



**TRANSMOUNTAIN**

**TRANS MOUNTAIN CORPORATION**

**CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS**  
*(unaudited)*

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

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

|   | <u>Three months ended June 30,</u> |                | <u>Six months ended June 30,</u> |                |
|---|------------------------------------|----------------|----------------------------------|----------------|
|   | 2020                               | 2019           | 2020                             | 2019           |
| <b>Revenues</b> <i>(Note 2)</i>                           |                                    |                |                                  |                |
| Transportation revenue                                    | 92,843                             | 86,485         | 179,178                          | 170,574        |
| Lease revenue   | 16,016                             | 15,413         | 31,763                           | 29,904         |
| Other revenue   | 414                                | 460            | 845                              | 1,311          |
|   | <b>109,273</b>                     | <b>102,358</b> | <b>211,786</b>                   | <b>201,789</b> |
| <b>Expenses</b>   |                                    |                |                                  |                |
| Pipeline operating costs                                  | 36,158                             | 27,272         | 62,858                           | 50,978         |
| Depreciation and amortization                             | 24,457                             | 25,125         | 48,825                           | 50,167         |
| Salaries and benefits                                     | 17,553                             | 15,331         | 36,917                           | 31,511         |
| Taxes, other than income taxes                            | 8,593                              | 8,687          | 16,928                           | 17,244         |
| Administration  | 1,442                              | 1,824          | 3,042                            | 4,278          |
|   | <b>88,203</b>                      | <b>78,239</b>  | <b>168,570</b>                   | <b>154,178</b> |
| <b>Operating income</b>                                   | <b>21,070</b>                      | <b>24,119</b>  | <b>43,216</b>                    | <b>47,611</b>  |
| Equity allowance for funds used during construction       | 40,313                             | 20,271         | 74,265                           | 37,875         |
| Interest expense, net of capitalized debt financing costs | (21,545)                           | (20,016)       | (41,535)                         | (44,295)       |
| Other, net  | (64)                               | (144)          | (1,501)                          | (290)          |
| Foreign exchange loss                                     | (176)                              | (82)           | (1,513)                          | (99)           |
| <b>Income before income taxes</b>                         | <b>39,598</b>                      | <b>24,148</b>  | <b>72,932</b>                    | <b>40,802</b>  |
| Income tax (expense) recovery <i>(Note 3)</i>             | (9,791)                            | 50,575         | (17,898)                         | 46,315         |
| <b>Net income</b>   | <b>29,807</b>                      | <b>74,723</b>  | <b>55,034</b>                    | <b>87,117</b>  |

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)

|  | <b>Three months ended June 30,</b> |                | <b>Six months ended June 30,</b> |                 |
|--|------------------------------------|----------------|----------------------------------|-----------------|
|  | <b>2020</b>                        | <b>2019</b>    | <b>2020</b>                      | <b>2019</b>     |
| <b>Net income</b>  | <b>29,807</b>                      | <b>74,723</b>  | <b>55,034</b>                    | <b>87,117</b>   |
| <b>Other comprehensive income (loss),<br/>net of tax</b> |                                    |                |                                  |                 |
| Currency translation adjustment                          | (13,328)                           | (6,274)        | 15,020                           | (12,409)        |
| Pension and post-employment benefits                     | 42                                 | (92)           | 123                              | (206)           |
|  | <b>(13,286)</b>                    | <b>(6,366)</b> | <b>15,143</b>                    | <b>(12,615)</b> |
| <b>Comprehensive income</b>                              | <b>16,521</b>                      | <b>68,357</b>  | <b>70,177</b>                    | <b>74,502</b>   |

