



MANAGEMENT REPORT

For the three and six month periods ended June 30, 2023

August 8, 2023

This Management Report (the “Report”) should be read in conjunction with the unaudited condensed consolidated financial statements of Trans Mountain Corporation for the three and six month periods ended June 30, 2023 (“TMC’s Financial Statements”) as well as the audited consolidated financial statements of Trans Mountain Corporation for the year ended December 31, 2022, and Trans Mountain Corporation’s Management Report for the year ended December 31, 2022. 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. 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.

Shippers have signed contracts for transportation service on the expanded TMPL and have made 15 and 20 year commitments that total roughly 80 per cent 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 June 30, 2023, construction of the TMEP is approximately 90% complete, with \$24.0 billion in construction capital spending incurred plus \$3.3 billion in financial carrying costs capitalized since the inception of the project. Mechanical completion is anticipated to occur at the end of 2023 with commercial service of the TMEP anticipated to occur in the first quarter of 2024.

On June 1, 2023, Trans Mountain filed the Application for Interim Commencement Date Tolls with the CER and on June 30, 2023, replied to comments from interested parties. The CER process to consider the Application is underway.

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 AFUDC¹, foreign exchange, taxes and other expenses.

Financial Highlights	Three months ended		Six months ended	
	June 30		June 30	
(thousands of Canadian dollars, except throughput amounts)	2023	2022	2023	2022
Revenue	126,280	113,276	260,215	220,944
Operating Income	21,620	20,399	45,153	36,624
Adjusted EBITDA	48,219	46,283	98,360	88,425
Net Income	172,112	128,772	356,268	235,994
Cash (used in) provided by operating activities	(12,511)	114,332	42,684	269,387
Capital expenditures incurred	3,003,806	2,231,067	5,991,935	4,317,995
Average daily throughput				
Mainline deliveries (bpd)	349,000	325,000	343,000	315,000
Puget Sound Pipeline (bpd)	233,000	218,000	230,000	198,000
Westridge Marine Terminal (bpd)	39,000	31,000	44,000	35,000

Financial Position at		
(thousands of Canadian dollars)	June 30, 2023	December 31, 2022
Cash and cash equivalents and restricted cash	171,547	241,002
Total assets, including the TMEP work in progress	31,885,911	25,983,066
Total debt	20,137,473	15,052,768

¹ 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.

Revenue

(thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2023	2022	% Change	2023	2022	% Change
Transportation	108,107	96,359	12%	223,723	185,820	20%
Leases	17,483	16,293	7%	35,244	33,899	4%
Other	690	624	11%	1,248	1,225	2%
Total	126,280	113,276	11%	260,215	220,944	18%

Total revenue consists of income from three sources: transportation, leases and other services. Available capacity on the Trans Mountain pipeline was fully utilized for both the three and six months ended June 30, 2023 and 2022, with system nominations apportioned throughout. For the three month period ended June 30, 2023, total revenue increased by \$13.0 million to \$126.3 million, as compared to \$113.3 million in the same period of the prior year. For the six month period ended June 30, 2023, total revenue increased by \$39.3 million to \$260.2 million, as compared to \$220.9 million in the same period of the prior year.

Transportation revenue in the second quarter of 2023 increased by \$11.7 million to \$108.1 million, as compared to \$96.4 million in the same period of the prior year. On a year to date basis, transportation revenue for the six month period ended June 30, 2023 increased by \$37.9 million to \$223.7 million, as compared to \$185.8 million in the same period of the prior year. The increase in transportation revenue for both the three and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is mainly due to higher flow through operating costs that are recovered from customers, as well as increased revenue on Puget, due to higher throughput and a weaker Canadian dollar.

Lease revenue primarily relates to income earned on TMC's third party tank leases. For the three month period ended June 30, 2023, lease revenue increased by \$1.2 million to \$17.5 million, as compared to \$16.3 million in the same period of the prior year. On a year to date basis, lease revenue for the six month period ended June 30, 2023 increase by \$1.3 million to \$35.2 million, as compared to \$33.9 million in the same period of the prior year. The increase in lease revenue for both the three and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is mainly due to higher flow through costs on TMC's Edmonton merchant tanks.

