



TRANSMOUNTAIN

TRANS MOUNTAIN CORPORATION

**CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**
(unaudited)

For the three and nine month periods ended September 30, 2022

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenues (Note 2)	121,630	107,818	342,574	322,806
Expenses				
Pipeline operating costs	40,758	31,504	103,988	94,629
Depreciation and amortization	26,005	25,689	77,806	76,618
Salaries and benefits	22,770	19,706	70,099	60,373
Taxes, other than income taxes	9,644	9,038	28,542	27,086
Administration	2,740	1,020	5,802	4,171
	101,917	86,957	286,237	262,877
Operating income	19,713	20,861	56,337	59,929
Equity allowance for funds used during construction	187,889	100,313	487,228	255,928
Interest expense, net of capitalized debt financing costs	(24,436)	(22,781)	(48,894)	(66,514)
Other, net	483	218	1,450	655
Foreign exchange gain	1,633	35	2,268	223
Income before income taxes	185,282	98,646	498,389	250,221
Income tax expense (Note 3)	(45,538)	(24,268)	(122,651)	(61,422)
Net income	139,744	74,378	375,738	188,799

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net income	139,744	74,378	375,738	188,799
Other comprehensive income, net of tax				
Currency translation adjustment	16,309	8,764	20,364	406
Pension and post-employment benefits	62	156	184	466
	16,371	8,920	20,548	872
Comprehensive income	156,115	83,298	396,286	189,671

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

TRANS MOUNTAIN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands of Canadian dollars)
(Unaudited)

As of	September 30, 2022	December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	169,610	115,740
Accounts receivable	111,262	87,262
Other current assets	50,923	61,549
	331,795	264,551
Property, plant and equipment	21,506,402	14,562,231
Right-of-use asset	75,989	108,786
Regulatory assets	129,486	85,444
Goodwill (Note 4)	888,098	888,098
Restricted investments	89,543	96,263
Restricted cash	79,513	72,761
Deferred amounts and other assets	291,060	210,288
Total Assets	23,391,886	16,288,422
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	1,177,101	887,187
Interest payable	10,674	-
Regulatory liabilities	82,924	81,818
Debt (Note 6)	4,850,000	-
Other current liabilities	52,358	71,893
	6,173,057	1,040,898
Long term debt (Note 6)	7,659,701	7,552,600
Long term interest payable	124,494	-
Deferred income taxes	853,806	729,570
Regulatory liabilities	90,476	100,026
Pension and post-employment benefits	75,901	74,637
Lease liabilities	50,142	56,207
Other deferred credits	8,529	10,240
Total Liabilities	15,036,106	9,564,178
Equity	8,355,780	6,724,244
Total Liabilities and Equity	23,391,886	16,288,422

Litigation, commitments and contingencies (Note 10)

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

Approved on behalf of the Board of Directors

“signed”
William Downe
Director

“signed”
Brian Ferguson
Director

TRANS MOUNTAIN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of Canadian dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Operating activities				
Net income	139,744	74,378	375,738	188,799
Items not affecting cash				
Depreciation and amortization	26,005	25,689	77,806	76,618
Equity allowance for funds used during construction	(187,889)	(100,313)	(487,228)	(255,928)
Deferred income tax expense (Note 3)	45,946	25,169	123,059	61,935
Loss on assets (Note 10)	999	-	999	-
Changes in non-cash working capital items (Note 8)	99,743	100,101	303,561	49,403
Total Cash and cash equivalents and Restricted cash provided by operating activities	124,548	125,024	393,935	120,827
Investing activities				
Capital expenditures	(2,462,848)	(1,337,977)	(6,318,958)	(3,393,439)
Insurance proceeds (Note 10)	6,250	-	6,250	-
Internal use software expenditures	(2,599)	(1,469)	(7,301)	(3,087)
Purchase of restricted investments	(7,132)	(1,753)	(13,168)	(8,828)
Total Cash and cash equivalents and Restricted cash used in investing activities	(2,466,329)	(1,341,199)	(6,333,177)	(3,405,354)
Financing activities				
Issuances of debt	2,250,000	783,750	6,359,750	1,938,750
Repayment of debt (Note 7)	-	-	(1,595,000)	-
Capital contributions (Note 7)	-	641,250	1,235,250	1,586,250
Debt issuance costs	(460)	-	(2,253)	-
Total Cash and cash equivalents and Restricted cash provided by financing activities	2,249,540	1,425,000	5,997,747	3,525,000
Effects of exchange rate changes on Cash and cash equivalents and Restricted cash	1,842	2,312	2,117	450
Net (decrease) increase in Cash and cash equivalents and Restricted cash	(90,399)	211,137	60,622	240,923
Cash and cash equivalents and Restricted cash, beginning	339,522	209,977	188,501	180,191
Cash and cash equivalents and Restricted cash, end	249,123	421,114	249,123	421,114
Cash and cash equivalents, beginning	256,444	134,968	115,740	104,454
Restricted cash, beginning	83,078	75,009	72,761	75,737
Cash and cash equivalents and Restricted cash, beginning	339,522	209,977	188,501	180,191
Cash and cash equivalents, end	169,610	344,722	169,610	344,722
Restricted cash, end	79,513	76,392	79,513	76,392
Cash and cash equivalents and Restricted cash, end	249,123	421,114	249,123	421,114