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

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

| As of                                    | June 30, 2020    | December 31, 2019 |
|--|------------------|-------------------|
| <b>Assets</b>                            |                  |                   |
| Current Assets                           |                  |                   |
| Cash and cash equivalents                | 363,094          | 423,899           |
| Accounts receivable                      | 46,480           | 62,801            |
| Other current assets                     | 28,403           | 19,511            |
|  | <b>437,977</b>   | <b>506,211</b>    |
| Property, plant and equipment            | 6,982,926        | 5,744,369         |
| Right-of-use asset                       | 62,579           | 67,659            |
| Regulatory assets                        | 54,242           | 40,853            |
| Goodwill                                 | 888,098          | 888,098           |
| Restricted investments                   | 89,500           | 70,911            |
| Restricted Cash                          | 60,901           | 63,015            |
| Deferred amounts and other assets        | 118,351          | 60,619            |
| <b>Total Assets</b>                      | <b>8,694,574</b> | <b>7,441,735</b>  |
| <b>Liabilities and Equity</b>            |                  |                   |
| Current Liabilities                      |                  |                   |
| Accounts payable and accrued liabilities | 379,605          | 305,868           |
| Regulatory liabilities                   | 183,602          | 196,888           |
| Other current liabilities                | 32,368           | 23,180            |
|  | <b>595,575</b>   | <b>525,936</b>    |
| Loans from parent ( <i>Note 5</i> )      | 3,875,850        | 3,257,100         |
| Deferred income taxes                    | 601,363          | 584,885           |
| Regulatory liabilities                   | 107,664          | 131,185           |
| Pension and post-employment benefits     | 87,689           | 87,297            |
| Lease liabilities                        | 47,830           | 51,955            |
| Other deferred credits                   | 11,547           | 12,748            |
| <b>Total Liabilities</b>                 | <b>5,327,518</b> | <b>4,651,106</b>  |
| Equity                                   | 3,367,056        | 2,790,629         |
| <b>Total Liabilities and Equity</b>      | <b>8,694,574</b> | <b>7,441,735</b>  |

Litigation, commitments and contingencies (*Note 8*)

