



MANAGEMENT REPORT
For the year ended December 31, 2023

March 7, 2024



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, 2023 (“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 (“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.

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 December 31, 2023, construction of the TMEP is approximately 98% complete, with \$27.2 billion in construction capital spending incurred plus \$4.4 billion in financial carrying costs capitalized since the inception of the project. Mechanical completion and commercial service of the TMEP are anticipated to occur in the second quarter of 2024.

Legal and Regulatory Developments

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. On August 1, 2023, Trans Mountain received an information request from the CER on the interim toll application, which was replied to on August 16, 2023. Comments from shippers were received in early September, to which Trans Mountain responded on September 14, 2023. On October 12, 2023, the CER announced the process and timeline to consider the application. 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 fourth quarter of 2024.

On September 25, 2023, TMC received a ruling from the CER that approved TMC's proposed deviation to pipeline routing within the previously agreed to right-of-way on Stk'emlúpsenc te Secwépemc (SSN) lands near Pipsell (Jacko Lake), BC.

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.

As at December 31, 2023, there were 31 leave to open applications and 10 conditions yet to be approved. TMC is working closely with the CER with the goal of having all outstanding leave to open applications approved by April of 2024.

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 and goodwill impairment. It also excludes the impact of financing decisions, non-cash equity AFUDC¹, foreign exchange, taxes and other expenses.

| Financial Highlights (thousands of Canadian dollars, except throughput amounts) | Three months ended | | Year ended | |
|--|---------------------------|-------------|--------------------|-------------|
| | December 31 | | December 31 | |
| | 2023 | 2022 | 2023 | 2022 |
| Revenue | 123,642 | 135,430 | 521,803 | 478,004 |
| Operating expenses ^(a) | (77,866) | (82,920) | (332,600) | (291,351) |
| Adjusted EBITDA | 45,776 | 52,510 | 189,203 | 186,653 |
| Depreciation and amortization | (29,491) | (26,526) | (109,274) | (104,331) |
| Operating income (excluding goodwill impairment) | 16,285 | 25,984 | 79,929 | 82,322 |
| Goodwill impairment | - | - | (888,098) | - |
| Operating income (loss) | 16,285 | 25,984 | (808,169) | 82,322 |
| Equity allowance for funds used during construction | 330,335 | 217,106 | 1,165,361 | 704,334 |
| Interest expense, net of capitalized debt financing costs | (132,725) | (33,458) | (343,538) | (82,352) |
| Foreign exchange and other | 154 | 52 | 1,175 | 3,769 |
| Income before income taxes | 214,049 | 209,684 | 14,829 | 708,073 |
| Income tax expense | (53,816) | (51,425) | (223,242) | (174,076) |
| Net income (loss) | 160,233 | 158,259 | (208,413) | 533,997 |
| Cash (used in) provided by operating activities | (93,172) | (223,640) | (95,573) | 170,295 |
| Capital expenditures incurred | 1,753,965 | 2,744,090 | 10,368,263 | 9,754,327 |
| Average daily throughput | | | | |
| Mainline deliveries (bpd) | 337,000 | 322,000 | 348,000 | 323,000 |
| Puget Sound Pipeline (bpd) | 217,000 | 214,000 | 231,000 | 209,000 |
| Westridge Marine Terminal (bpd) | 43,000 | 26,000 | 41,000 | 31,000 |

(a) Excludes depreciation and amortization and goodwill impairment.

| Financial Position at (thousands of Canadian dollars) | December 31, 2023 | December 31, 2022 |
|--|--------------------------|--------------------------|
| Cash and cash equivalents and restricted cash | 116,239 | 241,002 |
| Total assets, including the TMEP work in progress | 35,174,647 | 25,983,066 |
| Total debt | 24,340,314 | 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 December 31 | | | Year ended December 31 | | |
|---------------------------------|--------------------------------|----------------|-------------|------------------------|----------------|-----------|
| | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Transportation | 104,696 | 117,774 | (11%) | 447,980 | 408,248 | 10% |
| Leases | 18,326 | 16,935 | 8% | 71,331 | 67,127 | 6% |
| Other | 620 | 721 | (14%) | 2,492 | 2,629 | (5%) |
| Total | 123,642 | 135,430 | (9%) | 521,803 | 478,004 | 9% |

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 2023 and 2022, with system nominations apportioned throughout. For the three month period ended December 31, 2023, total revenue decreased by \$11.8 million to \$123.6 million, as compared to \$135.4 million in the same period of the prior year. For the year ended December 31, 2023, total revenue increased by \$43.8 million to \$521.8 million, as compared to \$478.0 million in the prior year.