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

TRANS MOUNTAIN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(In thousands of Canadian dollars)
(Unaudited)

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Equity
Balance at December 31, 2021	2,064,150	4,115,250	554,472	(9,628)	6,724,244
Capital contributions (<i>Note 7</i>)	-	1,235,250	-	-	1,235,250
Net income	-	-	375,738	-	375,738
Other comprehensive income, net of tax	-	-	-	20,548	20,548
Balance at September 30, 2022	2,064,150	5,350,500	930,210	10,920	8,355,780
Balance at December 31, 2020	2,064,150	1,885,500	281,195	(30,619)	4,200,226
Capital contributions (<i>Note 7</i>)	-	1,586,250	-	-	1,586,250
Net income	-	-	188,799	-	188,799
Other comprehensive loss, net of tax	-	-	-	872	872
Balance at September 30, 2021	2,064,150	3,471,750	469,994	(29,747)	5,976,147

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

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General

Trans Mountain Corporation ("the Corporation" or "TMC") is a Federal Crown corporation, incorporated under the *Canada Business Corporations Act* on May 28, 2018. TMC is a wholly owned subsidiary of Canada TMP Finance Ltd. ("TMP Finance"), which is a wholly owned subsidiary of Canada Development Investment Corporation ("CDEV"). CDEV is wholly owned by His Majesty in Right of Canada and is an agent Crown corporation. TMC is subject to the provisions of Part X of the *Financial Administration Act* and the provisions of the *Income Tax Act*.

On April 25, 2022, the Governor General in Council, under subsection 7(1) of the Government Corporations Operation Act, issued a proclamation that the Government Corporations Operation Act no longer applies to Trans Mountain Corporation. This status change to a non-agent Crown corporation allows TMC to borrow from parties other than the Government of Canada. See Note 6 for details on external financing.

TMC conducts operations through four entities: Trans Mountain Pipeline Limited Partnership ("TMP LP") and its wholly owned subsidiary Trans Mountain Pipeline (Puget Sound) LLC ("Puget"), Trans Mountain Pipeline ULC ("TMP ULC"), and Trans Mountain Canada Inc. ("TMCI"). Together these entities own and operate the Trans Mountain pipeline ("TMPL") and the Puget Sound pipeline ("Puget Pipeline"). TMPL has operated since 1953, and transports crude oil and refined petroleum from Edmonton, Alberta to Burnaby, British Columbia. TMP LP holds certain rights, designs and construction contracts related to the expansion of the TMPL known as the Trans Mountain Expansion Project ("TMEP"). Puget owns the Puget Pipeline, which interconnects with TMPL at the international border near Sumas, British Columbia, and transports crude oil to refineries in Washington State. TMP ULC is the General Partner of TMP LP, and TMCI employs the workforce that manages and operates the pipelines and related assets. These condensed consolidated financial statements include operating results of TMC and the wholly owned Trans Mountain Entities, including the Trans Mountain Pipeline Reclamation Trust which is consolidated with the Corporation.

TMC's mandate is to operate the existing TMPL and Puget Pipeline and to complete the TMEP in a timely and commercially viable manner.

Basis of Presentation

The accompanying condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), as contained in the Financial Accounting Standards Board Accounting Standards Codification. TMC believes that U.S. GAAP provides better comparability with industry peers and best reflects the economic effects of the actions of regulatory bodies on its operations. In preparing these condensed consolidated financial statements in accordance with U.S. GAAP, all intercompany items have been eliminated on consolidation.

