

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 November 19, 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 condensed 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 September 30, 2019, and financial performance and cash flows for the three and nine months ended September 30, 2019.



Ian Anderson
President and CEO
Trans Mountain Corporation

November 19, 2019



TRANS MOUNTAIN CORPORATION

**CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**
(unaudited)

For the three and nine-month periods ended September 30, 2019

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

	Three months ended September 30,		Nine months ended September 30,	For the period from May 28 to September 30,
	2019	2018 ^(a)	2019	2018 ^(a)
Revenues				
Transportation revenue (<i>Note 3</i>)	90,911	26,831	261,485	26,831
Lease revenue	15,121	5,059	45,025	5,059
Other revenue	551	143	1,862	143
	106,583	32,033	308,372	32,033
Expenses				
Pipeline operating costs	33,930	8,905	84,908	8,905
Depreciation and amortization	25,103	9,274	75,270	9,274
Salaries and benefits	16,128	5,126	47,639	5,126
Taxes, other than income taxes	8,312	2,672	25,556	2,672
Administration	900	556	5,178	556
	84,373	26,533	238,551	26,533
Operating income	22,210	5,500	69,821	5,500
Equity allowance for funds used during construction	24,572	5,070	62,447	5,070
Interest expense, net of capitalized debt financing costs	(19,915)	(8,252)	(64,210)	(8,252)
Foreign exchange (loss) gain	(226)	3	(325)	3
Other, net	(144)	-	(434)	-
Income before income taxes	26,497	2,321	67,299	2,321
Income tax (expense) recovery (<i>Note 5</i>)	(6,340)	(619)	39,975	(619)
Net income	20,157	1,702	107,274	1,702

(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 periods ended September 30, 2018 only contain September 2018 operations.

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

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

	Three months ended September 30		Nine months ended September 30, 2019	For the period from May 28 to September 30, 2018 ^(a)
	2019	2018 ^(a)		
Net income	20,157	1,702	107,274	1,702
Other comprehensive income (loss), net of tax				
Currency translation adjustment	3,554	(420)	(8,855)	(420)
Pension and post-employment benefits	229	-	23	-
	3,783	(420)	(8,832)	(420)
Comprehensive income	23,940	1,282	98,442	1,282

(a) Although TMC was incorporated May 28, 2018 there were no operations until the acquisition of the Target Entities on August 31, 2018. Therefore, comparative period operating results for the periods ended September 30, 2018 only contain September 2018 operations.

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	September 30, 2019	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	123,146	169,200
Restricted cash	-	500,000
Accounts receivable	55,212	142,712
Other current assets	33,290	30,670
	211,648	842,582
Property, plant and equipment	5,360,497	4,530,559
Right-of-use asset (Note 4)	57,576	-
Regulatory assets	32,812	24,568
Goodwill	888,098	888,098
Restricted investments	71,073	54,783
Restricted cash	61,078	48,843
Deferred amounts and other assets	57,278	24,525
Total Assets	6,740,060	6,413,958
Liabilities and Equity		
Current Liabilities		
Accounts payable	255,529	120,687
Interest payable	35,497	-
Regulatory liabilities	193,842	102,695
Loans from parent (Note 7)	-	607,250
Other current liabilities	17,865	6,165
	502,733	836,797
Loans from parent (Note 7)	2,899,600	2,506,350
Deferred income taxes	577,005	618,780
Regulatory liabilities	140,888	212,500
Pension and post-employment benefits	75,641	74,931
Lease liabilities (Note 4)	46,099	-
Other deferred credits	10,377	9,325
Total Liabilities	4,252,343	4,258,683
Equity	2,487,717	2,155,275
Total Liabilities and Equity	6,740,060	6,413,958