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

Approved on behalf of the Board of Directors

“signed”  
\_\_\_\_\_  
**William Downe**  
Director

“signed”  
\_\_\_\_\_  
**Brian Ferguson**  
Director

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

|  | Three months ended June 30, |                  | Six months ended June 30, |                  |
|--|-----------------------------|------------------|---------------------------|------------------|
|  | 2020                        | 2019             | 2020                      | 2019             |
| <b>Operating activities</b>  |                             |                  |                           |                  |
| Net income   | 29,807                      | 74,723           | 55,034                    | 87,117           |
| Items not affecting cash   |                             |                  |                           |                  |
| Depreciation and amortization  | 24,457                      | 25,125           | 48,825                    | 50,167           |
| Equity allowance for funds used during construction  | (40,313)                    | (20,271)         | (74,265)                  | (37,875)         |
| Deferred income taxes  | 8,678                       | (52,060)         | 16,282                    | (49,099)         |
| Changes in non-cash working capital items (Note 6)   | (97,578)                    | (47,027)         | (28,052)                  | 38,692           |
| <b>Total Cash and cash equivalents and Restricted cash (used in) provided by operating activities</b>  | <b>(74,949)</b>             | <b>(19,510)</b>  | <b>17,824</b>             | <b>89,002</b>    |
| <b>Investing activities</b>  |                             |                  |                           |                  |
| Capital expenditures   | (632,607)                   | (208,097)        | (1,193,190)               | (294,640)        |
| Internal use software expenditures   | (3,421)                     | -                | (5,738)                   | -                |
| Purchase of restricted investments   | (6,173)                     | (3,657)          | (8,930)                   | (7,388)          |
| Working capital settlement on acquisition  | -                           | -                | -                         | 37,020           |
| <b>Total Cash and cash equivalents and Restricted cash used in investing activities</b>                | <b>(642,201)</b>            | <b>(211,754)</b> | <b>(1,207,858)</b>        | <b>(265,008)</b> |
| <b>Financing activities</b>  |                             |                  |                           |                  |
| Issuances of loans from parent (Note 5)  | 508,750                     | 110,000          | 618,750                   | 110,000          |
| Repayment of loans from parent (Note 5)  | -                           | -                | -                         | (500,000)        |
| Capital contributions (Note 5)   | 416,250                     | 90,000           | 506,250                   | 90,000           |
| <b>Total Cash and cash equivalents and Restricted cash provided by (used in) financing activities</b>  | <b>925,000</b>              | <b>200,000</b>   | <b>1,125,000</b>          | <b>(300,000)</b> |
| Effects of exchange rate changes on Cash and cash equivalents and Restricted cash                      | (2,205)                     | (594)            | 2,115                     | (906)            |
| Net increase (decrease) in Cash and cash equivalents and Restricted cash                               | 205,645                     | (31,858)         | (62,919)                  | (476,912)        |
| Cash and cash equivalents and Restricted cash, beginning of period                                     | 218,350                     | 272,989          | 486,914                   | 718,043          |
| <b>Cash and cash equivalents and Restricted cash, end of period</b>                                    | <b>423,995</b>              | <b>241,131</b>   | <b>423,995</b>            | <b>241,131</b>   |
| Cash and cash equivalents, beginning of period   | 155,429                     | 223,824          | 423,899                   | 169,200          |
| Restricted cash, beginning of period   | 62,921                      | 49,165           | 63,015                    | 548,843          |
| <b>Cash and cash equivalents and Restricted cash, beginning of period</b>                              | <b>218,350</b>              | <b>272,989</b>   | <b>486,914</b>            | <b>718,043</b>   |
| Cash and cash equivalents, end of period   | 363,094                     | 190,229          | 363,094                   | 190,229          |
| Restricted cash, end of period   | 60,901                      | 50,902           | 60,901                    | 50,902           |
| <b>Cash and cash equivalents and Restricted cash, end of period</b>                                    | <b>423,995</b>              | <b>241,131</b>   | <b>423,995</b>            | <b>241,131</b>   |
| <b>Supplemental Disclosures of Cash Flow Information</b>   |                             |                  |                           |                  |
| Cash interest paid, net of amounts capitalized   | 43,955                      | 47,339           | 44,001                    | 47,397           |
| Cash paid for income taxes   | -                           | 884              | -                         | 881              |
| <b>Non-cash Investing and Financing</b>  |                             |                  |                           |                  |
| Change in non-cash property, plant and equipment due to accruals and contractor advances and retainage | 5,488                       | 91,320           | 5,319                     | 141,241          |
| Increase (decrease) in property, plant and equipment due to foreign currency translation               | (11,231)                    | (5,740)          | 12,999                    | (11,568)         |
| Right-of-use assets obtained in exchange of lease obligations  | 2,030                       | 6,811            | 4,321                     | 60,973           |

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<br>capital | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income | Total Equity     |
|---|------------------|----------------------------------|----------------------|---|------------------|
| Balance at December 31, 2019              | 2,064,150        | 600,750                          | 140,393              | (14,664)  | <b>2,790,629</b> |
| Capital contributions                     | -                | 506,250                          | -                    | -   | <b>506,250</b>   |
| Net income                                | -                | -                                | 55,034               | -   | <b>55,034</b>    |
| Other comprehensive income,<br>net of tax | -                | -                                | -                    | 15,143  | <b>15,143</b>    |
| <b>Balance at June 30, 2020</b>           | <b>2,064,150</b> | <b>1,107,000</b>                 | <b>195,427</b>       | <b>479</b>                                      | <b>3,367,056</b> |
| Balance at December 31, 2018              | 2,064,150        | 74,250                           | 9,538                | 7,337   | <b>2,155,275</b> |
| Capital contributions                     | -                | 90,000                           | -                    | -   | <b>90,000</b>    |
| Net income                                | -                | -                                | 87,117               | -   | <b>87,117</b>    |
| Other comprehensive loss, net<br>of tax   | -                | -                                | -                    | (12,615)  | <b>(12,615)</b>  |
| <b>Balance at June 30, 2019</b>           | <b>2,064,150</b> | <b>164,250</b>                   | <b>96,655</b>        | <b>(5,278)</b>                                  | <b>2,319,777</b> |

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

# TRANS MOUNTAIN CORPORATION

## NOTES TO THE 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. 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*.