On February 18, 2022, the Deputy Prime Minister and Minister of Finance reaffirmed the government's commitment to complete the TMEP, however the Minister stated that TMC needed to secure external financing to fund the remaining costs of the project. This announcement resulted in material uncertainty that cast substantial doubt as to TMC's ability to continue as a going concern at the date the consolidated financial statements for the year ended December 31, 2021 were available for issuance. Subsequently this material uncertainty has been resolved. On April 29, 2022, TMC entered into a one year facility with a syndicate of third party lenders for \$10.0 billion, which provides sufficient funds for TMC to meet its obligations as they become due. See Note 6 for details on the external financing.

In management's opinion, all adjustments considered necessary for a fair statement of the financial position and operating results have been included in the accompanying condensed consolidated financial statements. The Corporation's interim results may not be indicative of annual results. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2021. These condensed consolidated financial statements follow the same significant accounting policies as those included in the consolidated financial statements for the year ended December 31, 2021.

Amounts are stated in Canadian dollars, which is the functional currency of all of the Corporation's operations, except for Puget which uses the U.S. dollar as its functional currency.

TMC operates in one operating segment, as the chief operating decision maker reviews operating results at this level to assess financial performance and make resource allocation decisions.

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General (continued)

Basis of Presentation (continued)

These condensed consolidated financial statements were authorized by the board of directors on November 2, 2022. Subsequent events have been evaluated from September 30, 2022 to the date the condensed consolidated financial statements were available for issue on November 2, 2022. There are no subsequent events which would require adjustment to the condensed consolidated financial statements and related disclosures.

2. Revenues

Disaggregation of Revenues

The following table presents revenues disaggregated by revenue source and type of revenue for each revenue source:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>				
Transportation				
Fee-based services	105,051	98,155	300,617	267,454
Regulatory adjustment ^(a)	(397)	(7,015)	(10,143)	5,593
	104,654	91,140	290,474	273,047
Leases	16,293	15,857	50,192	47,762
Other	683	821	1,908	1,997
Total revenue	121,630	107,818	342,574	322,806

(a) For TMPL, regulatory adjustments are made for differences between transportation revenue recognized pursuant to its toll settlement with shippers, as approved by the Canada Energy Regulator ("CER"), and actual toll receipts.

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. Contract assets are recognized in those instances where billing occurs subsequent to revenue recognition and the right to invoice the customer is conditioned on something other than the passage of time. For the three and nine month periods ended September 30, 2022 and 2021, there were no contract assets recognized. Contract liabilities are substantially related to capital improvements paid for in advance by certain customers, generally in the Corporation's non rate regulated businesses, which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contracts.

The following table presents the activity in contract liabilities:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>				
Opening balance	4,320	4,518	4,203	4,415
Additions	-	-	446	418
Transfer to Revenues	(165)	(158)	(494)	(473)
Ending balance	4,155	4,360	4,155	4,360

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Revenues (continued)

Contract Balances (continued)

The contract liabilities balance as of September 30, 2022 and December 31, 2021 is presented as:

	September 30, 2022	December 31, 2021
<i>(In thousands of Canadian dollars)</i>		
Other current liabilities	324	213
Other deferred credits	3,831	3,990
Total contract liabilities	4,155	4,203

Revenue Allocated to Remaining Performance Obligations

The following table presents the estimated revenue allocated to remaining performance obligations for contracted revenue that has not yet been recognized, representing the “contractually committed” revenue as of September 30, 2022 that will be invoiced or transferred from contract liabilities and recognized in future periods.

Year	Estimated Revenue
<i>(In thousands of Canadian dollars)</i>	
Remaining 2022	10,447
2023	41,452
2024	3,715
2025	213
2026	213
Thereafter	3,140
Total	59,180

The contractually committed revenue primarily consists of customer contracts for service, which have minimum volume commitment payment obligations. The actual revenue recognized on these customer contracts can vary depending on the service provided. The contractually committed revenue for purposes of the tabular presentation above is generally limited to the minimum revenue committed to under these customer contracts. The contractually committed revenue amounts generally exclude remaining performance obligations for: (i) contracts with index-based pricing or variable volume attributes in which such variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct service that forms part of a series of distinct services; (ii) contracts with an original expected duration of one year or less; (iii) contracts for which revenue is recognized at the amount for which there is a right to invoice for services performed; and (iv) contracts for revenue dependent on the completion of the TMEP.

