



## MANAGEMENT REPORT

For the three month period ended March 31, 2024

May 21, 2024



This Management Report (the “Report”) should be read in conjunction with the unaudited condensed consolidated financial statements of Trans Mountain Corporation for the three month period ended March 31, 2024 (“TMC’s Financial Statements”) as well as the audited consolidated financial statements of Trans Mountain Corporation for the year ended December 31, 2023, and Trans Mountain Corporation’s Management Report for the year ended December 31, 2023. TMC’s Financial Statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“U.S. GAAP”). All financial measures in this Report are presented in Canadian dollars unless otherwise indicated.

Throughout this Report, the terms “we”, “us”, “our”, and “TMC” refer to Trans Mountain Corporation and its subsidiaries.

## Our Mandate

TMC’s mandate is to safely operate the existing Trans Mountain Pipeline and Puget Sound Pipeline and to complete the Trans Mountain Expansion Project (“TMEP”) in a timely and commercially viable manner. TMC operates in compliance with applicable laws, rules and regulations and to ensure the business is managed in a commercial manner in accordance with environmental standards and expectations. TMC will complete the expansion in alignment with the Federal Government’s direction and priority to provide increased access to international markets for Canadian crude oil producers.

## About Our Business

TMC is a Federal Crown corporation and is a wholly owned subsidiary of Canada TMP Finance Ltd., which in turn is a wholly owned subsidiary of the Canada Development Investment Corporation (“CDEV”). TMC conducts operations through four entities: Trans Mountain Pipeline Limited Partnership and its wholly owned subsidiary Trans Mountain Pipeline (Puget Sound) LLC, Trans Mountain Pipeline ULC, and Trans Mountain Canada Inc. Together these entities own and operate the Trans Mountain Pipeline System, consisting of the Trans Mountain pipeline, the Puget Sound pipeline, and the TMEP. TMC is a non-agent Crown corporation, which status allows it to borrow from parties other than the Government of Canada.

### Trans Mountain Pipeline

The Trans Mountain pipeline (“TMPL”) has been in operation since 1953 and transports crude oil and refined petroleum products from Alberta to the lower mainland of British Columbia. In its current configuration, TMPL is approximately 1,150 kilometers long, beginning near Edmonton, Alberta and terminating in Burnaby, British Columbia.

The current design of TMPL supports a pipeline capacity of approximately 300,000 barrels per day (“bpd”) based on a commodity mix of 20% heavy and 80% light. The operational capacity on TMPL varies on a month-to-month basis depending on the type and proportion of commodities transported, as well as system downtime that may be required to address operational needs such as maintenance.



TMPL is a common carrier pipeline. Transportation service on the pipeline is governed by a tariff, rules and regulations for service and a toll structure, as approved by the Canada Energy Regulator (“CER”).

As of today, TMPL remains the only pipeline that transports petroleum from the Western Canadian Sedimentary Basin to the West coast of Canada. It is also the only pipeline providing Canadian producers with direct access to world market pricing through a Canadian port. This has led to a steady demand for space on the pipeline.

TMPL is in the process of significantly expanding its system from approximately 300,000 bpd to approximately 890,000 bpd, see “Trans Mountain Expansion Project”.

#### Puget Sound Pipeline

The Puget Sound pipeline (“Puget”), owned by Trans Mountain Pipeline (Puget Sound) LLC, has been in operation since 1954. Puget transports crude oil from the Canada-US border near the Sumas Terminal to Washington State refineries in Anacortes and Ferndale.

Puget is approximately 111 kilometers long. One pump station and two tanks with total capacity of approximately 200,000 barrels facilitate movements on the system. The system has total throughput capacity of approximately 240,000 bpd when transporting primarily light oil.

Puget is a common carrier pipeline and the tolls on Puget are set in accordance with the Federal Energy Regulatory Commission (“FERC”) rate indexing system. FERC sets ceiling rates annually, which in turn allows Trans Mountain to adjust its rates subject to the ceiling limitation.

#### Trans Mountain Expansion Project

The TMEP completes the expansion of the existing pipeline system from Edmonton, Alberta to Burnaby, British Columbia. When constructed, it will create a pipeline system with nominal capacity of 890,000 bpd, an increase from the 300,000 bpd existing capacity. For more information on the TMEP, please see our website at [www.transmountain.com](http://www.transmountain.com).

Shippers have signed contracts for transportation service on the expanded TMPL and have made 15 and 20 year commitments that total roughly 80% of the planned capacity on the expanded Trans Mountain Pipeline. These shippers represent or are affiliates of some of the largest producing, marketing and refining companies in the Western Canada Sedimentary Basin and have direct access to large volumes of crude oil and refined products from their business operations.