Transportation revenue in the fourth quarter of 2023 decreased by \$13.1 million to \$104.7 million, as compared to \$117.8 million in the same period of the prior year due to lower flow through operating costs that are recovered from customers, partially offset by increased revenue on Puget, due to higher throughput. For the year ended December 31, 2023, transportation revenue increased by \$39.8 million to \$448.0 million, as compared to \$408.2 million in the prior year 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 December 31, 2023, lease revenue increased by \$1.4 million to \$18.3 million, as compared to \$16.9 million in the same period of the prior year. For the year ended December 31, 2023, lease revenue increased by \$4.2 million to \$71.3 million, as compared to \$67.1 million in the prior year. The increase in lease revenue for both the fourth quarter and full year in 2023 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 December 31 | | | Year ended December 31 | | |
|---------------------------------|--------------------------------|----------------|-------------|------------------------|----------------|-------------|
| | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Pipeline operating costs | 32,552 | 52,797 | (38%) | 172,380 | 156,785 | 10% |
| Depreciation and amortization | 29,491 | 26,526 | 11% | 109,274 | 104,331 | 5% |
| Salaries and benefits | 29,851 | 20,963 | 42% | 108,168 | 91,062 | 19% |
| Taxes, other than income taxes | 9,380 | 8,358 | 12% | 38,174 | 36,900 | 3% |
| Administration | 6,083 | 802 | 658% | 13,878 | 6,604 | 110% |
| | 107,357 | 109,446 | (2%) | 441,874 | 395,682 | 12% |
| Goodwill impairment | - | - | - | 888,098 | - | nm |
| Total | 107,355 | 109,446 | (2%) | 1,329,972 | 395,682 | 236% |

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

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 December 31, 2023 totalled \$32.6 million reflecting a decrease of \$20.2 million, as compared to \$52.8 million in the same period of the prior year. The decrease is mainly due insurance recoveries related to the 2021 British Columbia floods of \$10.8 million, as well as lower power, asset integrity and environmental remediation costs period over period. For the year ended December 31, 2023, pipeline operating costs increased by \$15.6 million to \$172.4 million, as compared to \$156.8 million in 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, partially offset by insurance recoveries related to the 2021 British Columbia floods.

Depreciation and amortization expense in the fourth quarter of 2023 increased by \$3.0 million to \$29.5 million, as compared to \$26.5 million in the same period of the prior year. For the year ended December 31, 2023, depreciation and amortization expense increase by \$5.0 million to \$109.3 million, as compared to \$104.3 million in the prior year. The increase for both the three months and year ended December 31, 2023, as compared to the same periods in the prior year, 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 December 31, 2023 increased by \$8.9 million to \$29.9 million, as compared to \$21.0 million in the same period of the prior year. In 2023, salaries and benefits expense increase by \$17.1 million to \$108.2 million, as compared to \$91.1 million in the prior year. The increase for both the three months and year ended December 31, 2023, as compared to the same periods in the prior year, 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 fourth quarter of 2023 increased by \$1.0 million to \$9.4 million, as compared to \$8.4 million in the same period of the prior year. For the year ended December 31, 2023 taxes, other than income taxes, increased by \$1.3 million to \$38.2 million, as compared to \$36.9 million in the prior year. The increase for both the three months and year ended December 31, 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 December 31, 2023 increased by \$5.3 million to \$6.1 million, as compared to \$0.8 million in the same period of the prior year. For the year ended December 31, 2023, administration expenses increased by \$7.3 million to \$13.9 million, as compared to \$6.6 million in the prior year. The increase for both the three months and year ended December 31, 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.

