of Directors carries out its responsibilities for the condensed consolidated financial statements principally through its Audit Committee. The Audit Committee reviews TMC's interim condensed consolidated financial statements and reports its findings to the Board for its consideration and approval.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

These consolidated financial statements have been reviewed by the Corporation's auditors, PricewaterhouseCoopers LLP.

As President of TMC and Vice-President, Finance, we have reviewed the condensed consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position of TMC as at March 31, 2019, and its financial performance and cash flows for the three month period ended March 31, 2019.



Ian Anderson
President and CEO
Trans Mountain Corporation



Mike Bangle, CPA, CA
Vice-President, Finance
Trans Mountain Corporation

May 23, 2019



TRANSMOUNTAIN

TRANS MOUNTAIN CORPORATION

**CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**
(unaudited)

For the three-month period ended March 31, 2019

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

Three months ended
March 31, 2019

Revenues	
Transportation revenue (<i>Note 3</i>)	84,089
Lease revenue	14,491
Other revenue	851
	99,431
Expenses	
Pipeline operating costs	23,706
Salaries and benefits	16,180
Depreciation and amortization	25,042
Taxes, other than income taxes	8,557
Administration	2,454
	75,939
Operating income	23,492
Equity allowance for funds used during construction	17,604
Interest expense, net of capitalized debt financing costs	(24,279)
Other, net	(146)
Foreign exchange loss	(17)
Income before income taxes	16,654
Income tax expense (<i>Note 5</i>)	(4,260)
Net income	12,394

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

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

	Three months ended March 31, 2019
Net income	12,394
Other comprehensive loss, net of tax	
Currency translation adjustment	(6,135)
Pension and post-employment benefits	(114)
	(6,249)
Comprehensive income	6,145

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

TRANS MOUNTAIN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of Canadian dollars)
(Unaudited)

As of	March 31, 2019	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	223,824	169,200
Restricted cash	-	500,000
Accounts receivable	42,194	142,712
Other current assets	37,298	30,670
	303,316	842,582
Property, plant and equipment	4,656,362	4,530,559
Goodwill	888,098	888,098
Restricted investments	61,035	54,783
Right-of-use asset (Note 4)	49,280	-
Restricted cash	49,165	48,843
Regulatory assets	27,071	24,568
Deferred amounts and other assets	7,920	24,525
Total Assets	6,042,247	6,413,958
Liabilities and Equity		
Current Liabilities		
Accounts payable	133,819	120,687
Interest payable	38,044	-
Regulatory liabilities	181,530	102,695
Loans from parent (Note 7)	107,250	607,250
Other current liabilities	15,091	6,165
	475,734	836,797
Loans from parent (Note 7)	2,506,350	2,506,350
Deferred income taxes	621,874	618,780
Regulatory liabilities	150,023	212,500
Pension and post-employment benefits	74,801	74,931
Lease liabilities (Note 4)	41,088	-
Other deferred credits	10,957	9,325
Total Liabilities	3,880,827	4,258,683
Equity	2,161,420	2,155,275
Total Liabilities and Equity	6,042,247	6,413,958

Commitments and contingencies (Note 10)

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

Approved by the Board of Directors

“William Downe”

Director

“Brian Ferguson”

Director

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

Three months ended
March 31, 2019

Operating activities	
Net income for the period	12,394
Items not affecting cash	
Depreciation and amortization	25,042
Equity allowance for funds used during construction	(17,604)
Deferred income taxes	2,961
Changes in non-cash working capital items <i>(Note 8)</i>	85,719
Total Cash and cash equivalents and Restricted cash provided by operating activities	108,512
Investing activities	
Capital expenditures	(86,543)
Working capital settlement on acquisition <i>(Note 2)</i>	37,020
Purchase of restricted investments	(3,731)
Total Cash and cash equivalents and Restricted cash used in investing activities	(53,254)
Financing activities	
Repayment of debt from parent	(500,000)
Total Cash and cash equivalents and Restricted cash used in financing activities	(500,000)
Net decrease in Cash and cash equivalents and Restricted cash for effects of FX translation	(312)
Net decrease in Cash and cash equivalents and Restricted cash	(445,054)
Cash and cash equivalents and Restricted cash, beginning of period	718,043
Cash and cash equivalents and Restricted cash, end of period	272,989
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	223,824
Restricted cash, end of period	49,165
Cash and cash equivalents and Restricted cash, end of period	272,989
Supplemental Disclosures of Cash Flow Information	
Cash interest paid, net of amounts capitalized	57
Cash paid for income taxes, net of income tax refund	(3)
Non-cash Investing and Financing	
Change in non-cash property, plant and equipment due to accruals and contractor advances	49,921
Decrease in property, plant and equipment due to foreign currency translation	(5,828)
ROU assets obtained in exchange of lease obligations	54,162

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

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

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Equity
Balance at December 31, 2018	2,064,150	74,250	9,538	7,337	2,155,275
Net income			12,394		12,394
Other comprehensive income, net of tax				(6,249)	(6,249)
Balance at March 31, 2019	2,064,150	74,250	21,932	1,088	2,161,420

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

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED 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: 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 system (“TMPL”) and the Puget Sound pipeline system (“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”). Subject to government approval and 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.