As of March 31, 2024, construction of the TMEP was nearly complete, with \$27.7 billion in construction capital spending incurred plus \$4.9 billion in financial carrying costs capitalized since the inception of the project. Subsequent to March 31, 2024, the TMEP was mechanically complete, with the final “golden” weld occurring on April 11, 2024. The commercial commencement date for the expanded system was May 1, 2024. All deliveries have since been subject to the expanded system tariff and tolls and both pipelines are transporting crude. TMC can load cargoes from its state-of-the-art loading facility, Westridge Marine Terminal, with three berths providing tidewater access to global markets. Final line fill on the expanded line was



complete in early May followed by loading of the first ship from the expanded line expected during the second half of May, in accordance with the typical monthly nomination cycle.

#### Legal and Regulatory Developments

On June 1, 2023, Trans Mountain filed the Application for Interim Commencement Date Tolls with the CER. On November 30, 2023, the CER approved Trans Mountain's preliminary interim tolls. At the commencement of service on the expanded system, TMC plans to record revenue on the basis of these preliminary interim tolls. The interim tolls are currently under examination by the CER due to issues raised by shippers, with process steps continuing through to the first quarter of 2025.

On October 31, 2023, TMC filed a construction variance application with the CER to modify the pipeline diameter being installed through a crossing known as Mountain Tunnel 3 in lower British Columbia. The requested variance reduces the pipeline diameter from 36-inches to 30-inches for the approximate 2.5 kilometer crossing. This modification was requested to mitigate potential construction risks and to maintain completion schedule for this section of the TMEP. The change in diameter is expected to have no impact on the potential throughput capability of the new pipeline. On January 12, 2024, the CER approved the variance request with conditions. The Mountain Tunnel 3 was mechanically completed successfully on April 16, 2024.

A regulatory Leave to Open (LTO) was issued by the CER to allow operations of the entire expanded pipeline system on April 30, 2024. Subsequent to commercial commencement of the expanded system, TMC has ongoing reporting and regulatory obligations that must be completed and filed with the CER and Provincial authorities.

## Financial Highlights

### Non-GAAP measures

We make use of certain financial measures that do not have a standardized meaning under U.S. GAAP because we believe they improve management's ability to evaluate our operating performance and compare results between periods. These are known as non-GAAP measures and may not be similar to measures disclosed by other entities. Adjusted EBITDA is a non-GAAP measure we use to evaluate our operating performance absent the impact of non-cash depreciation and amortization. It also excludes the impact of financing decisions, non-cash equity AFUDC<sup>1</sup>, foreign exchange, taxes and other expenses.

<b>Financial Highlights</b> <b>(thousands of Canadian dollars, except throughput amounts)</b>	<b>Three months ended March 31</b>	
	<b>2024</b>	<b>2023</b>
Revenues	125,296	133,935
Operating expenses <sup>(a)</sup>	(89,396)	(83,794)
Adjusted EBITDA	35,900	50,141
Depreciation and amortization	(27,095)	(26,608)
Operating income	8,805	23,533
Equity allowance for funds used during construction	343,485	247,282
Interest expense, net of capitalized debt financing costs	(143,042)	(26,893)
Foreign exchange and other	267	323
Income before income taxes	209,515	244,245
Income tax expense	(51,449)	(60,089)
Net income	158,066	184,156
Cash (used in) provided by operating activities	(21,430)	55,195
Capital expenditures incurred	1,104,140	2,988,129
Average daily throughput		
Mainline deliveries (bpd)	332,000	337,000
Puget Sound Pipeline (bpd)	236,000	228,000
Westridge Marine Terminal (bpd)	47,000	49,000

*(a) Excludes depreciation and amortization.*

<b>Financial Position at</b> <b>(thousands of Canadian dollars)</b>	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Cash and cash equivalents and restricted cash	141,272	116,239
Total assets, including the TMEP work in progress	36,218,176	35,174,647
Total debt	25,315,314	24,340,314

<sup>1</sup> Allowance for Funds Used During Construction ("AFUDC"). A component of construction cost in regulated utilities representing the cost of capital deployed during construction of new assets. AFUDC contains a cost of borrowed funds component and a return on equity component.

**Revenues**

<b>(thousands of Canadian dollars)</b>	<b>Three months ended March 31</b>		
	<b>2024</b>	<b>2023</b>	<b>% Change</b>
Transportation	110,626	115,616	(4%)
Leases	13,990	17,761	(21%)
Other	680	558	22%
<b>Total</b>	<b>125,296</b>	<b>133,935</b>	<b>6%</b>

Total revenues consist of income from three sources: transportation, leases and other services. Available capacity on the Trans Mountain pipeline was fully utilized for both the three months ended March 31, 2024 and 2023, with system nominations apportioned throughout. For the three month period ended March 31, 2024, total revenues decreased by \$8.6 million to \$125.3 million, as compared to \$133.9 million in the same period of the prior year.