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

Operating Expenses

(thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2023	2022	% Change	2023	2022	% Change
Pipeline operating costs	40,732	32,784	24%	89,126	63,230	41%
Depreciation and amortization	26,599	25,884	3%	53,207	51,801	3%
Salaries and benefits	24,747	22,452	10%	49,115	47,329	4%
Taxes, other than income taxes	9,524	9,441	1%	19,173	18,898	1%
Administration	3,058	2,316	32%	4,441	3,062	45%
Total	104,660	92,877	13%	215,062	184,320	17%

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 June 30, 2023 totalled \$40.7 million reflecting an increase of \$7.9 million, as compared to \$32.8 million in the same period of the prior year. The increase is mainly due to higher power, asset integrity and insurance costs. On a year to date basis, pipeline operating costs for the six month period ended June 30, 2023 increased by \$25.9 million to \$89.1 million, as compared to \$63.2 million in the same period of the prior year. The increase is mainly due to higher environmental remediation costs, due to legacy site cleanup work, as well as increased power, asset integrity, security and insurance costs.

Depreciation and amortization expense in the second quarter of 2023 increased by \$0.7 million to \$26.6 million, as compared to \$25.9 million in the same period of the prior year. For the six month period ended June 30, 2023, depreciation and amortization expense increase by \$1.4 million to \$53.2 million, as compared to \$51.8 million in the same period of the prior year. The increase for both the three and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is due to depreciation and amortization expense incurred on non-TMEP capital additions made in the prior year.

Salaries and benefits expense for the three month period ended June 30, 2023 increased by \$2.2 million to \$24.7 million, as compared to \$22.5 million in the same period of the prior year. On a year to date basis, salaries and benefits expense increase by \$1.8 million to \$49.1 million, as compared to \$47.3 million in the same period of the prior year. The increase for both the three and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is mainly due to costs associated with a planned increase in the workforce to prepare TMC for its expanded asset post-TMEP and associated business requirements.

Taxes, other than income taxes, in the second quarter of 2023 increased by \$0.1 million to \$9.5 million, as compared to \$9.4 million in the same period of the prior year. For the six month period ended June 30, 2023 taxes, other than income taxes, increased by \$0.3 million to \$19.2 million, as compared to \$18.9 million in the same period of the prior year. The increase for both the three

and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is mainly due to higher property taxes on both TMPL and Puget.

Administration expenses for the three month period ended June 30, 2023 increased by \$0.8 million to \$3.1 million, as compared to \$2.3 million in the same period of the prior year. On a year to date basis, administration expenses for the six month period ended June 30, 2023 increase by \$1.3 million to \$4.4 million, as compared to \$3.1 million in the same period of the prior year. The increase for both the three and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is mainly due to higher external contract services and increased costs associated with a larger workforce.

Operating income and Adjusted EBITDA

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

(thousands of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Revenue	126,280	113,276	260,215	220,944
Less: Operating expenses	(104,660)	(92,877)	(215,062)	(184,320)
Operating income	21,620	20,399	45,153	36,624
Add: Depreciation and amortization	26,599	25,884	53,207	51,801
Adjusted EBITDA	48,219	46,283	98,360	88,425

Operating income in the second quarter of 2023 increased by \$1.2 million to \$21.6 million, as compared to \$20.4 million in the same period of the prior year. Additionally, Adjusted EBITDA for the three month period ended June 30, 2023 increased by \$1.9 million to \$48.2 million, as compared to \$46.3 million in the same period of the prior year. On a year to date basis, for the six month period ended June 30, 2023, operating income increased by \$8.6 million to \$45.2 million, as compared to \$36.6 million in the same period of the prior year. Likewise, Adjusted EBITDA for the six month period ended June 30, 2023 increased by \$10.0 million to \$98.4 million, as compared to \$88.4 million in the same period of the prior year. As flow through costs equally impact revenue and expenses, the increase in operating income and Adjusted EBITDA for both the three and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is mainly due to increased revenue on Puget, due to higher throughput and a weaker Canadian dollar.

