TRANS MOUNTAIN CORPORATION

MANAGEMENT REPORT

For the year ended December 31, 2021

March 28, 2022

This Management Report (the "Report") should be read in conjunction with the audited consolidated financial statements of Trans Mountain Corporation for the year ended December 31, 2021 ("TMC's Financial Statements"). 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. 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.

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 will vary 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 a twinning of the existing pipeline 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 December 31, 2021, the overall Project including upfront costs of permitting, regulatory approval, advance purchase of materials and financial carrying costs is approximately 55% complete. Construction is approximately 44% complete, with $10.5 billion in capital spending incurred and $1.2 billion in financial carrying costs capitalized since the inception of the project. Trans Mountain expects that 2022 will see peak construction for the TMEP, with thousands of people working at hundreds of sites across Alberta and British Columbia.

Subsequent to year end, after completing a full review of its Project schedule and cost estimates, TMC announced the total Project cost has increased from $12.6 billion to $21.4 billion. This estimate includes the costs of all known Project enhancements, changes, delays and financing, including impacts of the COVID-19 pandemic and the substantial preliminary impacts of the November 2021 BC floods in the Hope, Coquihalla and Fraser Valley areas. Additionally, with all work fronts now active, completion of the Project is anticipated to occur in the fourth quarter of 2023. As of March 28, 2022, TMEP construction has surpassed 50% complete.

Legal and Regulatory Developments

As a result of a decision from the BC Court of Appeal, the BC Environmental Assessment Office ("EAO") was directed to consider any adjustments to the BC Environmental Assessment Certificate that may be required due to the CER's court directed reconsideration process and subsequent issuance of Certificate OC-065 approving the TMEP. In April 2020 the BC EAO announced a process for the reconsideration of any consequential adjustments. The EAO prepared a report for the Minister of Environment and Climate Change Strategy and the Minister of Energy, Mines and Low Carbon Innovation (the "Ministers"). Subsequent to year end, the Ministers issued a decision to amend the TMEP's Environmental Assessment Certificate (EAC) to reflect the recommendations outlined by the EAO. The amendments include the addition of two new conditions and an amendment to an existing condition, none of which are anticipated to impact the TMEP in service date.

On October 9, 2020, Trans Mountain submitted a variance application to the CER for the West Alternative Route through the Coldwater Valley in British Columbia. Trans Mountain completed detailed environment and engineering work for the Western Alternative Route along with engagement with area Indigenous groups. The CER authorized the West Alternative Route in July 2021. The corresponding amendment to the BC Environmental Assessment Certificate was approved on October 27, 2021. Construction has started, with clearing activities commencing in January 2022.

British Columbia Floods

The overall performance of the system was impacted in the fourth quarter of 2021 by heavy rainfall and extreme weather conditions, which led to widespread flooding in British Columbia and Washington State. As a precaution, the pipeline was shut down on November 14th, with operations safely restarting at reduced capacity on December 5th. The mainline remained at reduced capacity until January 14, 2022 when full capacity was restored. In 2021, Trans Mountain's flood response activities resulted in an increase to operating expenses of $11.6 million and additional sustaining capital expenses of $24.1 million. Trans Mountain expects flood related activities to continue in future periods. The vast majority of costs related to Trans Mountain's flood response activities are anticipated to be recoverable from shippers, insurance or third parties.

COVID-19 Pandemic

Trans Mountain's first priority is the health and safety of our workforce, their families and our neighboring communities. During the COVID-19 pandemic, Trans Mountain and its construction contractors have been working diligently together to ensure adherence to all advice and direction from government and health officials both provincially and federally, while ensuring the safe operation of the Trans Mountain Pipeline System and the continued, safe construction of the TMEP. Despite the pandemic's impact on crude oil demand and price, available capacity on the Trans Mountain pipeline was fully utilized for all of 2021 and 2020, with system nominations apportioned throughout, as the market access Trans Mountain provides continues to be valuable to shippers.