Transportation revenues in the first quarter of 2024 decreased by \$5.0 million to \$110.6 million, as compared to \$115.6 million in the same period of the prior year. The decrease is due to lower flow through operating costs that are recovered from customers, partially offset by increased revenues on Puget, due to higher throughput.

Lease revenues primarily relate to income earned on TMC's third party tank leases. For the three month period ended March 31, 2024, lease revenues decreased by \$3.8 million to \$14.0 million, as compared to \$17.8 million in the same period of the prior year. The decrease is mainly due to lower flow through costs on TMC's Edmonton merchant tanks.

Other revenues mainly relates to pipe rack rent revenue earned at TMC's terminals and other minor revenue items.

With the commencement of service on the expanded system occurring in the second quarter of 2024, contractually committed revenue associated with the 15 to 20 year committed contracts for transportation service on the expanded system will result in a significant increase to revenues.

### **Operating Expenses**

<b>(thousands of Canadian dollars)</b>	<b>Three months ended March 31</b>		
	<b>2024</b>	<b>2023</b>	<b>% Change</b>
Pipeline operating costs	40,680	48,394	(16%)
Depreciation and amortization	27,095	26,608	2%
Salaries and benefits	34,926	24,368	43%
Taxes, other than income taxes	10,350	9,649	7%
Administration	3,440	1,383	149%
<b>Total</b>	<b>116,491</b>	<b>110,402</b>	<b>6%</b>

Pipeline operating costs and taxes, other than income taxes, on the TMPL are primarily treated as flow through costs recovered from TMC’s customers as per the Incentive Toll Settlement (“ITS”) agreement. Depreciation and amortization, salaries and benefits, and administration costs related to the TMPL are largely recovered from customers through the capital recovery and fixed cost components of the ITS.

Pipeline operating costs for the three month period ended March 31, 2024 totalled \$40.7 million reflecting a decrease of \$7.7 million, as compared to \$48.4 million in the same period of the prior year. The decrease is mainly due lower power, security and environmental remediation costs, partially offset by increased asset integrity work.

Depreciation and amortization expense in the first quarter of 2024 increased by \$0.5 million to \$27.1 million, as compared to \$26.6 million in the same period of the prior year. The increase is due to depreciation and amortization expense incurred on capital additions related to the existing pipeline system made in the prior year.

Salaries and benefits expense for the three month period ended March 31, 2024 increased by \$10.5 million to \$34.9 million, as compared to \$24.4 million in the same period of the prior year. The increase is mainly due to costs associated with increases in the workforce for the commencement of the expanded pipeline system and associated business requirements.

Taxes, other than income taxes, in the first quarter of 2024 increased by \$0.8 million to \$10.4 million, as compared to \$9.6 million in the same period of the prior year. The increase is mainly due to higher property taxes on both TMPL and Puget.

Administration expenses for the three month period ended March 31, 2024 increased by \$2.0 million to \$3.4 million, as compared to \$1.4 million in the same period of the prior year. The increase is mainly due to higher external contract services and increased costs associated with a larger workforce.

With the commencement of service on the expanded system occurring in the second quarter of 2024, operating expenses are expected to increase as the second line commences service. The increase in volumes transported, will result in higher pipeline operating costs, including power costs, depreciation and amortization, and taxes, other than income taxes.

### **Operating income and Adjusted EBITDA**

The following table provides a reconciliation of operating income to Adjusted EBITDA:

<b>(thousands of Canadian dollars)</b>	<b>Three months ended March 31</b>	
	<b>2024</b>	<b>2023</b>
Revenues	125,296	133,935
Less: Operating expenses	(116,491)	(110,402)
<b>Operating income</b>	<b>8,805</b>	<b>23,533</b>
Add: Depreciation and amortization	27,095	26,608
<b>Adjusted EBITDA</b>	<b>35,900</b>	<b>50,141</b>

Operating income in the first quarter of 2024 decreased by \$14.7 million to \$8.8 million, as compared to \$23.5 million in the same period of the prior year. Likewise, Adjusted EBITDA for the three month period ended March 31, 2024 decreased by \$14.2 million to \$35.9 million, as compared to \$50.1 million in the same period of the prior year. As flow through costs equally impact revenues and expenses, the decrease in both operating income and Adjusted EBITDA in the first quarter of 2024, as compared to the same period in the prior year, is mainly due to increased salary and benefits and higher administration expenses, due to costs associated with increases in the workforce for the commencement of the expanded pipeline system, partially offset by increased revenues on Puget, due to higher throughput.

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

Equity AFUDC for the three month period ended March 31, 2024 increased by \$96.2 million to \$343.5 million, as compared to \$247.3 million in the same period of the prior year. The significant increase is due to the cumulative impact of capital spending on the TMEP.