Goodwill Impairment

During the third quarter of 2023, a goodwill impairment loss of \$888.1 million was recognized for the full carrying value of goodwill. Goodwill previously related to the acquisition of the TMPL and the Puget Pipeline on August 31, 2018. As a result of significant factors, primarily a rise in the cost of capital from increased domestic interest rates as well as changes in the timing of the commencement of service of the TMEP and associated costs, management performed an impairment test as of September 30, 2023. Consistent with the most recent impairment test performed as of December 31, 2022, the impairment test was most sensitive to changes in discount rates which impacted the fair value of the reporting unit as of September 30, 2023.

Operating income and Adjusted EBITDA

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

| (thousands of Canadian dollars) | Three months ended December 31 | | Year ended December 31 | |
|--|---------------------------------------|---------------|-------------------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue | 123,642 | 135,430 | 521,803 | 478,004 |
| Less: Operating expenses | (107,357) | (109,446) | (1,329,972) | (395,682) |
| Operating income (loss) | 16,285 | 25,984 | (808,169) | 82,322 |
| Add: Depreciation and amortization | 29,491 | 26,526 | 109,274 | 104,331 |
| Add: Goodwill impairment | - | - | 888,098 | - |
| Adjusted EBITDA | 45,776 | 52,510 | 189,203 | 186,653 |

Operating income in the fourth quarter of 2023 decreased by \$9.7 million to \$16.3 million, as compared to \$26.0 million in the same period of the prior year. Likewise, Adjusted EBITDA for the three month period ended December, 2023 decreased by \$6.7 million to \$45.8 million, as compared to \$52.5 million in the same period of the prior year. As flow through costs equally impact revenue and expenses, the decrease in both operating income and Adjusted EBITDA in the fourth quarter of 2023, 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 revenue on Puget, due to higher throughput.

For the year ended December 31, 2023, operating (loss) income decreased by \$890.5 million to a loss of \$808.2 million, as compared to income of \$82.3 million in the prior year. The significant decrease in operating (loss) income in 2023, as compared to the prior year, is mainly due to a \$888.1 million goodwill impairment recognized in the third quarter of 2023.

Adjusted EBITDA in 2023 increased by \$2.5 million to \$189.2 million, as compared to \$186.7 million in the prior year. As flow through costs equally impact revenue and expenses, the increase in Adjusted EBITDA in 2023, as compared to the prior year, is mainly due to increased revenue on Puget, due to higher throughput and a weaker Canadian dollar, partially offset by increased salaries and benefits and higher administration expenses, due to costs associated with increases in the workforce for the commencement of the expanded pipeline system .

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

Equity AFUDC for the three month period ended December 31, 2023 increased by \$113.2 million to \$330.3 million, as compared to \$217.1 million in the same period of the prior year. In 2023, equity AFUDC increased by \$461.1 million to \$1,165.4 million, as compared to \$704.3 million in the prior year. The significant increase for both the three months and year ended December 31, 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 December 31 | | | Year ended December 31 | | |
|--|---------------------------------------|---------------|-----------------|-------------------------------|---------------|-----------------|
| | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| Interest and commitment fees | | | | | | |
| Syndicated Facility | 258,436 | 69,897 | nm | 758,944 | 108,426 | nm |
| Credit Facilities - related party | 101,825 | 96,911 | 5% | 399,073 | 394,237 | 1% |
| Guarantee fee - related party | 9,743 | 8,847 | 10% | 25,863 | 36,808 | (30%) |
| Capitalized debt financing costs | (233,780) | (137,609) | 70% | (824,705) | (446,425) | 85% |
| Interest income and other | (3,499) | (4,588) | (24%) | (15,637) | (10,694) | 46% |
| Interest Expense | 132,725 | 33,458 | nm | 343,538 | 82,352 | 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 month period and year ended December 31, 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, 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 tax

Income tax expense for the three month period and year ended December 31, 2023 totalled \$53.8 million and \$223.2 million respectively, reflecting effective tax rates of 25.1% and 24.7% respectively after normalizing for the goodwill impairment recognized in the third quarter; as compared to income tax expense for the three month period and year ended December 31, 2022 of \$51.4 million and \$174.1 million respectively, reflecting effective tax rates of 24.5% and 24.6%, respectively. After normalizing for the goodwill impairment in the third quarter of 2023, the effective tax rates for both the three months and year ended December 31, 2023 and 2022 were consistent with TMC's statutory rate of 24.67%.