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 financing decisions, non-cash depreciation and amortization, and non-cash equity AFUDC[1].

Financial Highlights	**Three months ended December 31**		**Year ended December 31**	
(thousands of Canadian dollars, except throughput amounts)	**2021**	**2020**	**2021**	**2020**
Revenue	120,338	110,756	443,144	427,655
Adjusted EBITDA	44,673	47,598	181,220	188,397
Net Income	84,478	46,393	273,277	140,802
Cash provided by (used in) operating activities	(106,666)	(82,948)	14,161	(28,329)
Capital expenditures incurred	1,789,416	1,190,057	5,685,630	3,363,214
Average daily throughput				
Mainline deliveries (bpd)	226,000	332,000	299,000	312,000
Puget Sound Pipeline (bpd)	141,000	213,000	189,000	196,000
Westridge Marine Terminal (bpd)	34,000	29,000	35,000	39,000

Financial Position at (thousands of Canadian dollars)	**December 31, 2021**	**December 31, 2020**
Cash and cash equivalents and restricted cash	188,501	180,191
Total assets, including the TMEP work in progress	16,288,422	10,630,138
Loans from parent	7,552,600	4,827,350

[1] Allowance for Funds Used During Construction. 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

Revenue (thousands of Canadian dollars)	Three months ended December 31 2021	2020	% Change	Year ended December 31 2021	2020	% Change
Transportation	103,898	94,360	10%	376,945	362,282	4%
Leases	15,857	15,942	(1%)	63,619	63,647	0%
Other	583	454	28%	2,580	1,726	49%
Total	**120,338**	**110,756**	**9%**	**443,144**	**427,655**	**4%**

Total revenue consists of income from three sources: transportation, leases and other services. Available capacity on the Trans Mountain pipeline was fully utilized for all of 2021 and 2020, with system nominations apportioned throughout. For the three month period ended December 31, 2021, total revenue increased by $9.5 million to $120.3 million as compared to $110.8 million in the same period of the prior year. For the year ended December 31, 2021, total revenue increased by $15.4 million to $443.1 million as compared to $427.7 million in the prior year.

Transportation revenue in the fourth quarter of 2021 increased by $9.5 million to $103.9 million, as compared to $94.4 million in the same period of the prior year. In 2021, transportation revenue increased by $14.6 million to $376.9 million as compared to $362.3 million in the prior year. The increases in transportation revenue in both the fourth quarter and for the full year in 2021 are due to higher flow through operating costs, mainly associated with the flood response in British Columbia, as well as a $3.1 million increase in capacity incentive revenue to $3.5 million in 2021, as compared to $0.4 million in the prior year. These increases were partially offset by a decrease in revenue on Puget due to lower volumes, as the fourth quarter 2021 flooding in British Columbia resulted of the pipeline being shut down for approximately 3 weeks.

Lease revenue primarily relates to income earned on TMC's third party tank leases. For the three months and year ended December 31, 2021, lease revenue totalled $15.9 million and $63.6 million respectively, unchanged from the same periods in the prior year.

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

Expenses

Expenses (thousands of Canadian dollars)	Three months ended December 31 2021	2020	% Change	Year ended December 31 2021	2020	% Change
Pipeline operating costs	46,103	36,863	25%	140,732	129,719	8%
Depreciation and amortization	25,756	24,598	5%	102,374	98,009	4%
Salaries and benefits	18,835	16,592	14%	79,208	71,265	11%
Taxes, other than income taxes	6,703	8,574	(22%)	33,789	33,597	1%
Administration	4,024	1,129	256%	8,195	4,677	75%
Total	**101,421**	**87,756**	**16%**	**364,298**	**337,267**	**8%**

Pipeline operating costs and taxes, other than income taxes, on the TMPL are primarily treated as flow through costs to 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 months ended December 31, 2021 totalled $46.1 million reflecting an increase of $9.2 million, as compared to $36.9 million in the same period of the prior year. The increase is mainly due to higher flow through costs associated with the flood response in British Columbia. For the year ended December 31, 2021, pipeline operating costs increased by $11.0 million to $140.7 million, as compared to $129.7 million in the prior year. The increase is mainly due costs associated with the flood response in British Columbia, as well as higher power and insurance costs. These increases were partially offset by decreased environmental remediation costs, as site work related to the June 2020 Sumas release concluded.