Litigation, 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 STATEMENTS OF CASH FLOWS
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	For the period from May 28 to September 30,
	2019	2018 ^(a)	2019	2018 ^(a)
Operating activities				
Net income for the period	20,157	1,702	107,274	1,702
Items not affecting cash				
Depreciation and amortization	25,103	9,274	75,270	9,274
Equity allowance for funds used during construction	(24,572)	(5,070)	(62,447)	(5,070)
Deferred income taxes	7,302	330	(41,797)	330
Changes in non-cash working capital items (Note 8)	(39,925)	62,826	(1,233)	62,826
Total Cash and cash equivalents and Restricted cash (used in) provided by operating activities	(11,935)	69,062	77,067	69,062
Investing activities				
Capital expenditures	(361,862)	(58,940)	(656,502)	(58,940)
Purchase of restricted investments	(3,473)	(1,204)	(10,861)	(1,204)
Acquisition, net of cash and restricted cash acquired (Note 2)	-	(4,484,157)	-	(4,484,157)
Working capital settlement on acquisition (Note 2)	-	-	37,020	-
Total Cash and cash equivalents and Restricted cash used in investing activities	(365,335)	(4,544,301)	(630,343)	(4,544,301)
Financing activities				
Issuances of debt from parent	176,000	3,022,850	286,000	3,022,850
Repayment of debt from parent	-	-	(500,000)	-
Capital contributions	144,000	2,064,150	234,000	2,064,150
Total Cash and cash equivalents and Restricted cash provided by financing activities	320,000	5,087,000	20,000	5,087,000
Effects of exchange rate changes on Cash and cash equivalents and Restricted Cash	363	(105)	(543)	(105)
Net (decrease) increase in Cash and cash equivalents and Restricted cash	(56,907)	611,656	(533,819)	611,656
Cash and cash equivalents and Restricted cash, beginning of period	241,131	-	718,043	-
Cash and cash equivalents and Restricted cash, end of period	184,224	611,656	184,224	611,656
Cash and cash equivalents, beginning of period	190,229	-	169,200	-
Restricted cash, beginning of period	50,902	-	548,843	-
Cash and cash equivalents and Restricted cash, beginning of period	241,131	-	718,043	-
Cash and cash equivalents, end of period	123,146	60,387	123,146	60,387
Restricted cash, end of period	61,078	551,269	61,078	551,269
Cash and cash equivalents and Restricted cash, end of period	184,224	611,656	184,224	611,656
Supplemental Disclosures of Cash Flow Information				
Cash interest paid, net of amounts capitalized	43	-	31,671	-
Cash paid for income taxes, net of income tax refund	1,527	-	2,409	-
Non-cash Investing and Financing				
Change in non-cash property, plant and equipment due to accruals and contractor advance	50,200	11,965	191,441	11,965
Increase (decrease) in property, plant and equipment due to foreign currency translation	3,215	(325)	(8,353)	(325)
Right-of-use assets obtained in exchange of lease obligations	7,286	-	68,259	-

(a) Although TMC was incorporated May 28, 2018 there were no operations until the acquisition of the Target Entities on August 31, 2018. Therefore, comparative period operating results for the periods ended September 30, 2018 only contain September 2018 operations.

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

TRANS MOUNTAIN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS 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
Capital contributions	-	234,000	-	-	234,000
Net income	-	-	107,274	-	107,274
Other comprehensive loss, net of tax	-	-	-	(8,832)	(8,832)
Balance at September 30, 2019	2,064,150	308,250	116,812	(1,495)	2,487,717
Balance at May 28, 2018	-	-	-	-	-
Capital contributions	2,064,150	-	-	-	2,064,150
Net income	-	-	1,702	-	1,702
Other comprehensive loss, net of tax	-	-	-	(420)	(420)
Balance at September 30, 2018	2,064,150	-	1,702	(420)	2,065,432

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”). 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 in a 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 and Note 11).

Unless otherwise noted, amounts are stated in Canadian dollars, which is the functional currency of 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. Although TMC was incorporated May 28, 2018 there were no operations until the Acquisition of the Target Entities August 31, 2018 as described in Note 2. Therefore, comparative period operating results presented for the periods ended September 30, 2018 only contain September 2018 operations.

These condensed consolidated financial statements were authorized by the board of directors on November 19, 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 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:

	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 Canada Energy Regulator (“CER”, previously known as 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. The discounted cash flow model used a scenario approach to incorporate risks present at the acquisition date in relation to timing of project approval and potential delays in construction timing. Refer to Note 8 in the consolidated financial statements for the period from incorporation on May 28, 2018 to December 31, 2018 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 completion due to court proceedings and related 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 September 30,		Nine months ended September 30,	For the period May 28 to September 30,
	2019	2018	2019	2018
(In thousands of Canadian dollars)				
Transportation				
Fee-based services	98,920	24,576	269,537	24,576
Regulatory adjustment	(8,009)	2,255	(8,052)	2,255
Leases	15,121	5,059	45,025	5,059
Other	551	143	1,862	143
	106,583	32,033	308,372	32,033

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 nine-month period ended September 30, 2019, there were no contract assets recognized. Contract liabilities are substantially related to capital projects 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 nine-month period ended September 30, 2019:

(In thousands of Canadian dollars)	
Opening balance as of December 31, 2018	4,840
Additions	385
Transfer to Revenues	(448)
Balance as of September 30, 2019	4,777
Presented in:	
Other current liabilities	309
Other deferred credits	4,468
	4,777

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 September 30, 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	10,046
2020	39,968
2021	39,860
2022	3,580
2023	213
Thereafter	3,778
Total	97,445

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 related 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 presentation above is generally limited to the minimum revenue committed to under these customer contracts. Based on the following practical expedients 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. 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 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. The following table illustrates the amounts recognized for operating leases as of January 1, 2019. 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. 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.