TMC conducts operations through 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 Trans Mountain Canada Inc. (“TMCI”). Together these entities own and operate 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, 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 condensed consolidated financial statements include operating results of TMC and the wholly owned Trans Mountain Entities, including the Trans Mountain Pipeline Reclamation Trust (the “Trust”) which is consolidated with the Corporation.

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

#### ***Basis of Presentation***

The accompanying 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 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 condensed consolidated financial statements. 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 year ended December 31, 2019. These condensed consolidated financial statements follow the same significant accounting policies as those included in the consolidated financial statements for the year ended December 31, 2019.

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 condensed consolidated financial statements were authorized by the board of directors on August 18, 2020. Subsequent events have been evaluated from June 30, 2020 to the date the condensed consolidated financial statements were available for issue on August 18, 2020 and there are no subsequent events which would require adjustment to the condensed consolidated financial statements and related disclosures.

**TRANS MOUNTAIN CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**2. Revenue Recognition**

***Disaggregation of Revenues***

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

|   | <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | <b>2020</b>                        | <b>2019</b> | <b>2020</b>                      | <b>2019</b> |
| <b>(In thousands of Canadian dollars)</b> |                                    |             |                                  |             |
| <b>Transportation</b>                     |                                    |             |                                  |             |
| Fee-based services                        | 83,133                             | 92,239      | 182,042                          | 170,617     |
| Regulatory adjustment                     | 9,710                              | (5,754)     | (2,864)                          | (43)        |
|   | 92,843                             | 86,485      | 179,178                          | 170,574     |
| <b>Leases</b>                             | 16,016                             | 15,413      | 31,763                           | 29,904      |
| Other                                     | 414                                | 460         | 845                              | 1,311       |
|   | 109,273                            | 102,358     | 211,786                          | 201,789     |

***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 and six month periods ended June 30, 2020 and June 30, 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:

|   | <b>Three months ended June 30,</b> |             | <b>Six months ended June 30,</b> |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | <b>2020</b>                        | <b>2019</b> | <b>2020</b>                      | <b>2019</b> |
| <b>(In thousands of Canadian dollars)</b> |                                    |             |                                  |             |
| Balance at beginning of period            | 4,869                              | 5,076       | 4,628                            | 4,840       |
| Additions                                 | -                                  | -           | 392                              | 385         |
| Transfer to Revenues                      | (151)                              | (150)       | (302)                            | (299)       |
| <b>Balance at end of period</b>           | 4,718                              | 4,926       | 4,718                            | 4,926       |

The contract liabilities balance as of June 30, 2020 and December 31, 2019 is presented as:

|   | <b>June 30, 2020</b> | <b>December 31, 2019</b> |
|---|----------------------|--------------------------|
| <b>(In thousands of Canadian dollars)</b> |                      |                          |
| Other current liabilities                 | 409                  | 213                      |
| Other deferred credits                    | 4,309                | 4,415                    |
|   | 4,718                | 4,628                    |



# TRANS MOUNTAIN CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 2. Revenue Recognition *(continued)*

#### *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 June 30, 2020 that will be invoiced or transferred from contract liabilities and recognized in future periods.

| Year<br>(In thousands of Canadian dollars) | Estimated Revenue |
|--|-------------------|
| Remaining 2020                             | 13,277            |
| 2021                                       | 26,341            |
| 2022                                       | 2,432             |
| 2023                                       | 213               |
| 2024                                       | 213               |
| Thereafter                                 | 3,565             |
| <b>Total</b>                               | <b>46,041</b>     |

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. 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.

### 3. Income Taxes

Income tax expense included in the condensed consolidated financial statements is as follows:

|   | Three months ended June 30, |          | Six months ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2020                        | 2019     | 2020                      | 2019     |
| <b>(In thousands of Canadian dollars)</b> |                             |          |                           |          |
| Income tax (expense) recovery             | (9,791)                     | 50,575   | (17,898)                  | 46,315   |
| Effective tax rate                        | 24.7%                       | (209.4%) | 24.5%                     | (113.5%) |

As a result of an Alberta corporate tax rate reduction in June 2019 from 12% to 8% by 2022, the blended Federal and Provincial (Alberta and BC) deferred tax rate was reduced from 27% to 24.67%. This tax rate reduction resulted in a deferred income tax recovery for the three and six month periods ended June 30, 2019 of \$56.2 million on the revaluation of the deferred tax liabilities.