Net Income

For the three months and year ended December 31, 2023 and 2022, Adjusted EBITDA reflects the results from TMC's base business, while net income incorporates depreciation expense, the goodwill impairment recognized in the third quarter of 2023 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

| (thousands of Canadian dollars) | Three months ended December 31 | | Year ended December 31 | |
|--|---------------------------------------|------------------|-------------------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| TMEP construction capital incurred | 1,164,059 | 2,349,306 | 8,272,607 | 8,496,647 |
| TMEP carrying costs ⁽¹⁾ | 563,070 | 354,409 | 1,987,143 | 1,149,790 |
| TMEP including cash and non-cash items | 1,727,129 | 2,703,715 | 10,259,750 | 9,646,437 |
| Capital expenditures on existing pipeline system | 26,836 | 40,375 | 108,513 | 107,890 |
| Total | 1,753,965 | 2,744,090 | 10,368,263 | 9,754,327 |

(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 and year ended December 31, 2023 mainly relate to construction activity on the TMEP. A total of \$1.2 billion and \$8.3 billion in construction capital was incurred on the TMEP during the three months and year ended December 31, 2023, respectively.

As of December 31, 2023, construction of the TMEP is approximately 98% complete with less than 4 kilometers of pipe left to install. TMC has made significant progress on watercourse and highway crossings, with construction in the Lower Mainland 97% complete while the TMEP facilities in Alberta and B.C. (including Edmonton Terminal and Alberta/B.C. pump stations) are more than 99% complete.

A number of significant milestones on the TMEP were achieved in the fourth quarter of 2023, including:

- Reactivation of all existing pipe was mechanically complete (October);
- Dry commissioning at Edmonton Terminal facilities and all pump stations complete (November);

- Construction milestones in BC's Lower Mainland included:
 - Mechanical completion of all 12 tanks at Burnaby Terminal required for start-up;
 - Mechanical completion of Westridge Terminal including all facilities required for start-up;
 - Mechanical completion on Spread 7A (December);
 - Final mainline welds completed on Spread 7B (November);
- Completed all major trenchless crossing except two at Jacko Lake and one at Mountain 3.

During the first quarter of 2024, nearly all of the assets constructed for the TMEP have been turned over to operations, except for the Mountain 3 crossing.

TMC is currently planning and targeting the commencement of service on the expanded pipeline system in the second quarter of 2024 following completion of the Mountain 3 crossing, regulatory approvals to begin operations and line-filling activities.

For the three months ended December 31, 2023, capital expenditures on the existing pipeline system totaled \$26.8 million, consisting of \$4.8 million in new capital projects, mainly related to the installation of communication hubs for the fiber optic network, and \$22.0 million in sustaining capital projects to maintain the TMPL in a safe and reliable operating condition.

For the year ended December 31, 2023, capital expenditures on the existing pipeline system totaled \$108.5 million, consisting of \$20.1 million in new capital projects, mainly related to the installation of communication hubs for the fiber optic network, and \$88.4 million in sustaining capital projects, of which \$13.0 million related to non-routine legacy flood response projects in British Columbia. The remaining sustaining capital in 2023 related to routine projects to maintain the TMPL in a safe and reliable operation condition.

In the prior year, capital expenditures on the existing pipeline system for three months and year ended December 31, 2022 totalled \$40.4 million and \$107.9 million respectively, and mainly related the flood response in British Columbia and routine sustaining capital projects.

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 December 31, 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. Additionally, TMC's going concern assumption is described in note 2 of the audited consolidated financial statements for the year ended December 31, 2023.

