TRANS MOUNTAIN CORPORATION

MANAGEMENT REPORT

For the three month period ended March 31, 2023

May 16, 2023

This Management Report (the "Report") should be read in conjunction with the unaudited condensed consolidated financial statements of Trans Mountain Corporation for the three month period ended March 31, 2023 ("TMC's Financial Statements") as well as the audited consolidated financial statements of Trans Mountain Corporation for the year ended December 31, 2022, and Trans Mountain Corporation's Management Report for the year ended December 31, 2022. TMC's Financial Statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP"). All financial measures in this Report are presented in Canadian dollars unless otherwise indicated.

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

Our Mandate

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

About Our Business

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

Trans Mountain Pipeline

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

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

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

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

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

Puget Sound Pipeline

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

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

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

Trans Mountain Expansion Project

The TMEP completes 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 March 31, 2023, construction of the TMEP is approximately 82% complete, with $21.5 billion in construction capital spending incurred plus $2.8 billion in financial carrying costs capitalized since the inception of the project. Mechanical completion is anticipated to occur at the end of 2023 with commercial service of the TMEP anticipated to occur in the first quarter of 2024.

TRANSMOUNTAIN

Financial Highlights

Non-GAAP measures

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

Financial Highlights	**Three months ended March 31**	
(thousands of Canadian dollars, except throughput amounts)	**2023**	**2022**
Revenue	133,935	107,668
Operating Income	23,533	16,225
Adjusted EBITDA	50,141	42,142
Net Income	184,156	107,222
Cash provided by operating activities	55,195	155,055
Capital expenditures incurred	2,988,129	2,086,928
Average daily throughput		
Mainline deliveries (bpd)	337,000	305,000
Puget Sound Pipeline (bpd)	228,000	177,000
Westridge Marine Terminal (bpd)	49,000	40,000

Financial Position at		
(thousands of Canadian dollars)	**March 31, 2023**	**December 31, 2022**
Cash and cash equivalents and restricted cash	345,028	241,002
Total assets, including the TMEP work in progress	29,048,432	25,983,066
Total debt	17,422,768	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 March 31 2023	2022	% Change
Transportation	115,616	89,461	29%
Leases	17,761	17,606	1%
Other	558	601	(7%)
Total	**133,935**	**107,668**	**24%**

Total revenue consists of income from three sources: transportation, leases and other services. Available capacity on the Trans Mountain pipeline was fully utilized for both the three months ended March 31, 2023 and 2022, with system nominations apportioned throughout. For the three month period ended March 31, 2023, total revenue increased by $26.2 million to $133.9 million as compared to $107.7 million in the same period of the prior year.

Transportation revenue in the first quarter of 2023 increased by $26.1 million to $115.6 million, as compared to $89.5 million in the same period of the prior year. The increase in transportation revenue is mainly due to higher flow through operating costs, 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 March 31, 2023, lease revenue remained relatively consistent, increasing by $0.2 million (or 1%) to $17.8 million, as compared to $17.6 million in the same period of the prior year.

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 March 31 2023	2022	% Change
Pipeline operating costs	48,394	30,446	59%
Depreciation and amortization	26,608	25,917	3%
Salaries and benefits	24,368	24,877	(2%)
Taxes, other than income taxes	9,649	9,457	2%
Administration	1,383	746	85%
Total	**110,402**	**91,443**	**21%**

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 March 31, 2023 totalled $48.4 million reflecting an increase of $18.0 million, as compared to $30.4 million in the same period of the prior year. The increase is mainly due to higher environmental remediation costs, due to legacy site cleanup work, as well as increased power, security and insurance costs.

Depreciation and amortization expense in the first quarter of 2023 increased by $0.7 million to $26.6 million, as compared to $25.9 million in the same period of the prior year. The increase 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 March 31, 2023 decreased by $0.5 million to $24.4 million, as compared to $24.9 million in the same period of the prior year. The decrease is mainly due to non-routine costs associated with workforce changes in the prior period, partially offset by higher 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 first quarter of 2023 increased by $0.1 million to $9.6 million, as compared to $9.5 million in the same period of the prior year. The increase is mainly due to higher property taxes, primarily on Puget Sound.