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Income Taxes

Income tax expense included in the condensed consolidated financial statements is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>				
Current tax recovery	408	901	408	513
Deferred tax expense	(45,946)	(25,169)	(123,059)	(61,935)
Total income tax expense	(45,538)	(24,268)	(122,651)	(61,422)
Effective tax rate	24.58%	24.60%	24.61%	24.55%

The effective tax rate for the three and nine month periods ended September 30, 2022 and 2021 was consistent with the statutory rate of 24.67%.

4. Goodwill

Goodwill relates to the acquisition of the TMPL and the Puget Pipeline on August 31, 2018. Management evaluates goodwill on a quarterly basis for indicators of impairment. As a result of significant factors which may have a material effect on the TMEP including, but not limited to, changing economic conditions, rising interest rates, technical construction complexities and labour challenges, as of September 30, 2022, management performed a goodwill impairment test, which did not result in an impairment charge.

The fair value of the reporting unit was estimated using an income-based approach based on discounted cash flows. The estimate of fair value required the use of significant unobservable inputs, including assumptions related to the discount rate, the timing and cost to complete the TMEP, and the extent cash flows will be re-contracted at the end of the initial TMEP term contracts, and therefore, the fair value is representative of a Level 3 fair value. For purposes of determining the fair value, the estimate of discounted cash flows included probability-weighted scenarios of various in-service dates for the TMEP. The estimate of discounted cash flows was determined using a discount rate of 7.5% which reflects the time value of money based on the risks associated with the Corporation's assets that have not otherwise been incorporated in the cash flow estimates.

Changes in these key assumptions would impact the fair value of the reporting unit which could result in impairment. In reference to a base valuation, sensitivity analysis of key assumptions was performed. As a result, an increase in project costs by \$2.5 billion, while reducing the fair value, does not result in an impairment. Further, a decrease in the percentage of re-contracted cash flows at the end of the initial TMEP term contracts of 10%, while reducing the fair value, also does not result in an impairment. However, the fair value of the cash flows in the impairment test are most sensitive to changes in discount rates and as such, an increase in the discount rate by 25 basis points on the expected cash flows may result in an impairment.

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Pension and Post-employment Benefits

The components of net benefit cost related to the pension and other post-employment benefit plans (“OPEB”) plans are as follows:

	Three months ended September 30,				Nine months ended September 30,			
	Pension		OPEB		Pension		OPEB	
	2022	2021	2022	2021	2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>								
Service cost ^(a)	3,338	3,120	140	143	10,014	9,359	422	428
Other components on net benefit cost ^(b)								
Interest cost	2,180	1,725	122	108	6,541	5,176	367	325
Expected return on plan assets	(2,867)	(2,256)	-	-	(8,602)	(6,773)	-	-
Amortization of past service cost	82	81	-	-	244	243	-	-
Amortization of net actuarial loss	-	116	-	8	-	350	-	24
Total net benefit cost	2,733	2,786	262	259	8,197	8,355	789	777

(a) Amounts included within “Salaries and benefits” in the condensed consolidated statement of income.

(b) Amounts included within “Other, net” in the condensed consolidated statement of income.

6. Debt

Debt included in the condensed consolidated financial statements is as follows:

	Carrying Value	
	September 30, 2022	December 31, 2021
Current debt:		
Syndicated Facility	4,850,000	-
Long term debt:		
Credit Agreement with parent		
Acquisition Facility	2,506,350	2,506,350
Construction Facility	5,153,351	5,046,250
Total long term debt	7,659,701	7,552,600
Total Debt	12,509,701	7,552,600

Credit Agreement with Parent

TMC has a credit agreement with TMP Finance dated August 29, 2018 (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. See Note 7 for further details on transactions with related parties. The facilities have an interest rate of 5% on amounts drawn. The facilities mature on the earlier of the maturity date, which is August 29, 2025, and in the event of certain changes in ownership. There are no financial covenants under the Credit Agreement.

On March 31, 2022, amendments were made to the Credit Agreement to include the repayment of advances paid to TMC pursuant to any funding request made after February 18, 2022 and to allow for draws under the facility up to September 30, 2022.