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. 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.

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Leases (continued)

Lessee (continued)

In some cases, lease agreements contain both 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 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 and nine-month periods ended September 30, 2019, the following amounts were recognized as components of operating lease cost.

	Three months ended September 30, 2019	Nine months ended September 30, 2019
(In thousands of Canadian dollars)		
Operating leases ^(a)	3,693	9,595
Short-term and variable cost	822	2,075
Total lease cost	4,515	11,670

(a) Includes \$2.9 million and \$7.0 million of capitalized lease costs for the three and nine-month periods ended September 30, 2019, respectively.

Other information related to the operating leases is as follows:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
(In thousands of Canadian dollars)		
Operating cash flows from operating leases	467	2,177
Investing cash flows from operating leases	2,933	7,007
Amortization of ROU assets	2,955	7,512

As of September 30, 2019, the amounts recognized in the accompanying condensed consolidated balance sheets are as follows:

Lease balance	Presentation	As of September 30, 2019
(In thousands of Canadian dollars)		
Operating ROU assets	Right-of-use asset	57,576
Operating lease liabilities – current	Other current liabilities	(11,888)
Operating lease liabilities – non-current	Lease liabilities	(46,099)
Finance lease assets	Property, plant, and equipment	2,749
Finance lease liabilities – current	Other current liabilities	(506)
Finance lease liabilities – non-current	Other deferred credits	(2,290)

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Leases (continued)

Lessee (continued)

As of September 30, 2019, the weighted average remaining lease term was 35.8 years and the weighted average discount rate was 5.20%.

Lease Maturity analysis

The operating lease payments under non-cancellable leases, excluding short-term leases, as of September 30, 2019 are as follows:

	As of September 30, 2019
(In thousands of Canadian dollars)	
Remaining 2019	3,508
2020	10,695
2021	7,138
2022	5,312
2023	4,349
Thereafter	108,907
Total undiscounted cash flows	139,909
Less: imputed interest	(81,922)
Total lease liabilities	57,987

As of September 30, 2019, TMC had entered into three leases related to real estate buildings and land which had not yet commenced. The undiscounted future lease payments on these leases is \$12.0 million.

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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. 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.

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. Options for a lessee to renew the contract are not included as part of future minimum operating lease revenues. We elected the practical expedient to not separate lease and non-lease components under 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 merchant tank operating leases recognized in "Lease revenue" for the three and nine-month periods ended September 30, 2019 totalled \$15.1 million and \$45.0 million, respectively, which included the variable lease payments described above. Lease income related to housing operating leases recognized in "Other revenue" for the three and nine-month periods ended September 30, 2019 totalled \$nil and \$0.2 million, respectively.

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

(In thousands of Canadian dollars)	
Remaining 2019	11,086
2020	48,190
2021	46,704
2022	45,260
2023	39,856
Thereafter	436,624
Total	627,720

As of September 30, 2019, the amounts recognized in Property, Plant and Equipment that represent operating lease assets where the Corporation is the lessor total \$508.2 million at cost with a net book value of \$491.4 million.

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Income Taxes

Income tax recovery included in the condensed consolidated financial statements of income is as follows:

	Three months ended		Nine months ended September 30, 2019	For the period May 28 to September 30, 2018
	September 30,			
	2019	2018		
(In thousands of Canadian dollars)				
Income tax recovery (expense)	(6,340)	(619)	39,975	(619)
Effective Tax Rate	23.93%	26.67%	(59.40%)	26.67%

The reduction in the effective tax rate for the three-month period ended September 30, 2019 compared to the three-month period ended September 30, 2018 and the period from incorporation on May 28, 2018 to September 30, 2018 was as a result of the Alberta corporate tax rate reduction in June 2019 from 12% to 8%, which reduced the blended Federal and Provincial (Alberta and BC) deferred tax rate to 24.55% in 2019 from 27% in 2018. This tax rate reduction resulted in an income tax recovery for the nine-month period ended September 30, 2019 and an effective tax rate of negative 59.4% as a result of the recalculation of the deferred income tax liability.

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:

	Three months ended				Nine months ended		For the period	
	September 30,				September 30,		May 28 to	
	2019		2018		2019		September 30, 2018	
	Pension	OPEB	Pension	OPEB	Pension	OPEB	Pension	OPEB
(In thousands of Canadian dollars)								
Service cost	2,114	104	811	113	6,342	312	811	113
Interest cost	2,255	152	734	52	6,765	455	734	52
Expected return on plan assets	(2,320)	-	(778)	-	(6,959)	-	(778)	-
Amortization of net actuarial loss	57	-	-	-	173	-	-	-
Total net benefit cost	2,106	256	767	165	6,321	767	767	165

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 and nine-month period ended September 30, 2019, \$0.1 million and \$0.1 million, respectively, in management, legal, accounting and other administrative costs, respectively from CDEV were recorded in "Administration" in the accompanying condensed consolidated statement of income (for the three-month period ended September 30, 2018 and for the period from incorporation on May 28, 2018 to September 30, 2018 - \$nil). See Loans from parent below for interest expense terms.