Administration expenses for the three month period ended March 31, 2023 increased by $0.7 million to $1.4 million, as compared to $0.7 million in the same period of the prior year. The increase is mainly due to higher external consulting fees and increased costs associated with a larger workforce.

Operating income and Adjusted EBITDA

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

	Three months ended March 31	
(thousands of Canadian dollars)	**2023**	**2022**
Revenue	133,935	107,668
Less: Operating expenses	(110,402)	(91,443)
Operating income	**23,533**	**16,225**
Add: Depreciation and amortization	26,608	25,917
Adjusted EBITDA	**50,141**	**42,142**

Operating income in the first quarter of 2023 increased by $7.3 million to $23.5 million, as compared to $16.2 million in the same period of the prior year. Additionally, Adjusted EBITDA for the three month period ended March 31, 2023 increased by $8.0 million to $50.1 million, as compared to $42.1 million in the same period of the prior year. As flow through costs equally impact revenue and expenses, the increase in operating income and Adjusted EBITDA for the three months ended March 31, 2023, as compared to the same period in the prior year, is mainly due to increased revenue on Puget, due to higher throughput and a weaker Canadian dollar.

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

Equity AFUDC for the three month period ended March 31, 2023 increased by $108.9 million to $247.3 million, as compared to $138.4 million in the same period of the prior year. The significant increase is due to the cumulative impact of capital spending on the TMEP.

Interest expense

	Three months ended March 31		
(thousands of Canadian dollars)	**2023**	**2022**	**% Change**
Interest and commitment fees			
Syndicated Facility	108,006	-	n/a
Credit Facilities - related party	97,185	101,166	(4%)
Guarantee fee - related party	820	-	n/a
Capitalized debt financing costs	(175,003)	(87,692)	100%
Interest income and other	(4,115)	(1,502)	174%
Interest Expense	**26,893**	**11,972**	**125%**

The increase in total interest and commitment fees and capitalized debt financing costs for the three months ended March 31, 2023, as compared to the same period in the prior year, is due to the capital spending on the TMEP and the corresponding increase in long-term debt levels year-over-year. See 'Liquidity and Capital Resources' for more details on TMC's financing arrangements.

Income tax

Income tax expense for the three month period ended March 31, 2023 totalled $60.1 million, reflecting an effective tax rates of 24.6%, as compared to income tax expense in the same period of the prior year of $35.1 million, reflecting effective tax rates of 24.7%. The effective tax rates for both the three months ended March 31, 2023 and 2022 were consistent with TMC's statutory rate of 24.67%.

Net Income

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

	Three months ended March 31	
(thousands of Canadian dollars)	**2023**	**2022**
Adjusted EBITDA	**50,141**	**42,142**
Less: Depreciation and amortization	(26,608)	(25,917)
Operating income	**23,533**	**16,225**
Interest expense	(201,896)	(99,664)
Capitalized debt financing costs	175,003	87,692
Equity allowance for funds used during	247,282	138,353
Other, net	359	483
Foreign exchange loss	(36)	(777)
Income before income taxes	**244,245**	**142,312**
Income tax expense	(60,089)	(35,090)
Net income	**184,156**	**107,222**

For the three months ended March 31, 2023 and 2022, Adjusted EBITDA reflects the results from the TMC's base business, while net income incorporates the significant financing impact of the TMEP, specifically equity allowance for funds used during construction, interest expense and capitalized debt financing costs.

Capital Expenditures

	Three months ended March	
(thousands of Canadian dollars)	**2023**	**2022**
TMEP construction capital incurred	2,550,567	1,835,287
TMEP carrying costs and other	421,664	225,793
TMEP including cash and non-cash	2,972,231	2,061,080
Non-TMEP capital	15,898	25,848
Total	**2,988,129**	**2,086,928**

Capital expenditures for the three month period ended March 31, 2023 increased significantly over the same period of the prior year due to construction activity on the TMEP. A total of $2.6 billion in construction capital was incurred on the TMEP in the first quarter of 2023. As of March 31, 2023, construction of the TMEP is approximately 82% complete, with work at our pump stations and facilities approximately 95% complete, while construction in the Lower Mainland is approximately 85% complete. Pipeline construction overall stands at over 79% complete, with approximately 824 kilometres of pipe in the ground.