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Debt (continued)

Credit Agreement with Parent (continued)

On April 28, 2022, amendments were made whereby unpaid interest and commitment fees incurred under the Credit Agreement are paid in kind and added to the principal amount of the Construction Facility semiannually. Commitment fees, previously charged at 0.065%, were discontinued on May 2, 2022, upon repayment of advances related to the funding requests made after February 18, 2022 and no further cash draws are permitted.

Syndicated Facility

On April 29, 2022, TMC entered into a one year senior unsecured revolving facility for \$10.0 billion with a syndicate of lenders (the "Syndicated Facility"). The Syndicated Facility expires April 29, 2023, contains a six month extension option and includes a guarantee provided by the Government of Canada. See Note 7 for details on the guarantee. Borrowings under the Syndicated Facility bear interest at the Canadian Prime rate or the Canadian Dollar Offered Rate ("CDOR") plus applicable margins and a commitment fee of 0.04% on the unadvanced portion of the facility. Initial proceeds of \$1.6 billion drawn from the facility were used to repay advances provided by TMP Finance after February 18, 2022.

7. Transactions with Related Parties

The Corporation is related in terms of common ownership to all Canadian federal government departments, agencies and Crown corporations. The Corporation may enter into transactions with some of these entities in the normal course of business.

Funding from Parent

In addition to the credit agreements in Note 6, TMC also has a funding agreement with TMP Finance dated August 30, 2018 as amended most recently on March 31, 2022 (the "Funding Agreement") under which cash proceeds of each funding request are comprised of 55% debt funding in accordance with the Credit Agreement and 45% equity funding.

TMP LP has a \$500.0 million line of credit agreement with TMP Finance dated March 25, 2019 (the "Financial Capacity Line of Credit") which is designed to meet the CER mandated financial capacity requirements. The Financial Capacity Line of Credit matures 5 years following the date of the advance or as otherwise extended in accordance with the agreement and has an interest rate of 5% on amounts drawn and a commitment fee of 0.3% on the unadvanced portion. There are no financial covenants on the Financial Capacity Line of Credit and as of September 30, 2022 and December 31, 2021, there were no amounts drawn.

The following table presents transactions with TMP Finance during the three and nine month periods ending September 30, 2022 and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>				
Issuances of debt ^(a)	-	783,750	1,702,101	1,938,750
Repayment of debt	-	-	(1,595,000)	-
Capital contributions	-	641,250	1,235,250	1,586,250
Interest and commitment fees on debt	96,911	82,218	297,326	218,547

(a) Issuances include interest and commitment fees incurred under the Credit Agreement paid in kind semiannually and added to the Construction Facility principal.

As of September 30, 2022 and December 31, 2021, the interest payable to TMP Finance not yet paid in kind was \$96.5 million and nil, respectively, and recorded in "Long term interest payable".

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Transactions with Related Parties *(continued)*

Guarantee from the Government of Canada

The Government of Canada has provided TMC with a guarantee in relation to its Syndicated Facility (see Note 6). In exchange for this guarantee, TMC pays a fee of 5% per annum less the daily weighted average interest rate per annum payable by TMC in accordance with the Syndicated Facility. For the three and nine months ended September 30, 2022, TMC incurred \$17.7 million and \$28.0 million in guarantee fees, respectively. Guarantee fees are included in interest expense and are payable on August 31, 2025, or upon events of default. As of September 30, 2022 and December 31, 2021, the guarantee fee payable was \$28.0 million and nil, respectively, and recorded in "Long term interest payable".

8. Change of Operating Assets and Liabilities

The table below represents the changes in operating non-cash working capital.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>	Decrease (Increase)			
Accounts receivable	(14,044)	21,802	(20,532)	24,755
Deferred amounts and other assets	13,695	25,247	7,907	9,737
Regulatory assets	(11,618)	(12,857)	(44,042)	(24,591)
Accounts payable and accrued liabilities	(15,416)	(7,108)	15,930	(2,847)
Interest payable	131,757	81,708	327,389	81,708
Pension and post-employment benefits	1,091	742	1,219	1,582
Regulatory liabilities	4,020	(10,513)	11,443	(41,285)
Lease liabilities	1,850	2,319	4,437	4,988
Other liabilities and deferred credits	(11,592)	(1,239)	(190)	(4,644)
Total	99,743	100,101	303,561	49,403

9. Risk Management and Financial Instruments

Credit Risk

The Corporation is exposed to credit risk on cash and cash equivalents, restricted cash, and accounts receivable, which is the risk that a customer or other counterparty will fail to perform an obligation or settle a liability, resulting in a financial loss to the business.