Depreciation and amortization expense in the fourth quarter of 2021 increased by $1.2 million to $25.8 million, as compared to $24.6 million in the same period of the prior year. For the year ended December 31, 2021, depreciation and amortization increased by $4.4 million to $102.4 million, as compared to $98.0 million in the prior year. The increase for both the three months and year ended December 31, 2020, as compared to the same periods in the prior year, is mainly 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 December 31, 2021 increased by $2.2 million to $18.8 million, as compared to $16.6 million in the same period of the prior year. In 2021, salaries and benefits expense increased by $7.9 million to $79.2 million, as compared to $71.3 million in the prior year. The increase for both the three months and year ended December 31, 2021, 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 fourth quarter of 2021 decreased by $1.9 million to $6.7 million, as compared to $8.6 million in the same period of the prior year. While for the year ended

December 31, 2021 taxes, other than income taxes, increased by $0.2 million to $33.8 million, as compared to $33.6 million in the prior year. The slight increase for the full year of 2021, as compared to the prior year, is due to higher property taxes, primarily on TMPL regulated assets.

Administration expenses for the three month period ended December 31, 2021 increased by $2.9 million to $4.0 million, as compared to $1.1 million in the same period of the prior year. For the year ended December 31, 2021, administration expenses increased by $3.5 million to $8.2 million, as compared to $4.7 million in the prior year. The increase for both the three months and year ended December 31, 2021, as compared to the same periods of the prior year, is due to higher costs incurred on information technology systems and security, outside legal services and costs associated with planned workforce changes, partially offset by lower year-over-year COVID-19 related costs.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended December 31, 2021 decreased by $2.9 million to $44.7 million, as compared to $47.6 million in the same period of the prior year. For the year ended December 31, 2021, Adjusted EBITDA decreased by $7.2 million to $181.2 million, as compared to $188.4 million in the prior year. Flow through costs, including the costs associated with the British Columbia flood response, have no impact on Adjusted EBITDA as they equally impact revenue and expenses. As such, the decrease in Adjusted EBITDA for both the three months and year ended December 31, 2021, as compared to the same periods of the prior year, is mainly due lower revenue on Puget, as well as higher salaries and benefits costs, and the corresponding increased administration costs, associated with the increased workforce required to prepare TMC for its expanded asset post-TMEP. These factors were partially offset by a year-over-year increase of $3.1 million in capacity incentive revenue.

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

Equity AFUDC for the three month period ended December 31, 2021 increased by $57.2 million to $118.1 million, as compared to $60.9 million in the same period of the prior year. For the year ended December 31, 2021 equity AFUDC increased by $189.6 million to $374.0 million, as compared to $184.4 million in the prior year. The significant increase for both the three months and year ended December 31, 2021, as compared to the same periods in the prior year, is due to the cumulative impact of capital spending on the TMEP.

Interest expense

Interest Expense	Three months ended December 31			Year ended December 31		
(thousands of Canadian dollars)	2021	2020	% Change	2021	2020	% Change
Interest and commitment fees on loans from parent	91,101	57,872	57%	309,648	195,899	58%
Capitalized debt financing costs	(68,365)	(35,266)	94%	(216,569)	(106,797)	103%
Interest income and other	(1,494)	(916)	63%	(5,323)	(4,090)	30%
Interest Expense, net of capitalized debt financing	**21,242**	**21,690**	**(2%)**	**87,756**	**85,012**	**3%**

The increase in total interest and commitment fees from TMC's parent and capitalized debt financing costs for the three months and year ended December 31, 2021, 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.