In Alberta, all pipe has been installed, which now connects the Edmonton terminal to the reactivation segment in Jasper National Park. Pipeline construction in the Greater Edmonton area was mechanically complete in early 2022. In the Yellowhead region, construction is nearing completion with machine and final cleanup activities occurring. The reactivation work through the Jasper-Mount Robson area is also complete.

Throughout British Columbia work has also progressed substantially. In the North Thompson region, the final tie-in was completed, and ongoing demobilizing activities continue. In the BC interior, river crossings were completed, pre-trenching activities for the Coldwater North and South direct pipe installation crossings are beginning, and tunnel drives are ongoing at Jacko Lake. Jacko Lake is a series of micro tunnels approximately 4.5 kilometres in length minimizing disturbance of land in an area of cultural significance to Indigenous nations in central British Columbia. In the Coquihalla to Hope region, Othello Road upgrades were completed after being postponed due to the 2021 flood events and progress is being made at the Mountain 3 Tunnel. In the Fraser Valley, ongoing dewatering work continues throughout the spread and mechanical completion in the Sandy Hill neighbourhood was achieved. In the Lower Mainland, pipe lowering and welding are ongoing.

Construction work continues at the Burnaby and Westridge Marine Terminal. At the Burnaby Terminal, the 14 tank foundations have been completed. Significant construction was completed at the Westridge Marine Terminal berths. Drilling of the Burnaby Mountain Tunnel, which is a 2.6-kilometre tunnel that connects the Burnaby Terminal to the Westridge Marine Terminal, was completed in 2022 and pipeline welding and installation continues.

For the three month period ended March 31, 2023, non-TMEP capital expenditures totaled $15.9 million, which mainly relate to routine sustaining capital projects to maintain the TMPL in a safe and reliable operating condition, whereas expenditures for the comparable period of prior year included approximately $21.7 million related to the flood response in BC.

Liquidity and Capital Resources

TMC's primary liquidity and capital resource needs are to fund the ongoing construction of the TMEP, make required interest payments and fund working capital. As at March 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.

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. Unpaid interest incurred under the Credit Agreement is to be added to the principal amount of the credit facility debt semiannually. No further cash draws are permitted under the Credit Agreement.

Additionally, on April 29, 2022, TMC entered into a credit agreement with a syndicate of lenders (the "Syndicated Credit Agreement") for a one year facility (the "Syndicated Facility") for $10 billion which includes a guarantee provided from the Government of Canada.

On March 24, 2023, the Corporation amended and restated the Syndicated Credit Agreement to include a letter of credit facility ("LC Facility") for $100 million and to amend the Syndicated Facility. The Syndicated Facility was amended to a two year senior unsecured Equator Principles 4 ("EP4") compliant revolving facility and the available credit was increased to $10.9 billion. EP4 is a risk management framework adopted by financial institutions for identifying, assessing, and managing environmental and social risks for large infrastructure projects. The facilities under the Syndicated Credit Agreement mature March 24, 2025, with the ability for TMC to request certain extension terms up to August 31, 2025, and have a combined available credit as of March 31, 2023 of $11.0 billion. The Syndicated Credit Agreement allows TMC to elect for reallocation of the available credit under the LC Facility to the Syndicated Facility.

Subsequent to period end, on May 2, 2023, the combined available credit under the two facilities was increased to $13.0 billion of which $12.9 billion relates to the Syndicated Facility and $0.1 billion to the LC Facility.

TMP LP also has an undrawn $500.0 million line of credit agreement with TMP Finance dated March 25, 2019 (the "Financial Capacity Line of Credit") which is designed to meet the CER mandated financial capacity requirements. The Financial Capacity Line of Credit matures 5 years following the date of the advance or as otherwise extended in accordance with the agreement and has an interest rate of 5% on amounts drawn and a standby fee of 0.3% on the unadvanced portion.