TMC’s mandate is to operate the existing TMPL and to complete the TMEP, if and when it is approved, in a timely and commercially viable manner.

Basis of Presentation

The accompanying unaudited condensed 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”). 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 condensed consolidated financial statements in accordance with U.S. GAAP, all significant intercompany items have been eliminated in 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 condensed consolidated financial statements. These condensed consolidated financial statements follow the same significant accounting policies as those included in the consolidated financial statements for the period from incorporation on May 28, 2018 to December 31, 2018, except for the adoption of new accounting standards (see Note 4).

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

The Corporation’s interim results may not be indicative of annual results. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the period from incorporation on May 28, 2018 to December 31, 2018.

These condensed consolidated financial statements were authorized by the board of directors on May 23, 2019.

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Acquisition

On August 31, 2018, the Corporation closed the purchase of the Target Entities (the "Acquisition") for cash consideration of \$4.44 billion. In the three-month period ended March 31, 2019, we received the remaining working capital adjustments of \$37 million. 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:

	As of 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	(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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. 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 NEB 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. There is risk surrounding the completion of TMEP as the Federal Court of Appeal has halted construction and directed the NEB to conduct additional hearings and the Government of Canada to conduct additional consultations with Indigenous people affected by TMEP. There is uncertainty as to when permission may be granted to continue construction. In addition, the construction of TMEP, if resumed, will be faced with difficult terrain, risks of cost overruns and the potential for additional legal challenges. 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. Refer to Note 8 in the 2018 annual financial statements for additional details on key assumptions underlying cash flow estimates.

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 on 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 and changes in probabilities of construction due to court decisions that may affect the timing of construction.

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.

3. Revenue Recognition

Disaggregation of Revenues

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

	Three months ended
	March 31, 2019
(In thousands of Canadian dollars)	
Transportation	
Fee-based services	78,378
Regulatory adjustment	5,711
Leases	14,491
Other	851
	99,431

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. 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 three-month period ended March 31, 2019, 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 for the three-month period ended March 31, 2019:

(In thousands of Canadian dollars)	
Opening balance as of December 31, 2018	4,840
Additions	385
Transfer to Revenues	(149)
Balance as of March 31, 2019	5,076
Presented as:	
Other current liabilities	501
Other deferred credits	4,575
	5,076

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 March 31, 2019 that will be invoiced or transferred from contract liabilities and recognized in future periods.

Year	Estimated Revenue
(In thousands of Canadian dollars)	
Remaining 2019	23,112
2020	30,761
2021	30,677
2022	2,800
2023	213
Thereafter	3,778
Total	91,341

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Revenue Recognition (*continued*)

Revenue Allocated to Remaining Performance Obligations (continued)

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. 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.

4. Leases

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. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The transition provision was applied which allows the Corporation to apply the standard using the adoption date as the date of initial application. Consequently, comparative financial information was not restated. 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 to be carried forward.

The impact of Topic 842 on our consolidated balance sheet on January 1, 2019 resulted in recognition of right of use (“ROU”) assets and lease liabilities for operating leases, while our accounting for finance leases was substantially unchanged. As of January 1, 2019, amounts recognized for operating leases were as follows. There was no impact to beginning retained earnings.

As of January 1, 2019

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

Lessee

TMC leases several assets including real estate buildings, land, vehicles, and office equipment. It is determined whether an arrangement is, or contains, a lease at inception.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our 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. The leases have remaining lease terms ranging from one to 86 years, some of which have options to extend the lease. 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 the 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.

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Leases (continued)

Lessee (continued)

There are lease agreements with lease and non-lease components, which are generally accounted for separately. For certain real estate leases the practical expedient has been elected and the lease and non-lease components are accounted for as a single component.

Some leases are subject to annual changes in Consumer Price Index ("CPI"). The lease liability is not remeasured because of the changes to the CPI and instead changes to the CPI are treated as variable lease payments. Additionally, some of real estate leases where we have elected not to separate the lease and non-lease components contain variable lease payments related to operating costs.

For the three-month period ended March 31, 2019, the following amounts were recognized as components of operating lease cost.