### **Interest expense**

<b>(thousands of Canadian dollars)</b>	<b>Three months ended March 31</b>		
	<b>2024</b>	<b>2023</b>	<b>% Change</b>
Interest and commitment fees			
Syndicated Facility	274,971	108,006	155%
Credit Facilities - related party	102,975	97,185	6%
Guarantee fee - related party	10,405	820	nm
Capitalized debt financing costs	(243,104)	(175,003)	39%
Interest income and other	(2,205)	(4,115)	(46%)
<b>Interest Expense</b>	<b>143,042</b>	<b>26,893</b>	<b>432%</b>

*nm – calculation not meaningful due to lack of comparability between periods.*

The increase in interest and commitment fees and capitalized debt financing costs for the three month period ended March 31, 2024, as compared to the same period in the prior year, is due to the capital spending on the TMEP and the corresponding increase in long-term debt levels year-over-year, as well as higher interest rates on TMC’s Syndicated Facility. See ‘Liquidity and Capital Resources’ for more details on TMC’s financing arrangements.

### **Income taxes**

Income taxes for the three month period ended March 31, 2024 totalled \$51.4 million, reflecting an effective tax rate of 24.6%, as compared to income taxes for the three month period ended March 31, 2023 of \$60.1 million, reflecting an effective tax rate of 24.6%. The effective tax rates for both the three months ended March 31, 2024 and 2023 were consistent with TMC's statutory rate of 24.67%.

### **Net Income**

For the three months ended March 31, 2024 and 2023, Adjusted EBITDA reflects the results from TMC's base business, while net income incorporates depreciation expense and the significant financing impact of the TMEP, specifically equity allowance for funds used during construction, interest expense and capitalized debt financing costs.

### **Capital Expenditures**

<b>(thousands of Canadian dollars)</b>	<b>Three months ended March 31</b>	
	<b>2024</b>	<b>2023</b>
TMEP construction capital incurred	500,608	2,550,567
TMEP carrying costs <sup>(1)</sup>	585,449	421,664
TMEP including cash and non-cash items	1,086,057	2,972,231
Capital expenditures on existing pipeline system	18,083	15,898
<b>Total</b>	<b>1,104,140</b>	<b>2,988,129</b>

*(1) TMEP carrying costs include equity allowance for funds used during construction and capitalized debt financing costs related to the TMEP construction.*

Capital expenditures for the three months ended March 31, 2024 mainly relate to construction activity on the TMEP. A total of \$500.6 million in construction capital was incurred on the TMEP during the first quarter of 2024. As of March 31, 2024, construction of the TMEP was nearly complete. Subsequently, mechanical completion and line-fill activities have occurred and the necessary regulatory approvals to commence service have been obtained. The Commencement Date for commercial operations of the expanded system was May 1, 2024.

A number of significant milestones on the TMEP were achieved in the first quarter of 2024, including:

- Completed pipeline construction on Stk'emlúpsenc te Secwépemc lands near Pipsell (Jacko Lake), BC.
- Successfully completed Mountain 3 Horizontal Directional Drill in the Fraser Valley between Hope and Chilliwack, BC.
- Mechanical completion of the BC Interior.
- Mechanical completion of the Fraser Valley.
- Successful reactivation of the Darfield to Black Pines segment.
- Completed all major trenchless crossings.

Cleanup, reclamation, road and civil work related to the TMEP are expected to continue throughout the remainder of 2024.



For the three months ended March 31, 2024, capital expenditures on the existing pipeline system totaled \$18.1 million, consisting of \$3.8 million in new capital projects, mainly related to the installation of communication hubs for the fiber optic network, and \$14.3 million in sustaining capital projects to maintain the TMPL in a safe and reliable operating condition.

In the first quarter of the prior year, capital expenditures on the existing pipeline system for three months totalled \$15.9 million, consisting of \$3.6 million in new capital projects, mainly related to the installation of communication hubs for the fiber optic network, and \$12.3 million in sustaining capital projects to maintain the TMPL in a safe and reliable operating condition.

## Liquidity and Capital Resources

TMC's primary liquidity and capital resource needs are to fund the construction of the TMEP, make required interest payments and fund working capital. As at March 31, 2024, TMC's main sources of financing were the Credit Agreement from its parent and the Syndicated Facility, both of which are described in more detail below.

TMC has a credit agreement with TMP Finance (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 to finance the TMEP construction. The facilities have an interest rate of 5% on amounts outstanding. The facilities mature on the earlier of the maturity date, which is August 29, 2025, and in the event of certain changes in ownership. Interest incurred under the Credit Agreement is to be added to the principal amount of the Construction Facility semiannually. No further cash draws are permitted under the Credit Agreement.