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

(In thousands of Canadian dollars)	**Total available credit March 31, 2023**	**Outstanding amount March 31, 2023**	**Outstanding amount December 31, 2022**
Syndicated Facility	10,900,000	9,570,000	7,200,000
Acquisition Facility	2,506,350	2,506,350	2,506,350
Construction Facility	5,346,418	5,346,418	5,346,418
Financial Capacity Line of Credit	500,000	-	-
Total debt	**19,252,768**	**17,422,768**	**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		**24,837,418**	**22,467,418**

Summary of Quarterly Results

(thousands of Canadian dollars)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Revenue	133,935	135,430	121,630	113,276	107,668	120,338	107,818	107,489
Adjusted EBITDA	50,141	52,510	45,718	46,283	42,142	44,673	46,550	45,932
Net Income	184,156	158,259	139,744	128,772	107,222	84,478	74,378	63,093

TMPL is a regulated entity governed by the CER and operating under the ITS agreement with its shippers. As a result, revenues have been relatively consistent over the last eight quarters. However, quarterly revenues in 2023 and 2022 were generally higher due to increased flow through costs primarily related to items such as power, environmental remediation and insurance costs, while revenues in the fourth quarter of 2021 were higher due to flow through operating costs associated with the flood response in British Columbia.

Adjusted EBITDA has been relatively consistent over the last eight quarters except for the first quarter of 2023 and the fourth quarter of 2022, when higher throughput and revenue on Puget led to increased Adjusted EBITDA in the period.

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.

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)	0.00	0.10
Total Recordable Injury Rate(1)		
Employees	0.00	0.36
Contractors	0.22	0.77
Contractors – TMEP	0.55(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 March 31, 2023.

While TMC tracks all commodity releases, industry data for releases greater than 1.5 m^3 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 2022, TMC published its second annual 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 provides annual disclosures around the four thematic areas contained in the Task Force on Climate-related Financial Disclosures (TCFD) framework—governance, risk management, strategy, and metrics and targets.

In late 2022, TMC completed a quantitative climate scenario analysis required to meet the TCFD recommendations and expects to publish its detailed findings as part of its ESG report in mid-2023. 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 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: In 2022, TMC engaged a third-party consultant to conduct a physical risk assessment and produce a 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. In 2021, TMC 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: In late 2022, TMC engaged a third-party consultant to conduct an energy transition scenario modelling exercise. TMC used data from the International Energy Agency's (IEA) *Announced Pledges Scenario* combined with the Canada Energy Regulator's Canada's Energy Futures 2021 report. TMC used the *Announced Pledges Scenario* because it (a) reflects current commitments by governments across the globe, including Canada, and (b) is the most stringent transition scenario that contains the level of data granularity required to conduct an effective analysis. At present, the IEA's *Net Zero by 2050* scenario does not include sufficient regional data to effectively conduct this type of analysis. TMC was able to model impacts on pipeline throughput until the year 2045 by modelling constraints in supply from the Western Canadian Sedimentary Basin and reductions in demand from North American refineries.

Resilience: In the *Announced Pledges Scenario*, TMC remains resilient. In this context, resilient means that the 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 oil sands supply is 29 per cent lower than 2021 levels and refinery demand in North America is 45 per cent lower than 2021 levels.

The TMEP has 15- to 20-year contract commitments (take-or-pay contracts) with TMC's shippers that cover 80 per cent 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 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 commits 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. After contracts expire, TMC can adjust the proportion of heavy versus light oil 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 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 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 a TMEP construction emission offset plan by the end of 2023.
- Reducing emissions by 100,000 tonnes of CO_2e per year by 2030 (compared to its 2023 baseline).
- 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. TMC’s ability to service existing and future debt required may depend on a number of factors, including future financial and operating performance, project execution on the TMEP, overall economic conditions, and financial, regulatory, and other factors, many of which are beyond TMC’s direct control. TMC’s future operating cash flow may not be adequate to service its debt, particularly prior to the in-service date of the TMEP.