The effective tax rates for the three and six month periods ended June 30, 2020 were consistent with the statutory rate of 24.67%.

# TRANS MOUNTAIN CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 4. Pension and Post-employment Benefits

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

|   | Three months ended June 30, |              |            |            | Six months ended June 30, |              |            |            |
|---|-----------------------------|--------------|------------|------------|---------------------------|--------------|------------|------------|
|   | Pension                     |              | OPEB       |            | Pension                   |              | OPEB       |            |
|   | 2020                        | 2019         | 2020       | 2019       | 2020                      | 2019         | 2020       | 2019       |
| <b>(In thousands of Canadian dollars)</b> |                             |              |            |            |                           |              |            |            |
| Service cost                              | 2,588                       | 2,114        | 127        | 104        | 5,177                     | 4,228        | 255        | 208        |
| Other components on net benefit cost:     |                             |              |            |            |                           |              |            |            |
| Interest cost                             | 2,152                       | 2,255        | 140        | 152        | 4,304                     | 4,510        | 278        | 303        |
| Expected return on plan assets            | (2,310)                     | (2,320)      | -          | -          | (4,617)                   | (4,639)      | -          | -          |
| Settlement loss recognized                | -                           | -            | -          | -          | 1,373                     | -            | -          | -          |
| Amortization of net actuarial loss        | 82                          | 58           | -          | -          | 163                       | 116          | -          | -          |
| <b>Total net benefit cost</b>             | <b>2,512</b>                | <b>2,107</b> | <b>267</b> | <b>256</b> | <b>6,400</b>              | <b>4,215</b> | <b>533</b> | <b>511</b> |

### 5. Transactions with Related Parties

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**

TMC has a credit agreement with TMP Finance dated August 29, 2018 as amended July 30, 2019 (the “Credit Agreement”) which includes an “Acquisition Facility”, a non-revolving term loan facility, and a “Construction Facility”, a revolving construction credit facility, to be used primarily to finance the TMEP construction. The facilities have an interest rate of 5% on amounts drawn and a standby fee of 0.065% on the unadvanced portion. 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.

TMC also has a funding agreement with TMP Finance dated August 30, 2018 as amended July 30, 2019 (the “Funding Agreement”) under which cash proceeds of each funding request are comprised of 55% debt funding in accordance with the Credit Agreement and 45% equity funding. Under the Funding Agreement, the Maximum Funding Amount in respect of construction funding increased from \$2.4 billion to \$3.8 billion on January 1, 2020. Under these 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).

TMP LP has a line of credit agreement with TMP Finance dated March 25, 2019 for \$500 million (the “Financial Capacity Line of Credit”) which is designed to meet the Canada Energy Regulator (“CER”) mandated financial capacity requirements. 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 THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**5. Transactions with Related Parties (continued)**

**Loans from Parent (continued)**

The total available credit as of June 30, 2020 and outstanding amounts as of June 30, 2020 and December 31, 2019 with TMP Finance are shown in the table below. There are no required payments on the borrowings until maturity. There are no financial covenants.

| (In thousands of Canadian dollars) | June 30, 2020          |                    | December 31, 2019  |
|------------------------------------|------------------------|--------------------|--------------------|
|                                    | Total available credit | Outstanding amount | Outstanding amount |
| Acquisition Facility               | 2,506,350              | 2,506,350          | 2,506,350          |
| Construction Facility              | 2,090,000              | 1,369,500          | 750,750            |
| Financial Capacity Line of Credit  | 500,000                | -                  | -                  |
|                                    | 5,096,350              | 3,875,850          | 3,257,100          |
| Presented as:                      |                        |                    |                    |
| Current loans from parent          |                        | -                  | -                  |
| Long-term loans from parent        |                        | 3,875,850          | 3,257,100          |
|                                    |                        | 3,875,850          | 3,257,100          |

The total interest and commitment fees incurred on loans from parent for the three and six month periods ended June 30, 2020 were \$45.6 million and \$86.9 million, respectively. Total interest and commitment fees incurred for the three and six month periods ended June 30, 2019 were \$33.3 million and \$71.6 million, respectively.