Additionally, TMC has an Equator Principles 4 ("EP4") compliant credit agreement with a syndicate of lenders (the "Syndicated Credit Agreement") dated April 29, 2022 and as amended most recently on November 30, 2023, which contains two senior revolving facilities, a \$17.9 billion syndicated facility (the "Syndicated Facility") and a \$100 million letter of credit facility ("LC Facility"), for a combined available credit of \$18.0 billion under the two facilities. EP4 is a risk management framework adopted by financial institutions for identifying, assessing, and managing environmental and social risks for large infrastructure projects. The facilities under the Syndicated Credit Agreement mature March 24, 2025, with the ability for TMC to request certain extension terms up to August 31, 2025, and include a guarantee provided from the Government of Canada.

Subsequent to period end on May 17, 2024, the combined available credit under the two facilities was increased to \$19.0 billion of which \$18.9 billion relates to the Syndicated Facility and \$0.1 billion to the LC Facility and the maturity date was extended to August 31, 2026. The increase to the facility included a corresponding increase to the guarantee provided from the Government of Canada.

TMP LP also has a \$550 million undrawn line of credit agreement with TMP Finance dated March 25, 2019 (the "Financial Capacity Line of Credit") and as amended most recently on October 27, 2023, which is designed to meet the 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.

Total capital contributions from TMP Finance and TMC's total available credit as of March 31, 2024 and outstanding amounts as of March 31, 2024 and December 31, 2023 are shown in the table below. There are no financial covenants.

(thousands of Canadian dollars)	Total available credit March 31, 2024	Outstanding amount March 31, 2024	Outstanding amount December 31, 2023
Syndicated Facility	17,900,000	17,065,000	16,090,000
Acquisition Facility	2,506,350	2,506,350	2,506,350
Construction Facility	5,743,964	5,743,964	5,743,964
Financial Capacity Line of Credit	550,000	-	-
<b>Total debt</b>	<b>26,700,314</b>	<b>25,315,314</b>	<b>24,340,314</b>
Capital contributions			
Acquisition		2,064,150	2,064,150
Construction		5,350,500	5,350,500
<b>Total capital contributions</b>		<b>7,414,650</b>	<b>7,414,650</b>
<b>Total investment</b>		<b>32,729,964</b>	<b>31,754,964</b>

As of March 31, 2024 and December 31, 2023, TMC had letters of credit issued and outstanding under the LC Facility of \$69.3 million. The Syndicated Credit Agreement allows TMC to elect for reallocation of the available credit under the LC Facility to the Syndicated Facility.

## Summary of Quarterly Results

(thousands of Canadian dollars)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Revenues	125,296	123,642	137,946	126,280	133,935	135,430	121,630	113,276
Adjusted EBITDA	35,900	45,776	45,067	48,219	50,141	52,510	45,718	46,283
Net income (loss)	158,066	160,233	(724,914)	172,112	184,156	158,259	139,744	128,772

TMPL is a regulated entity governed by the CER and operating under the ITS agreement with its shippers. Revenues have generally been trending higher over the last eight quarters due to increased flow through costs primarily related to items such as power, environmental remediation and insurance costs.

Adjusted EBITDA has been relatively consistent over the last eight quarters, however higher throughput and revenue on Puget has led to increased Adjusted EBITDA in the fourth quarter of 2022 through to the second quarter of 2023. Adjusted EBITDA in the third quarter of 2023 through to the first quarter of 2024 were impacted by increased salary and benefits and higher administration expenses, due to costs associated with increases in the workforce for the commencement of the expanded pipeline system.

Net income consistently increased from the second quarter of 2022 through to the second quarter of 2023, due to the cumulative impact of capital spending on the TMEP and the corresponding increase in equity AFUDC, which positively impacts net income. However, increased interest expense from higher debt levels and interest rates, negatively impacted net income in the second half of 2023 through to the first quarter of 2024. Net income was also

significantly impacted by a goodwill impairment which led to a net loss in the third quarter of 2023.

## Environment, Health and Safety

Our Environment, Health and Safety program tracks our performance against our own previous three-year average in the areas of vehicle safety, worker safety, and releases of the commodities we transport. Tracking against our own historical performance drives continuous improvement which is an integral part of all our programs. The following table provides a summary of TMC’s Environment, Health and Safety program year to date in 2024:

<b>Health and Safety</b>	<b>2024</b>	<b>Three-year TMC average</b>
Avoidable Vehicle Incident Rate (per million km driven)	0.00	0.17
Total Recordable Injury Rate <sup>(1)</sup>		
Employees	0.15	0.34
Contractors	0.03	0.67
<b>Environment</b>		
Commodity Releases Rate <sup>(2)</sup>	0.00	0.27
Volume of releases(m <sup>3</sup> ) <sup>(2)</sup>	0.00	1.86

(1) Total Recordable Injury Rate: number of recordable incidents X 200,000 divided by number of hours worked.

(2) Release rates are per 1,000 km of operating pipeline.