Equity Allowance for funds used during construction ("AFUDC")

Equity AFUDC for the three month period ended June 30, 2023 increased by \$118.0 million to \$279.0 million, as compared to \$161.0 million in the same period of the prior year. For the six month period ended June 30, 2023, equity AFUDC increased by \$227.0 million to \$526.3 million, as compared to \$299.3 million in the same period of the prior year. The significant increase for both the three and six month periods ended June 30, 2023, as compared to the same periods in the prior year, is due to the cumulative impact of capital spending on the TMEP.

Interest expense

(thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2023	2022	% Change	2023	2022	% Change
Interest and commitment fees						
Syndicated Facility	168,918	6,773	nm	276,924	6,773	nm
Credit Facilities - related party	98,264	99,249	(1%)	195,449	200,415	(2%)
Guarantee fee - related party	6,794	10,298	(34%)	7,614	10,298	(26%)
Capitalized debt financing costs	(197,446)	(102,037)	94%	(372,449)	(189,729)	96%
Interest income and other	(3,994)	(1,797)	122%	(8,109)	(3,299)	146%
Interest Expense	72,536	12,486	nm	99,429	24,458	nm

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

The increase in total interest and commitment fees and capitalized debt financing costs for the three and six month periods ended June 30, 2023, as compared to the same periods 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. Furthermore, for the three and six month periods ended June 30, 2023, higher interest rates on TMC's Syndicated Facility have contributed to the increase in interest and commitment fees. See 'Liquidity and Capital Resources' for more details on TMC's financing arrangements.

Income tax

Income tax expense for the three and six month periods ended June 30, 2023 totalled \$56.2 million and \$116.3 million respectively, both reflecting an effective tax rate of 24.6%; as compared to income tax expense for the three and six month periods ended June 30, 2022 of \$42.0 million and \$77.1 million respectively, both reflecting an effective tax rate of 24.6%. The effective tax rates for both the three and six month periods ended June 30, 2023 and 2022 were consistent with TMC's statutory rate of 24.67%.

Net Income

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

(thousands of Canadian dollars)	Three months ended June		Six months ended June 30	
	2023	2022	2023	2022
Adjusted EBITDA	48,219	46,283	98,360	88,425
Less: Depreciation and amortization	(26,599)	(25,884)	(53,207)	(51,801)
Operating income	21,620	20,399	45,153	36,624
Interest expense	(269,982)	(114,523)	(471,878)	(214,187)
Capitalized debt financing costs	197,446	102,037	372,449	189,729
Equity allowance for funds used during	279,016	160,986	526,298	299,339
Other, net	358	484	717	967
Foreign exchange (loss) gain	(163)	1,412	(199)	635
Income before income taxes	228,295	170,795	472,540	313,107
Income tax expense	(56,183)	(42,023)	(116,272)	(77,113)
Net income	172,112	128,772	356,268	235,994

For the three and six month periods ended June 30, 2023 and 2022, Adjusted EBITDA reflects the results from TMC's base business, while net income incorporates the significant financing impact of the TMEP, specifically equity allowance for funds used during construction, interest expense and capitalized debt financing costs.

Capital Expenditures

(thousands of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
TMEP construction capital incurred	2,504,627	1,933,562	5,055,194	3,768,850
TMEP carrying costs and other	476,076	263,059	897,740	488,851
TMEP including cash and non-cash	2,980,703	2,196,621	5,952,934	4,257,701
Non-TMEP capital	23,103	34,446	39,001	60,294
Total	3,003,806	2,231,067	5,991,935	4,317,995

Capital expenditures for the three and six month periods ended June 30, 2023 increased significantly over the same periods of the prior year due to construction activity on the TMEP. A total of \$2.5 billion and \$5.1 billion in construction capital was incurred on the TMEP in the three and six month periods ended June 30, 2023, respectively. As of June 30, 2023, construction of the TMEP is approximately 90% complete, with work at our pump stations and facilities approximately 96% complete, while construction in the Lower Mainland is approximately 91% complete. Pipeline construction overall stands at over 89% complete, with approximately 910 kilometres of pipe in the ground.