Three-month period March 31, 2019

(In thousands of Canadian dollars)	
Operating leases	2,929
Short-term and variable cost	716
Total lease cost (a)	3,645

(a) Includes \$1.9 million of capitalized lease costs.

Other information related to the operating leases is as follows:

Three-month period March 31, 2019

(In thousands of Canadian dollars, except lease term and discount rate)	
Cash paid for amounts included in measurement of operating lease liabilities	884
Amortization of ROU assets	2,276
Weighted-average remaining lease term	16.4 years
Weighted-average discount rate	5.22%

As of March 31, 2019, the amounts recognized in the accompanying condensed consolidated balance sheet are as follows:

Lease balance	Presentation	As of March 31, 2019
(In thousands of Canadian dollars)		
Operating ROU assets	Right-of-use Asset	49,280
Operating lease liabilities – current	Other current liabilities	(8,337)
Operating lease liabilities – non-current	Lease liabilities	(41,088)
Finance lease assets	Property, plant, and equipment	2,429
Finance lease liabilities – current	Other current liabilities	(449)
Finance lease liabilities – non-current	Other deferred credits	(2,003)

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Leases (continued)

Lessee (continued)

Lease Maturity analysis

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

	As of March 31, 2019
(In thousands of Canadian dollars)	
Remaining 2019	6,982
2020	5,813
2021	5,601
2022	4,167
2023	2,254
Thereafter	106,464
Total undiscounted cash flows	131,281
Less: imputed interest	(81,819)
Total lease liabilities	49,462

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

	As of December 31, 2018 ^(a)
(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 cash flows	134,033

(a) The table has been revised from the previously reported December 31, 2018 future gross minimum rental commitments to include an additional \$19.8 million of undiscounted future lease payments, including future minimum lease commitments related to capital which were previously reported within the capital commitments.

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 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. Determination of whether an arrangement contains a lease occurs at inception. None of the Corporation's leases allow the lessee to purchase the lease asset.

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Leases (continued)

Lessor (continued)

Options for a lessee to renew the contract are not included as part of future minimum operating lease revenues. We elected the practical expedient available to us to not separate lease and non-lease components 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. Any modification of a lease will result in a re-evaluation of the lease classification.

The 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.

Lease income for operating leases for the three-month period ended March 31, 2019 totalled \$14.6 million, which included the variable lease payments described above.

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

(In thousands of Canadian dollars)	
Remaining 2019	37,377
2020	48,191
2021	46,704
2022	45,260
2023	39,856
Thereafter	436,624
Total	654,012

As of March 31, 2019, the amounts recognized in Property, Plant and Equipment that represent operating lease assets where the Corporation is the lessor total \$582.5 million at cost with a net book value of \$497.7 million.

5. Income Taxes

Income tax expense included in the condensed consolidated financial statement of income is as follows:

Three months ended
March 31, 2019

(In thousands of Canadian dollars, except percentages)	
Income tax expense	4,260
Effective tax rate	25.6%

The effective tax rate for the three months ended March 31, 2019 was lower than the combined federal and provincial rate of 27% due to the taxable income of Puget in the U.S. being taxed at a lower rate.

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Pension and post-employment benefits

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

The components of net benefit cost related to the pension and other post-employment benefit plans (“OPEB”) plans are as follows:

	Pension	OPEB
(In thousands of Canadian dollars)		
Service cost	2,114	104
Interest cost	2,255	152
Expected return on plan assets	(2,320)	-
Amortization of net actuarial loss	58	-
Total net benefit cost	2,107	256

7. 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.

During the three-month period ended March 31, 2019, \$0.1 million in management, legal, accounting and other administrative costs from TMP Finance were recorded in “Administration” in the accompanying condensed consolidated statement of income. See Loans from parent below for interest expense terms.

Accounts Payable

As of March 31, 2019, Accounts payable includes \$0.2 million due to parent. Amounts are non-interest bearing and are due on demand.

Loans from Parent

On January 27, 2019 the Acquisition Facility credit limit was reduced to the amount of the outstanding borrowings.

The NEB facility with TMP Finance was designed to meet the financial capacity requirements of the NEB. The amounts drawn on the NEB facility were held 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. On March 25, 2019, following NEB approval, the Corporation entered into a line of credit agreement with TMP Finance for \$500 million (the “Financial Capacity Line of Credit”) to replace the line of credit from Kinder Morgan Inc. The agreement with Kinder Morgan Inc. was subsequently terminated and the \$500 million drawn as collateral under the NEB facility was repaid. 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 stand-by fee of 0.3% on the unadvanced portion.

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Transactions with Related Parties (continued)

Loans from Parent (continued)

The available credit and outstanding amounts with TMP Finance as of March 31, 2019 are as follows. There are no required payments on the borrowings until maturity.