Accounts Payable

As of September 30, 2019, Accounts payable includes \$0.6 million due to TMP Finance and CDEV, compared to \$0.2 million as of December 31, 2018. Amounts are non-interest bearing and are due on demand.

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 NEB mandated financial capacity requirements. 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.

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

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. 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. 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 stand-by fee of 0.3% on the unadvanced portion.

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).

TRANS MOUNTAIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Transactions with Related Parties (continued)

The available credit and outstanding amounts with TMP Finance as of September 30, 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	1,320,000	393,250	August 29, 2023
Financial Capacity Line of Credit	500,000	-	N/A
		2,899,600	
Presented as:			
Current loans from parent		-	
Long-term loans from parent		2,899,600	
		2,899,600	

For the three and nine-month periods ended September 30, 2019 the interest rate on the facilities and the line of credit was 5%. For the three and nine-month periods ended September 30, 2019, \$35.5 million and \$106.3 million, respectively of interest expense was recorded in "Interest expense, net of capitalized debt financing costs" in the accompanying condensed consolidated statements of income (for the three-month period ended September 30, 2018 and for the period from incorporation on May 28, 2018 to September 30, 2018 - \$12.8 million). Interest payable to TMP Finance as of September 30, 2019 was \$35.5 million (December 31, 2018 – nil). Commitment fees of \$0.5 million and \$1.3 million were also incurred in the three and nine-month periods ended September 30, 2019, respectively on the undrawn portion of available credit of the credit facilities and the line of credit (for the three-month period ended September 30, 2018 and for the period from incorporation on May 28, 2018 to September 30, 2018 - \$0.2 million).

Equity Contributions

During the nine-month period ended September 30, 2019, pursuant to the Funding Agreement and concurrent with the borrowings against the Construction Facility, TMP Finance contributed additional capital of \$234.0 million, which represents 45% of the total funds received.

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.

(Increase)/ Decrease in Operating Working Capital

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	For the period May 28 to September 30, 2018
(In thousands of Canadian dollars)				
Accounts receivable	(1,223)	(10,178)	50,439	(10,178)
Deferred amounts and other assets	(40,854)	(3,478)	(57,912)	(3,478)
Regulatory assets	(2,027)	6,264	(8,244)	6,264
Accounts payable	(24,436)	33,556	(34,037)	33,556
Interest payable	35,497	12,837	35,497	12,837
Pension and post-employment benefits	474	74	741	74
Regulatory liabilities	(6,756)	23,826	14,106	23,826
Lease liabilities	(3,899)	-	(11,476)	-
Other liabilities and deferred credits	3,299	(75)	9,653	(75)
Net (increase) decrease in operating working capital	(39,925)	62,826	(1,233)	62,826

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 statements of income. Additionally, foreign currency risk from foreign currency translation is limited to the assets and liabilities of Puget, which uses U.S. dollars as its functional currency. Management does not believe that the exposure to foreign currency transactions and translation is significant.

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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). TMC has sufficient availability on the credit facilities to meet current obligations and commitments. TMC will require the continued availability of future financing from TMP Finance in order to service debt and proceed with the TMEP given the significant expenditures expected in connection 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.

Significant shippers

For the three and nine-month periods ended September 30, 2019, there were six customers that each individually represented between 11-17% 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 \$2.9 million for outstanding legal proceedings as of September 30, 2019.

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 on June 14, 2019. The Supreme Court of Canada has set a tentative hearing date of January 15, 2020. As a result, a decision is anticipated in the second half of 2020.

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

TMEP Litigation (continued)

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.

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. A scheduling Order was provided by the FCA on September 20, 2019 resulting in a hearing for the week of December 16 to December 20, 2019. Subject to any intervening events, a decision may be expected Q1 or Q2 2020.

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 September 30, 2019, irrevocable commitments for purchases of property, plant, and equipment were \$167.1 million, which consists primarily of commitments related to TMEP.

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

TRANS MOUNTAIN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Recent Accounting Pronouncements

ASUs Adopted

Topic 842

Refer to Note 4 for discussion on adoption of Topic 842, *Leases*.

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 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 the second quarter of 2019. The guidance was applied prospectively and did not have a material impact on the condensed consolidated financial statements.

ASUs Not Yet Adopted as of September 30, 2019

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.

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.

12. Subsequent events

Subsequent events have been evaluated from September 30, 2019 to the date the condensed consolidated financial statements were approved for issue on November 19, 2019.