While TMC tracks all commodity releases, industry data for releases greater than 1.5 m<sup>3</sup> is the threshold used for performance comparison. There have been no commodity releases in 2024 that met this threshold.

## Environment, Social and Governance

In June 2023, TMC published its third annual Environment, Social and Governance (“ESG”) report sharing the company’s ESG performance, including TMC’s Task Force on Climate-Related Financial Disclosures (“TCFD”), a copy of which can be found on our website at [www.transmountain.com/esg-report](http://www.transmountain.com/esg-report).

### Task Force on Climate-related Financial Disclosures

TMC provides annual disclosures around the four thematic areas contained in the TCFD framework—governance, risk management, strategy, and metrics and targets. Although the TCFD has disbanded and the International Finance Reporting Standards (“IFRS”) has assumed responsibility for monitoring companies’ climate-related disclosures, Canada has not yet adopted the new IFRS reporting requirements. As such, we continue to align our disclosures with the TCFD framework.

TMC has completed the quantitative climate scenario analysis required to meet the TCFD recommendations. Climate scenarios refer to both climate-related physical scenarios (i.e., models of emissions concentrations that result in different chronic and acute changes to the climate) and climate-related transition scenarios (i.e., policy, market and macroeconomic conditions associated with different energy transition rates of progression).

**Governance for climate-related risks:** At TMC, the Board as a whole is responsible for providing oversight over critical environmental and social risks, including climate-related risks, as this reflects its company-wide approach to addressing these risks. The Board receives a quarterly update on corporate risks, that includes consideration of environmental, social and climate related risks.

**Enterprise risk management:** TMC has incorporated physical and transition risks into its Enterprise Risk Management (“ERM”) program. Findings from the physical and transition risk analyses will be used to refine TMC’s understanding of climate-related risks and further enhance TMC’s ERM program. TMC’s ERM program monitors and evaluates financial, operational, strategic, and compliance risks. Management critically reviews and updates the risk registry each quarter.

**Physical scenarios:** TMC engaged a third-party consultant to conduct a physical risk assessment and produce a detailed report examining the physical impacts of climate change on 12 pipeline segments (spreads), pumping stations, storage terminals, and the Westridge Marine Terminal. The analysis included three scenarios from the Intergovernmental Panel on Climate Change (“IPCC”) covering a range of outcomes.

**Physical risks:** Storms, droughts and flooding were identified as the most pronounced *acute* risks and heat stress, water stress and rising sea levels as key *chronic* risks. Rising sea levels are specific to areas near the Fraser River and at the Westridge Marine Terminal. Physical risks are evaluated and managed in alignment with TMC’s asset integrity program. Over the past three years, TMC has effectively responded to three extreme weather events: wildfires, extreme cold and severe flooding. During and following the extreme flooding, TMC fully activated its emergency response and asset integrity programs.

**Transition scenarios:** With the support of a third-party consultant, TMC conducted an energy transition scenario modelling exercise in 2023. In early 2024, TMC updated its modeling assumptions to reflect the most recent versions of the scenarios. TMC combined data from the CER’s *Canada’s Energy Futures 2023* and the International Energy Agency’s (“IEA”) *Announced Pledges Scenario 2023*. TMC used the *Announced Pledges Scenario* because it reflects current commitments by governments across the globe, including Canada, it achieves a temperature increase lower than 2° Celsius, and because it is the most stringent transition scenario that still contains the level of data granularity needed to conduct the analysis. At this point, the IEA’s Net Zero by 2050 scenario does not have enough regional data to confidently conduct this type of analysis. TMC was able to model impacts on pipeline throughput until the year 2045 by constraining supply from the Western Canadian Sedimentary Basin and reducing North American refinery supply runs.

**Resilience:** TMC remains resilient until 2045 in the *Announced Pledges Scenario*, even with steeper oil demand declines projected in the new version of the scenario. In this context, resilient means that the expanded pipeline is expected to operate at or near full capacity until 2045 under the specific modelled conditions. The *Announced Pledges Scenario* describes circumstances in

which by 2045 oilsands supply is 36% lower than 2022 levels and refinery demand in North America is 52% lower than 2022 levels.

The TMEP has 15- to 20-year contract commitments (take-or-pay contracts) with TMC's shippers that cover 80% of the expanded capacity. While these contracts support the robustness of our revenues in the short- to medium-term, TMC modelled impacts to 2045 to explore the impacts in years beyond the term of the initial firm service contract.