	Total available credit	Outstanding amounts	Maturity date
(In thousands of Canadian dollars)			
Acquisition facility	2,506,350	2,506,350	August 29, 2023
Construction facility	1,000,000	107,250	August 29, 2019
Financial Capacity Line of Credit	500,000	-	N/A
		2,613,600	
Presented as:			
Current loans from parent		107,250	
Non-current loans from parent		2,506,350	
		2,613,600	

For the three-month period ended March 31, 2019 the interest rate on the facilities and the line of credit was 5% and \$38.0 million of interest expense was recorded in "Interest expense, net of capitalized debt financing costs" in the accompanying condensed consolidated statement of income. Commitment fees of \$0.3 million were also incurred in the period on the undrawn portion of the available credit of the credit facilities and the line of credit.

Restricted Cash

Following the NEB's approval of TMC's replacement plan for financial resource requirements on March 20, 2019, the steps outlined above were taken and resulted in the repayment of the \$500 million drawn as collateral under the NEB facility with TMP Finance.

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Change of Operating Assets and Liabilities

The table below represents the changes in operating non-cash working capital for the three-month period ended March 31, 2019.

(In thousands of Canadian dollars)	(Increase)/ Decrease in Operating Working Capital
Accounts receivable	63,477
Deferred amounts and other assets	(6,831)
Regulatory assets	(2,503)
Accounts payable	(19,965)
Interest payable	38,044
Pension and post-employment benefits	(119)
Regulatory liabilities	13,837
Lease liabilities	1,310
Other liabilities and deferred credits	(1,531)
	85,719

9. 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.

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 the transaction is denominated. Unrealized and realized gains and losses generated from these transactions are recorded in Foreign exchange (loss) gain in the accompanying condensed 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 Long-term debt from parent (Note 7). 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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Significant shippers

For the three-month period ended March 31, 2019, there were five customers that each individually represented between 11-16% of total revenue.

Fair value of financial instruments

Due to the nature of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, and loans from parent, the carrying amounts for these balances are determined to approximate fair value.

10. 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 \$0.8 million for outstanding legal proceedings as of March 31, 2019.

TMEP Litigation

The TMEP has been subject to various legal actions, including Federal Court of Appeal proceedings to challenge the federal government's approval of the TMEP, *Tsleil-Waututh Nation et al. v. Attorney General of Canada et al.* ("*Tsleil-Waututh*").

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 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. The Court's decision on the matter is expected to be issued between Q2 2019 and Q1 2020. As a result of the filing or resolution of this or any related reference matter, among other potential impacts, there may be significant changes to TMEP plans, further obligations or restrictions may be imposed or TMEP may be stopped altogether.

On August 30, 2018, the Federal Court of Appeal ("FCA" or "the Court") released its judgment in the matter of *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 consultation of Indigenous peoples. On the scope of the NEB's review, the Court decided that the NEB's review of the TMEP unjustifiably excluded the species at risk impacts from marine shipping and tanker traffic related to the project. The Court determined the GIC must require the NEB to reconsider its recommendation and related conditions.

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

TMEP Litigation (continued)

On Phase III consultation of Indigenous peoples, the Court determined that the Government of Canada must re-do its Phase III consultation, and that only after that consultation is completed and any accommodation made (if accommodation is deemed necessary) can the TMEP again be submitted to the GIC for approval. It is uncertain, however, if the GIC will grant its approval and issue a new Order in Council or, in the event the GIC issues a new Order in Council, whether that Order in Council will contain additional conditions separate and apart from any conditions imposed by the NEB.

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 the Corporation is working to address the conditions and recommendations included in the report. At this time, it is not possible to determine the financial impact of these conditions and measures.

In addition to the judicial reviews of the NEB recommendation report and GIC's order at the Federal Court of Appeal, 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 BC Court of Appeal ("BCCA") were filed by Vancouver and Squamish respectively on June 22, 2018 and June 25, 2018. Both appeals are scheduled to be heard on May 6 to May 8, 2019 and the decisions for both are expected to be issued in Q4 2019. It is unclear at this time how the Federal Court of Appeal decision in *Tsleil-Waututh* may affect these proceedings.

Commitments

As of March 31, 2019, irrevocable commitments for purchases of property, plant, and equipment were \$400.7 million, which consists primarily of commitments related to TMEP.

Refer to Note 4 for future gross minimum rental commitments under operating leases.

11. Subsequent events

Subsequent events have been evaluated from March 31, 2019 to the date the condensed consolidated financial statements were approved for issue on May 23, 2019.

The GIC has extended the timeline for a decision on the TMEP and will make a determination by June 18, 2019 following the consideration of both the NEB's Reconsideration Report and the federal government's Phase III consultations with Indigenous communities.