In Alberta, all pipe has been installed, which now connects the Edmonton terminal to the reactivation segment in Jasper National Park. Mechanical completion of pipeline construction was reached for the Greater Edmonton area in early 2022 and for the Yellowhead region, in the second quarter of 2023. The reactivation work through the Jasper-Mount Robson area has also been completed.

Throughout British Columbia work has also progressed substantially. In the North Thompson region, the final tie-in was completed, and close out activities continue. In the BC interior, the Coldwater North and South direct pipe installations were completed, and pipe installation continues at Jacko Lake. In the Coquihalla to Hope region, critical work activities are progressing while navigating requirements of travel on major highways in the region during peak tourist season. In the Fraser Valley, work continues to manage the high-water table while completing trenchless crossings and horizontal directional bores. Mechanical completion in the Sandy Hill neighbourhood was achieved and reclamation activities continue. In the Lower Mainland, horizontal directional drills and direct pipe installation activities are underway and key milestones were reached in the Coquitlam and Burnaby municipalities.

Construction work continues at the Burnaby and Westridge Marine Terminal. At the Burnaby Terminal, the 14 tank foundations have been completed with hydrotesting and water transfer activity ongoing. Significant construction was completed at the Westridge Marine Terminal berths with the commencement of use of Berth 1 for the existing operations in mid-July. In the

Burnaby Mountain Tunnel, a 2.6-kilometre tunnel that connects the Burnaby Terminal to the Westridge Marine Terminal, welding activities and pipe coating have been completed and the leak detection installation process has commenced.

As of August 19, 2023, construction of the project is 94% mechanically complete with approximately 42 kilometres of pipe left to install. Berth 1 at the Westridge Marine Terminal has been operating since mid-July. We made significant progress on watercourse and highway crossings and construction in the Lower Mainland is 93% complete and 97% of our facilities in Alberta and B.C. (including Edmonton Terminal and Alberta/B.C. pump stations) are also complete. We have mitigation and contingency plans in place due to construction challenges in areas including Burnaby Mountain Tunnel, Jacko Lake and Mountain 3 in Spread 5B. We are currently planning and targeting the commencement of service on the expanded pipeline system near the end of the first quarter of 2024.

For the three and six month periods ended June 30, 2023, non-TMEP capital expenditures totalled \$23.1 million and \$39.0 million respectively, mainly related to the installation of fiber communication hubs and other routine sustaining capital projects to maintain the TMPL in a safe and reliable operating condition. In the prior year, non-TMEP capital expenditures for three and six month periods ended June 30, 2022 totalled \$34.4 million and \$60.3 million respectively and mainly related to the flood response in BC.

Liquidity and Capital Resources

TMC's primary liquidity and capital resource needs are to fund the ongoing construction of the TMEP, make required interest payments and fund working capital. As at June 30, 2023, 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 primarily 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, on April 29, 2022, TMC entered into a credit agreement with a syndicate of lenders (the "Syndicated Credit Agreement") for a one year facility (the "Syndicated Facility") for \$10 billion which includes a guarantee provided from the Government of Canada.

On March 24, 2023, the Corporation amended and restated the Syndicated Credit Agreement to include a letter of credit facility ("LC Facility") for \$100 million and to amend the Syndicated Facility. The Syndicated Facility was amended to a two year senior unsecured Equator Principles 4 ("EP4") compliant revolving facility and the available credit was increased to \$10.9 billion. 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. On May 2, 2023, the combined available credit under the two facilities was increased to \$13.0 billion of which \$12.9 billion relates to the Syndicated Facility and \$0.1 billion to the LC Facility. Subsequent to period end, on July 20, 2023, the combined available credit under the two facilities was increased to \$16.0 billion of which \$15.9 billion relates to the Syndicated Facility and \$0.1 billion to the LC Facility.