The key reasons supporting TMC's resilience to 2045 are:

- **TMC operates Canada's only pipeline system transporting oil products to the West coast of Canada with access to tidewater.** The TMEP also includes a significant increase in the capacity of the Westridge Marine Terminal which will allow Canadian energy to reach world markets, including the Pacific Rim. In the *Announced Pledges Scenario*, oil demand in the Asia Pacific region grows until 2030. Following this, it experiences a decline, albeit at a much slower pace than in North America.
- **TMC has a low GHG footprint and commitments to reduce it even further.** As a result, TMC can help customers compete in markets that are increasingly focused on carbon. TMC supports the Government of Canada's ambition to be net zero by 2050 and developed its own [Emissions Reduction Plan](#) that discusses its approach and goals.
- **TMC can leverage its flexibility.** TMC has experience transporting a broad range of products, from diluted heavy oil to synthetic, light and refined products. As the world energy mix evolves, this expertise can be applied to other products such as liquid biofuels and other lower-carbon hydrocarbons. After contracts expire, TMC can optimize its operations to address changes in the type and/or proportion of commodities transported to meet shippers' needs and global demand without requiring significant changes to existing infrastructure.

**Transition risks:** Despite modelling scenarios resulting in full capacity use of its pipeline system, TMC will continue to monitor developments in greenhouse gas ("GHG") regulations, watch for signs of a more rapid energy transition, and remain attuned to the expectations of our shippers and their customers. TMC will also continue to evaluate regulatory and market-related transition risks, such as changes in oil demand, sustained low oil prices, carbon regulations that may impact shipper customers, and access to refineries.

**Metrics and targets:** TMC tracks the GHG emissions generated by its daily operations and publishes its annual performance in its ESG report. TMC's climate-related targets include:

- Developing the TMEP construction emission offset plan once construction is complete.
- Reducing 100,000 tonnes of CO<sub>2</sub> by 2030 (from the first year that the expanded pipeline system is fully operational).
- Reaching net zero (Scope 1 and Scope 2) emissions by 2050.

## Business Risks

TMC's current business risks include the following:

### Existing Operations

There are limited risks due to economic factors on existing operations. Most costs and revenues of the business are in Canadian dollars, resulting in limited foreign exchange exposure. On Puget, revenues and most costs are in U.S. dollars, leading to limited foreign exchange exposure within the Puget entity, but resulting in some exposure to foreign currency translation when TMC converts Puget's results to Canadian dollars on consolidation.

Tolls for transportation service on the Canadian portion of the existing TMPL are regulated by the CER and governed by the terms of the ITS, which provides significant financial risk mitigation. Tolls for service are set each year and are designed to yield a return on rate base and a recovery of operating costs based on the annual budget. A significant portion of operating costs are classified as "flow through" under the ITS, meaning that TMPL is authorized by shippers to spend prudently on items like integrity and maintenance, environmental protection, safety and security and certain other costs, and adjust future tolls to collect any variance from amounts in the budget used in the toll design. TMC applies the provisions of ASC 980, *Regulated Operations* under U.S. GAAP, and therefore recognizes revenue and a regulatory asset/receivable to match the amount and timing of spending on flow through items. As a result, TMPL operating income is very stable and predictable under the ITS.

TMC's existing operations are subject to a variety of physical hazards and risks typical of most large diameter transmission pipelines. These risks are often mitigated through comprehensive asset integrity management programs and insurance coverage. In addition to insurance coverage, TMC has financial resources available in the event of a future commodity release including cash on hand and access to lines of credit.

### TMEP Project Risks

TMC is exposed to project execution risks commensurate with major construction projects of this geography, size and complexity. Significant capital expenditures may be required in the future to maintain the TMEP. Completion of the TMEP required significant capital expenditures, and TMC will require the continued availability of financing.

The outcome of the CER's consideration of the Application for Interim Commencement Date Tolls, which are currently under examination by the CER due to issues raised by shippers, with process steps continuing through to the first quarter of 2025, may have future impacts on our cash flows. TMC's ability to service existing and future debt required may depend on a number of factors, including future financial and operating performance, project execution on the TMEP, overall economic conditions, and financial, regulatory, and other factors, many of which are beyond TMC's direct control. TMC's future operating cash flow may not be adequate to service its debt, particularly prior to the in-service date of the TMEP.

## Operation and Project Risks

TMC is exposed to risks which could result in additional costs, impacts to operations, delays in TMEP construction execution, commencement of TMEP operations, and/or reputational damage including, but not limited to:

- Expectations related to the startup of new equipment when the TMEP commences operations;
- Availability and the timing of receipt of the required volume of oil from TMC's shippers necessary for the commencement of the expanded system operations;
- Availability of vessels and marine logistics associated with the expanded Westridge Marine Terminal;
- Changes in market conditions, commodity prices, the geopolitical environment, widespread epidemics or pandemics, and economic conditions in Canada and globally that effect construction and the utilization of the pipeline;
- Major incidents that impacts the safety of the public, employees and the protection of the environment resulting from construction execution, operations or third party damage;
- Natural hazards and environmental events that affect the public, the protection of the environment, construction execution and/or operations;
- Demonstrations or protests that result in impacts to construction execution and/or operations;
- Timely receipt of permits and access to lands that results in impacts to construction execution and commencement of operations;
- Regulatory and legal authorizations, decisions and outcomes, and potential changes in laws and regulations that result in impacts to commencement of operations;
- Inadequate controls for contractor oversight that result in impacts to construction execution and/or operations;
- Inadequate controls that result in violations of law, fraud or increased cost;
- Fluctuations in foreign exchange or interest rates;
- Attracting and retaining a suitably skilled workforce; and
- Cyber security and/or confidentiality breach that results in impacts to operations or reputational damage.