Income tax

Income tax expense for the three months and year ended December 31, 2021 totalled $30.9 million and $92.3 million, respectively reflecting effective tax rates of 26.8% and 25.3%, respectively; as compared to income tax expense for the three months and year ended December 31, 2020 of $17.7 million and $47.9 million, respectively reflecting effective tax rates of 27.6% and 25.4%, respectively. The effective tax rates for the three months and year ended December 31, 2021 were higher than TMC's statutory rate of 24.67% mainly due to intercompany foreign dividend withholding taxes incurred in the fourth quarter of 2021.

Net Income

Net income for the three month period ended December 31, 2021 increased by $38.1 million to $84.5 million, as compared to $46.4 million in the same period of the prior year. The increase is mainly due to the $57.2 million increase in equity AFUDC, partially offset by the $13.2 million increase in income tax expense, the $2.9 million decrease in Adjusted EBITDA and the $1.2 million increase in depreciation and amortization expense. The remaining movement in net income relates to changes in foreign exchange gains and losses, interest expense and other items.

Net income in 2021 increased by $132.5 million to $273.3 million, as compared to $140.8 million in the prior year. The increase is mainly due to the $189.6 million increase in equity AFUDC, partially offset by the $44.4 million increase in income tax expense, the $7.2 million decrease in Adjusted EBITDA, the $4.4 million increase in depreciation and amortization expense, and the $2.8 million increase in interest expense. The remaining movement in net income relates to changes in foreign exchange gains and losses and other items.

Capital Expenditures

Capital Expenditures	Three months ended December 31		Year ended December 31	
(thousands of Canadian dollars)	**2021**	**2020**	**2021**	**2020**
TMEP capital	1,748,885	1,173,801	5,595,158	3,312,009
Non-TMEP capital	40,531	16,256	90,472	51,205
Total	**1,789,416**	**1,190,057**	**5,685,630**	**3,363,214**

Capital expenditures for the three months and year ended December 31, 2021 increased significantly over the same periods of the prior year, due to construction activity on the TMEP. A total of $1.7 billion and $5.6 billion was incurred on the TMEP for the three months and year ended December 31, 2021, respectively.

Following a voluntary line-wide safety stand down that began in December of 2020, and completion of re-training of workers and supervisors, construction resumed on all active pipeline spreads, facilities, and reactivation sites midway through the first quarter of 2021. Construction progress was made across all fronts along the pipeline route. Overall, the project construction is approximately 44% complete, with approximately 490 km of the right-of-way stripped and graded, 380 km of pipe length welded and 350 km of pipe length in the ground. Additionally, significant process was made on facilities along the route, which were approximately 73% complete at year-end.

In Alberta, pipeline construction was substantially completed in the Greater Edmonton area and successfully wrapped up in early 2022. In the Yellowhead region, horizontal directional drills progressed with one completed by the end of 2021. Reactivation work on the line through the Jasper - Mount Robson area continued with technical digs and natural hazard remediation work.

Work also accelerated in B.C. along the pipeline corridor despite construction activities being constrained in certain areas in August due to extreme heat and wildfire precautions and then again in November and December across the Interior and Fraser Valley regions of B.C. due to widespread flooding. In the North Thompson region, construction work included various right-of-way activities, watercourse crossing work, as well as stringing, welding, and installation of pipe. In the BC interior, work included activities at the Black Pines Pump Station and along the pipeline in Kamloops and south towards Merritt along the mainline. In the Coquihalla to Hope region, work consisted of access road development and pipeline construction until efforts were redirected late in the fourth quarter to flood response and clean up. In the Fraser Valley, progress was made on the Sumas River crossing.