Operation and Construction Execution Risks

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

- Changes in market conditions, commodity prices, the political environment, widespread epidemics or pandemics, and economic conditions in Canada and globally;
- Major incidents that impacts the safety of the public, employees and the protection of the environment resulting from construction execution, operations or third party damage;
- Natural hazards and environmental events that affect the public, the protection of the environment, construction execution and/or operations;
- Demonstrations or protests that result in impacts to construction execution and/or operations;
- Timely receipt of permits and access to lands that results in impacts to construction execution;
- Regulatory and legal decisions and outcomes, and potential changes in laws and regulations that result in impacts to construction execution and/or operations;
- Inadequate controls for contractor oversight that result in impacts to construction execution and/or operations;
- Inadequate controls that result in violations of law, fraud or increased cost;
- Fluctuations in foreign exchange or interest rates;
- Attracting and retaining a suitably skilled workforce; and
- Cyber security and/or confidentiality breach that results in impacts to operations or reputational damage.

Forward-looking information

In certain sections of this Report we discuss our business strategy and outlook, and comment on financial resources, capital spending, and other expectations of management. This is forward-looking information. We disclose forward-looking information to help the reader understand management's assessment of our future plans and financial outlook. Statements that are forward-looking generally include words like anticipate, expect, believe, may, will, should, estimate, continue or other similar words. Examples of forward-looking statements contained in this Report include, among others, statements regarding the construction, timing, impact, capacity and results of the TMEP and timing to achieve mechanical completion and in service operations; the commitment of shippers on the expanded TMPL; the maturity dates of our credit facilities; expected demand for oil products in Asia Pacific; our ability to respond to physical risks and transition risks of climate change; changes to our business that may be required after 2030; our resiliency under various climate models through to 2045; the setting of targets to reduce and/or offset our scope 1 and scope 2 emissions and the impact of such actions on the Government of Canada's emission reduction goals; and our commitment to offset construction-related emissions.

Forward-looking statements do not guarantee future performance. Actual results could be different due to incorrect assumptions, risks or uncertainties related to our business, or events that happen after the date of this Report.

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

Assumptions

- Expected operating and financial results including planned changes in our business;
- Expectations or projections about strategies and goals for growth and expansion;
- Expected cash flows and availability of funds from external financing;
- Potential costs, schedules and completion dates for planned projects, including projects under construction, permitting and in development;
- Planned and unplanned outages of our pipelines and related assets;
- Integrity and reliability of our assets;
- Expected outcomes relating to regulatory processes and legal proceedings, and potential changes in laws and regulations;
- The expected impact of future accounting changes, commitments and contingent liabilities;
- Expected industry, market and economic conditions;
- Future demand for space on our pipeline systems;
- Inflation rates and commodity prices; and
- Interest, tax and foreign exchange rates.

Risks and uncertainties

- Our ability to successfully implement our strategic priorities and whether they will yield the expected financial and operational results and benefits;
- The operating performance of our pipelines and related assets;
- The available supply and price of energy commodities;
- Performance and credit risk of our counterparties;
- Regulatory and legal decisions and outcomes, and potential changes in laws and regulations;
- Changes in market commodity prices, the political environment, widespread epidemics or pandemics, and economic conditions in Canada and globally;

- Construction execution and completion of capital and operations projects, including reliance on the availability, performance and expertise of a suitably skilled and qualified workforce and third party contractors;
- Demonstrations, protests or civil disobedience that impact construction execution and/or operations;
- Climate change risks, including the effects of unusual weather and natural catastrophes;
- Climate change effects and regulatory and market compliance and other costs associated with climate change;
- Our ability to transport a broad range of oil products and other fuels;
- Reputational risks;
- Increases in costs for labour, equipment and materials;
- Fluctuations in interest, tax and foreign exchange rates;
- Risks related to cyber security, confidentiality, and data integrity;
- Risks related to technological developments; and
- Natural hazards (floods, landslides, seismic activity, etc.).

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