## Forward-looking information

In certain sections of this Report we discuss our business strategy and outlook, and comment on financial resources, capital spending, and other expectations of management. This is forward-looking information. We disclose forward-looking information to help the reader understand management's assessment of our future plans and financial outlook. Statements that are forward-looking generally include words like anticipate, expect, plan, target, believe, may, will,

should, estimate, project, continue or other similar words or expressions indicating or suggesting future results or events. Examples of forward-looking statements contained in this Report include, among others, statements regarding the operations, timing, impact, capacity and results of the TMEP including the timing of cleanup, reclamation, road and civil work related to the TMEP; the timing of the interim toll process with shippers; the timing and ability to load cargo from Westridge Marine Terminal; the commitment of shippers on the expanded TMPL; the maturity dates of our credit facilities; capital expenditures; asset retirements; the amount, recognition and predictability of revenues from tolls; expectations regarding increases in future revenues and operating costs, including power costs, depreciation and amortization, and taxes, other than income taxes; expectations regarding Adjusted EBITDA; and the resiliency of TMC and its operations to energy transition scenarios.

Forward-looking statements do not guarantee future performance. Actual results could be different due to incorrect assumptions, risks or uncertainties related to our business, or events that happen after the date of this Report. There is no assurance that the results or events indicated or suggested by the forward-looking statements, or the plans, intentions, expectations or beliefs contained therein or upon which they are based, are correct or will in fact occur or be realized (or if they do, what benefits TMC may derive therefrom).

This forward-looking information reflects our assumptions and expectations based on information available at the time the information was stated. By its nature, forward-looking information is subject to various assumptions, risks and uncertainties which could cause our actual results and achievements to differ materially from the anticipated results or expectations expressed or implied in such information.

#### Assumptions

- Key assumptions on which the forward-looking information contained in this Report is based include, but are not limited to, assumptions about: Expected operating and financial results including planned changes in our business;
- Expectations or projections about strategies and goals for growth and expansion;
- Expected cash flows and availability of funds from external financing sources;
- Potential costs, schedules and completion dates for planned projects, including projects under construction, permitting and in development;
- Planned and unplanned outages of our pipelines and related assets;
- Integrity and reliability of our assets;
- Expected outcomes relating to regulatory processes and legal proceedings, and potential changes in laws and regulations;
- The expected impact of future accounting changes, commitments and contingent liabilities;
- Expected industry, market and economic conditions;
- Future demand for space on our pipeline systems;
- Pace of energy transition;
- Inflation rates and commodity prices; and

- Interest, tax and foreign exchange rates.

#### Risks and uncertainties

The risks and uncertainties that could cause actual results or events to differ materially from current expectations include, but are not limited to:

- Our ability to successfully implement our strategic priorities and whether they will yield the expected financial and operational results and benefits;
- The operating performance of our pipelines and related assets;
- The available supply and price of energy commodities;
- Performance and credit risk of our counterparties;
- Regulatory and legal decisions and outcomes, and potential changes in laws and regulations;
- Changes in market commodity prices, the geopolitical environment, widespread epidemics or pandemics, and economic conditions in Canada and globally;
- Construction execution and completion of capital and operations projects, including reliance on the availability, performance and expertise of a suitably skilled and qualified workforce and third party contractors;
- Demonstrations, protests or civil disobedience that impact construction execution and/or operations;
- The pace of energy transition initiatives in North America and globally;
- Climate change risks, including the effects of unusual weather and natural catastrophes;
- Climate change effects and regulatory and market compliance and other costs associated with climate change;
- Our ability to transport a broad range of oil products and other fuels;
- Reputational risks;
- Increases in costs for labour, equipment and materials;
- Fluctuations in interest, tax and foreign exchange rates;
- Risks related to cyber security, confidentiality, and data integrity;
- Risks related to technological developments;
- Natural hazards (floods, landslides, seismic activity, etc.); and
- Those risks and contingencies described under “Business Risks” in this Report.

Forward-looking information should not be used for anything other than its intended purpose, as actual results could vary. Any forward-looking statement in this Report is based only on information currently available to us and speaks only as of the date on which it is made. Except as required by applicable laws, we undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. The forward-looking information and statements contained in this Report are expressly qualified by this cautionary statement.