The majority of the Corporation's customers operate in the oil exploration and development, or energy marketing or transportation fuel industries. There may be exposure to volatility in energy commodity prices and economic instability or other credit events impacting these industries and customers' ability to pay for services. The exposure to credit risk is limited by requiring shippers who fail to maintain specified credit ratings or a suitable financial position to provide acceptable security, generally in the form of guarantees from credit worthy parties or letters of credit from well rated financial institutions. As of September 30, 2022 and December 31, 2021, there were no significant accounts receivable past due and no allowance for doubtful accounts recorded.

Cash and cash equivalents and restricted cash are held with major financial institutions that are rated A-, A3, or A Low or better, minimizing the risk of non-performance by counter parties.

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign Currency Transactions and Translation

The Corporation is exposed to foreign currency risk from foreign currency transaction gains or losses resulting from a change in exchange rates between the functional currency of an entity and the currency in which a transaction is denominated. Unrealized and realized gains and losses generated from these transactions are recorded in foreign exchange gain or loss in the accompanying condensed consolidated statement of income. Management does not believe that the exposure to foreign currency transactions is significant.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations, including commitments, as they become due. Liquidity risk is managed by ensuring access to sufficient funds to meet obligations. Cash requirements are forecasted to ensure funding is available to settle financial liabilities when they become due. The primary sources of liquidity and capital resources are funds generated from operations and issuance of debt. See Note 6 for details on debt. Given the significant ongoing expenditures expected in connection with the TMEP, TMC will require continued financing to complete the project. TMC expects it has, or will have, adequate access to funding to meet financial obligations including commitments as they become due.

Interest Rate Risk

The Corporation's outstanding borrowings are at a fixed interest rate of 5% under the Credit Agreement. Outstanding borrowings under the Syndicated Facility and the guarantee fee have variable interest rates; however, the rates are interrelated as the guarantee fee is determined based off a rate of 5%, less the interest rate paid under the Syndicated Facility. If interest rates on the Syndicated Facility exceed 5%, no guarantee fee is incurred. As such, interest rate exposure is limited to the extent interest rates on the Syndicated Facility do not exceed 5%.

Significant Shippers

For the three and nine month periods ended September 30, 2022, there were six customers that each individually represented between 12-18% of total revenue, and six customers that each individually represented between 12-19% of total revenue, respectively. For the three and nine month periods ended September 30, 2021, there were six customers that each individually represented between 11-20% of total revenue, and six customers that each individually represented between 11-17% of total revenue, respectively.

10. Litigation, Commitments and Contingencies

Legal Proceedings

The Corporation is subject to various legal and regulatory actions and proceedings which arise in the normal course of business. While the final outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolution of such actions and proceedings will not have a material impact on the Corporation's financial position or results of operations. There were no accruals for outstanding legal proceedings as of September 30, 2022 and December 31, 2021.

TMEP Litigation

Following the Corporation's termination of the general construction contract (the "Contract") with the general construction contractor for Spreads 1, 4B and 6 (the "GCC"), the GCC provided the Corporation with a Dispute Claim in relation to amounts it claims are owed pursuant to the Contract resulting from the termination. The Corporation has responded with a position that the Corporation is entitled to reimbursement from the GCC for the costs incurred resulting from the events leading to the termination. The Corporation has filed a notice of dispute, and both parties have stated their positions; however, the final settlement amount cannot be reasonably estimated.

Commitments

As of September 30, 2022, irrevocable commitments related to property, plant, and equipment were \$47.5 million. These commitments were primarily related to the TMEP.

TRANS MOUNTAIN CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Flood Insurance Proceeds

In the fourth quarter of 2021 there was widespread flooding in British Columbia and Washington State, which resulted in financial losses, including damage to TMC's assets and delays to the TMEP construction. While there is significant uncertainty around the total costs associated with the flood, a portion of the costs will be recoverable through insurance. During the three month period ended September 30, 2022, insurance recoveries of \$9.3 million were recognized related to the TMEP costs and a net loss of \$1.0 million was recorded in "Pipeline operating costs" related to self-insured components of the flooding damage claim. The amount and timing of future insurance proceeds and associated expenses cannot be reasonably estimated.