Construction work continues at the Westridge Marine Terminal and Burnaby Terminal with work over half completed. Starting in the second quarter of 2021, tunnel boring activities commenced for a 2.6-kilometre tunnel that will connect the Burnaby Terminal to the Westridge Marine Terminal, with approximately 530 metres of the tunnel complete in 2021.

For the three months and year ended December 31, 2021, non-TMEP capital expenditures totalled $40.5 million and $90.5 million, respectively which included approximately $24.1 million in capital expenditures related to the flood response in British Columbia. Other capital expenditures mainly related to routine sustaining capital projects to maintain the TMPL in a safe and reliable operating condition, including Sumas Station upgrades and river crossing integrity, a Burnaby tank roof replacement, the Cold Lake feeder metering project, and mainline infrastructure work.

2022 Financial Outlook

For 2022, TMC expects its existing operations to generate Adjusted EBITDA of between $175 million and $185 million. Trans Mountain anticipates throughput of approximately 312,000 bpd on TMPL and 196,000 bpd on Puget.

Capital spending on the TMEP is expected to total approximately $6.0 billion in 2022, including $1.0 billion of AFUDC, with additional spending of approximately $90 million expected on other capital projects and asset retirements.

These projections are based on a number of assumptions, including:

- Continued strong demand for transportation to the West Coast of Canada and into Washington State.
- A financing mix of 55% debt and 45% equity from TMP Finance, with an interest rate of 5% on debt.
- A USD/CAD exchange rate of 1 USD = 1.25 CAD.

With the project significantly de-risked and overall completion of TMEP over 50% complete, the Federal Government has indicated that TMC will now need to secure the funding necessary to complete the project with third-party financing, either in the public debt markets or with financial institutions. TMC has commenced the pursuit of the necessary external financing and expects it will be obtained in a timely manner and on terms satisfactory to TMC.

Actual results may vary from our expectations.

Environment, Health and Safety

Our Environment, Health and Safety program tracks our performance against our own previous three-year average and that of the pipeline industry 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 and comparing against industry provides a means to assess the effectiveness of our operations against our peers. The following table provides a summary of TMC's Environment, Health and Safety program during 2021:

		Three-year average	
	2021	**TMC**	**Industry(1)**
Health and Safety			
Avoidable Vehicle Incident Rate (per million miles driven)	0.30	0.09	1.05
Total Recordable Injury Rate(2)			
Employees	0.00	0.40	0.55
Contractors	0.82	1.09	1.20
Contractors – TMEP	0.53 (4)	N/A	1.00
Environment			
Commodity Releases Rate(3)	0.80	0.79	0.23
Volume of releases(m^3)(3)	5.57	52.15	20.63

(1) Industry rates provided by CEPA (Canadian Energy Pipeline Association) except for Contractor rates which are provided by NAICS (North American Industry Classified System).

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

(3) Release rates are per 1,000 km of operating pipeline. See Sumas Release discussion below.

(4) Measured from the commencement of the project to December 31, 2021.

Sumas Release

The environmental remediation activities at the Sumas pump station continued in 2021 and are nearing completion.

While TMC tracks all commodity releases, industry data for releases greater than 1.5 m^3 is the threshold used for performance comparison. During the third quarter of 2021, there was one release at the Edmonton Terminal that met this threshold.

Environment, Social and Governance

In July 2021, TMC published its first Environment, Social and Governance ("ESG") report sharing the company's ESG performance, a copy of which can be found on our website at www.transmountain.com/esg-report.

Task Force on Climate-Related Financial Disclosures ("TCFD") Update

TMC is taking a phased approach to identifying and managing climate-related risks. In our 2022 ESG report, we will provide disclosures around the four thematic areas contained in the TCFD framework—governance, risk management, strategy, and metrics and targets.

In the last year, TMC:

- Continued progressing our disclosures towards fully meeting the TCFD requirements in 2023 in alignment with the Federal Government requirements;
- Formally added climate-related risks to its Enterprise Risk Management program; and
- Conducted qualitative scenario analysis.