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 amended facilities continue to include a guarantee provided from the Government of Canada, which increased in conjunction with the amendments to the Syndicated Credit Agreement. 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.

The available credit on the Syndicated Facility was increased three times in 2023. The most recent increase was to \$17.9 billion on November 30, 2023. The total combined available credit under the Syndicated Credit Agreement as of December 31, 2023 was \$18.0 billion. Each increase to the facility included a corresponding increase to the guarantee provided from the Government of Canada.

TMP LP also has an undrawn 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. On October 27, 2023, as a result of the increased CER financial capacity requirements under the expanded system, TMP LP increased the Financial Capacity Line of Credit from \$500.0 million to \$550.0 million.

Total capital contributions from TMP Finance and TMC's total available credit as of December 31, 2023 and outstanding amounts as of December 31, 2023 and December 31, 2022 are shown in the table below. There are no financial covenants.

| (thousands of Canadian dollars) | Total available credit December 31, 2023 | Outstanding amount December 31, 2023 | Outstanding amount December 31, 2022 |
|------------------------------------|---|---|---|
| Syndicated Facility | 17,900,000 | 16,090,000 | 7,200,000 |
| Acquisition Facility | 2,506,350 | 2,506,350 | 2,506,350 |
| Construction Facility | 5,743,964 | 5,743,964 | 5,346,418 |
| Financial Capacity Line of Credit | 550,000 | - | - |
| Total debt | 26,700,314 | 24,340,314 | 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 | | 31,754,964 | 22,467,418 |

Summary of Quarterly Results

| (thousands of Canadian dollars) | Q4 2023 | Q3 2023 | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 | Q1 2022 |
|---------------------------------|---------|-----------|---------|---------|---------|---------|---------|---------|
| Revenue | 123,642 | 137,946 | 126,280 | 133,935 | 135,430 | 121,630 | 113,276 | 107,668 |
| Adjusted EBITDA | 45,776 | 45,067 | 48,219 | 50,141 | 52,510 | 45,718 | 46,283 | 42,142 |
| Net income (loss) | 160,233 | (724,914) | 172,112 | 184,156 | 158,259 | 139,744 | 128,772 | 107,222 |

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.

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, a goodwill impairment led to a net loss in the third quarter of 2023.

2024 Financial Outlook

2024 will be a transformational year for TMC, as mechanical completion and commercial service of the TMEP are anticipated to occur in the second quarter. As of the date of this Report, in the first full year of operations, TMC expects to generate Adjusted EBITDA of approximately \$2.5 billion.

As of the date of this Report, capital spending on the TMEP is expected to total approximately \$2.7 billion in 2024, including \$0.8 billion of AFUDC, with additional spending of approximately \$105 million expected on other capital projects and asset retirements.

These projections are based on a number of assumptions that reflect information available as of the date of this Report, including:

- Continued strong demand for transportation to the West coast of Canada and into Washington State.
- Revenue recorded on the basis of the contractual tolls approved by the CER on a preliminary interim basis, which are currently under examination.
- Availability of incremental debt financing from external financing sources.

Actual events and results may vary from our expectations and could be significantly different because of assumptions, risks or uncertainties related to our business that occur after the date of this Report.

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 | 0.56 | 0.36 |
| Contractors | 0.46 | 0.77 |
| Contractors – TMEP | 0.52 ⁽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 December 31, 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.

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 CO₂ 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. 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, which are currently under examination by the CER due to issues raised by shippers, with process steps continuing through to the fourth quarter of 2024, 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 construction, timing, impact, capacity and results of the TMEP and timing to achieve mechanical completion and in-service operations; the approval of all outstanding leave to open applications by the CER by the end of the first quarter of 2024; the commitment of shippers on the expanded TMPL; the maturity dates of our credit facilities; capital expenditures; asset retirements; continued strong demand for oil products to the West coast of Canada and into Washington State; anticipated revenues from tolls; 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;
- Interest, tax and foreign exchange rates; and
- Those assumptions described under “2024 Financial Outlook” in this Report.

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.