**Equity Contributions**

During the six month period ended June 30, 2020, pursuant to the Funding Agreement and concurrent with the borrowings against the Construction Facility, TMP Finance contributed additional capital of \$506.3 million, which represents 45% of the total funds received.

**6. Change of Operating Assets and Liabilities**

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

| (In thousands of Canadian dollars)       | Three months ended June 30, |          | Six months ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2020                        | 2019     | 2020                      | 2019     |
|  | <b>Decrease (Increase)</b>  |          |                           |          |
| Accounts receivable                      | 3,371                       | (11,815) | 16,402                    | 51,662   |
| Deferred amounts and other assets        | (13,360)                    | (10,227) | (11,335)                  | (17,058) |
| Regulatory assets                        | (8,699)                     | (3,714)  | (13,390)                  | (6,217)  |
| Accounts payable and accrued liabilities | 1,931                       | 10,364   | 18,891                    | (9,601)  |
| Interest payable                         | (40,717)                    | (38,044) | -                         | -        |
| Pension and post-employment benefits     | 463                         | 386      | 3                         | 267      |
| Regulatory liabilities                   | (48,535)                    | 7,025    | (46,465)                  | 20,862   |
| Lease liabilities                        | (226)                       | (8,887)  | (33)                      | (7,577)  |
| Other liabilities and deferred credits   | 8,194                       | 7,885    | 7,875                     | 6,354    |
|  | (97,578)                    | (47,027) | (28,052)                  | 38,692   |

# TRANS MOUNTAIN CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 7. 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. The reduction in global crude oil demand resulting from the COVID-19 pandemic and oversupply concerns has resulted in significant decreases in crude oil prices globally and in the Western Canadian Sedimentary Basin. There may be exposure to long-term downturns in energy commodity prices and economic instability from these events 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. As at June 30, 2020 and December 31, 2019 there were no significant accounts receivable past due or impaired.

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 a 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. The Corporation may be exposed to long-term downturns in the energy industry and economic volatility which is mitigated by the current regulatory frameworks governing the Corporation's operations and the competitive position of the Corporation's assets. 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 5. 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 service debt and complete 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 and as such exposure to interest rate risk would arise on refinancing.

#### ***Significant Shippers***

For the three and six month periods ended June 30, 2020, there were five customers that each individually represented between 10-15% of total revenue, and four customers that each individually represented between 11-17%, respectively. For the three and six month periods ended June 30, 2019, there were six customers that each individually represented between 10-16% of total revenue.

# TRANS MOUNTAIN CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 8. 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. Included in accounts payable and accrued liabilities were accruals of nil and \$0.3 million for outstanding legal proceedings as of June 30, 2020 and December 31, 2019, 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 National Energy Board's ("NEB", now known as the CER) 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.

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 four remaining applicants.

# TRANS MOUNTAIN CORPORATION

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 8. Litigation, Commitments and Contingencies (*continued*)

#### *TMEP Litigation (continued)*

On November 4, 2019, five of the six applicants for whom the Leave Motions were dismissed by the FCA had filed appeals to the SCC. On March 5, 2020 the SCC released its decision dismissing all Leave applications with costs.

Following the February 4, 2020 Decision of the FCA above, the four unsuccessful FCA applicants filed Leave Motions with the SCC on April 6, 2020 and Trans Mountain filed a Response opposing the Leave applications. On July 2, 2020 the SCC issued its decision dismissing all applications for Leave. This matter is now concluded.

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. In April 2020 the BC Environmental Assessment Office ("EAO") announced a process for the reconsideration of any consequential adjustments.

#### **Commitments**

As of June 30, 2020, irrevocable commitments related to property, plant, and equipment were \$109.1 million, which consists primarily of commitments related to the TMEP.