Some of the climate-related physical and transition risks (i.e., risks related to the transition to a low carbon economy) under evaluation include:

Physical risks: Physical risks such as wildfires, winter storms, floods and rising sea levels are evaluated and managed in alignment with our asset integrity program. 2021 provided a real test to the resiliency of our assets and programs since TMC effectively responded to three extreme weather events: wildfires, extreme cold and catastrophic flooding. During the BC floods, we initiated a 21-day precautionary shutdown, and safely restarted operations on December 5, 2021, with no significant safety or environmental incidents.

Transition-risks: TMC is evaluating a series of regulatory and market-related transition risks. Some of those risks include changes in oil demand, sustained lower prices, and carbon regulations that impact TMC's customers. In the next ten years, TMC has several sources of resiliency including: our ESG performance and low carbon footprint, several long-term "take-or-pay" contract commitments in place with shippers, and a unique strategic position as the only pipeline system transporting crude oil and refined products to the West Coast with access to the marine terminal, where oil demand is forecasted to remain strong.

Scenarios: In early 2022, our senior leaders attended several facilitated workshops to discuss the qualitative impacts of two scenarios developed by the International Energy Agency (IEA): The *Announced Pledges Scenario* (APS) and the *Net Zero Emissions by 2050 Scenario (NZE).* Under the *Announced Pledges Scenario*, we believe TMC will remain resilient to 2050 given the moderate market contraction and moderate oil prices. Under the *Net Zero Emissions by 2050 Scenario,* TMC remains resilient to 2030 but may need to make changes to its business after 2030 given the potential for low oil price environment and severe demand contraction. In the next few years, we will continue enhancing our understanding of scenarios and monitoring for critical signposts.

Environment

TMC has a robust and proactive asset integrity program that includes inline inspections, integrity digs and a control center that monitors pipeline operations 24 hours a day, 7 days a week. In case of an incident, TMC has emergency response plans and its own inventory of emergency response equipment, covering the pipeline, pump stations and the Westridge Marine Terminal. Although the greenhouse gas (GHG) emissions associated with operating a pipeline are relatively small, TMC will be setting targets to reduce and/or offset our scope 1 and scope 2 emissions. Our targets will support the Government of Canada's ambition to reach net zero by 2050.

For the execution of the TMEP, TMC uses a variety of leading-edge environmental practices and technologies. TMC has evaluated and sought to minimize the impacts of construction activities on land, water and air, including considerations of traditional Indigenous knowledge and heritage resources. Construction of the TMEP will generate emissions and as part of TMC's regulatory approvals, TMC committed to offset these construction-related emissions.

Social

In alignment with the mandate to operate in a manner consistent with Canada's commitment to advance reconciliation with Indigenous Peoples, TMC seeks to maximize opportunities for Indigenous people. TMC's hope is that Indigenous communities are positively economically impacted for the long term and are in a more sustainable position than when we first engaged with them, and that a positive legacy endures beyond the completion of the TMEP.

To promote safe operations and construction, TMC has stringent safety regulations, high expectations of its contractors, and is always working to improve its safety practices.

Governance

TMC's Board of Directors is appointed by CDEV and is composed of 12 members, 11 of whom are considered independent including the Chair. The Board is responsible for the stewardship of the company with overall responsibility to oversee and supervise management and business activities, while exercising their independent judgment to strengthen management and accountability.

Business Risks

In addition to the risks associated with the COVID-19 pandemic, 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.

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 from its parent, Canada TMP Finance Ltd., in order to complete the TMEP. 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 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 incident 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;
- 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;
- 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, or other similar words.

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 our immediate parent and financing source, Canada TMP Finance Ltd and external financing once obtained;
- 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;
- Impacts arising from COVID-19 not becoming significantly more onerous on TMC;
- 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;
- 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;
- Competitive factors in the pipeline sector;
- 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;
- 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;
- 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.