TMP LP also has an undrawn \$500.0 million line of credit agreement with TMP Finance dated March 25, 2019 (the “Financial Capacity Line of Credit”) 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 June 30, 2023 and outstanding amounts as of June 30, 2023 and December 31, 2022 are shown in the table below. There are no financial covenants.

(thousands of Canadian dollars)	Total available credit June 30, 2023	Outstanding amount June 30, 2023	Outstanding amount December 31, 2022
Syndicated Facility	12,900,000	12,090,000	7,200,000
Acquisition Facility	2,506,350	2,506,350	2,506,350
Construction Facility	5,541,123	5,541,123	5,346,418
Financial Capacity Line of Credit	500,000	-	-
Total debt	21,447,473	20,137,473	15,052,768
Capital contributions			
Acquisition		2,064,150	2,064,150
Construction		5,350,500	5,350,500
Total capital contributions		7,414,650	7,414,650
Total investment		27,552,123	22,467,418

Summary of Quarterly Results

(thousands of Canadian dollars)								
	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Revenue	126,280	133,935	135,430	121,630	113,276	107,668	120,338	107,818
Adjusted EBITDA	48,219	50,141	52,510	45,718	46,283	42,142	44,673	46,550
Net Income	172,112	184,156	158,259	139,744	128,772	107,222	84,478	74,378

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, while revenues in the fourth quarter of 2021 were higher due to flow through operating costs associated with the flood response in British Columbia.

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.

Net income has consistently increased over the last eight quarters, due to the cumulative impact of capital spending on the TMEP and the corresponding increase in equity AFUDC, which positively impacts net income. However, higher interest rates on TMC's Syndicated Facility led to a lower net income in the second quarter of 2023 as compared to the first 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 2023:

Health and Safety	2023	Three-year TMC average
Avoidable Vehicle Incident Rate (per million km driven)	0.20	0.10
Total Recordable Injury Rate ⁽¹⁾		
Employees	0.00	0.36
Contractors	0.15	0.77
Contractors – TMEP	0.54 ⁽³⁾	N/A
Environment		
Commodity Releases Rate ⁽²⁾	0.00	0.53
Volume of releases(m ³) ⁽²⁾	0.00	52.24

(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.

(3) Measured from the commencement of the project to June 30, 2023.

While TMC tracks all commodity releases, industry data for releases greater than 1.5 m³ is the threshold used for performance comparison. There have been no commodity releases in 2023 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.

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. Completion of the TMEP will require significant capital expenditures, and TMC will require the continued availability of financing in order to complete the TMEP. The outcome of the CER’s consideration of the Application for Interim Commencement Date Tolls 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 Construction Execution Risks

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

- Changes in market conditions, commodity prices, the political environment, widespread epidemics or pandemics, and economic conditions in Canada and globally;
- 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;
- Regulatory and legal decisions and outcomes, and potential changes in laws and regulations that result in impacts to construction execution and/or operations, including the CER approval of the Application for Interim Commencement Date Tolls;
- 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, believe, may, will, should, estimate, continue or other similar words. Examples of forward-looking statements contained in this Report include, among others, statements regarding the construction, timing, impact,

capacity and results of the TMEP and timing to achieve mechanical completion and in service operations; the commitment of shippers on the expanded TMPL; the maturity dates of our credit facilities; expected demand for oil products in Asia Pacific; and our ability to respond to physical risks and transition risks of climate change.

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.

Our forward-looking information is based on assumptions and expectations and is subject to risks and uncertainties, including:

Assumptions

- 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;
- 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

- 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 political 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; and
- Natural hazards (floods, landslides, seismic activity, etc.).

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.