



**TRANS MOUNTAIN CORPORATION**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended December 31, 2020**

# Management's Responsibility for Financial Statements

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The accompanying consolidated financial statements of Trans Mountain Corporation ("the Corporation" or "TMC") are the responsibility of management and were authorized for issue by the Board of Directors on March 3, 2021. The consolidated financial statements have been prepared by TMC in accordance with accounting principles generally accepted in the United States of America. The financial statements of TMC's four wholly-owned subsidiaries for which it has responsibility have been consolidated with TMC. When alternative accounting methods exist, TMC has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments.

TMC maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the consolidated financial records are reliable, form a proper basis for the preparation of consolidated financial statements, and that TMC's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the consolidated financial statements principally through its Audit Committee. The Audit Committee reviews TMC's annual consolidated financial statements and reports its findings to the Board for its consideration and approval. The Audit Committee also meets with the Corporation's auditors to discuss auditing matters and financial reporting issues.

These consolidated financial statements have been audited by the Corporation's auditors, the Auditor General of Canada and PricewaterhouseCoopers LLP, whose report is presented separately.

As President & Chief Executive Officer and Chief Financial Officer of TMC, we have reviewed TMC's consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position as at December 31, 2020, and financial performance and cash flows for the year ended December 31, 2020.

*"signed"*

Ian Anderson  
President & Chief Executive Officer  
Trans Mountain Corporation

*"signed"*

Mark Maki  
Chief Financial Officer  
Trans Mountain Corporation

March 3, 2021



## INDEPENDENT AUDITORS' REPORT

To the Shareholder of Trans Mountain Corporation

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Trans Mountain Corporation and its subsidiaries (the Corporation), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at 31 December 2020, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the Management Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit,

or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on Compliance with Specified Authorities**

### *Opinion*

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Trans Mountain Corporation and its wholly-owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of Trans Mountain Corporation and its wholly-owned subsidiaries.

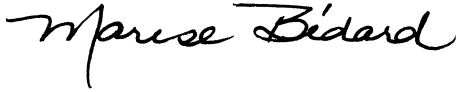
In our opinion, the transactions of Trans Mountain Corporation and its wholly-owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in US GAAP have been applied on a basis consistent with that of the preceding year.

### *Responsibilities of Management for Compliance with Specified Authorities*

Management is responsible for Trans Mountain Corporation and its wholly-owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Trans Mountain Corporation and its wholly-owned subsidiaries to comply with the specified authorities.

*Auditors' Responsibilities for the Audit of Compliance with Specified Authorities*

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.



Marise Bédard, CPA, CA  
Principal  
for the Auditor General of Canada

Ottawa, Canada  
3 March 2021



Chartered Professional Accountants

Calgary, Canada  
3 March 2021

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

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Revenues</b> <i>(Note 3)</i>	<b>427,655</b>	<b>419,752</b>
<b>Expenses</b>		
Pipeline operating costs	129,719	120,300
Depreciation and amortization <i>(Notes 7, 9)</i>	98,009	100,551
Salaries and benefits	71,265	64,296
Taxes, other than income taxes	33,597	32,685
Administration	4,677	8,073
	<b>337,267</b>	<b>325,905</b>
<b>Operating income</b>	<b>90,388</b>	<b>93,847</b>
Equity allowance for funds used during construction	184,440	91,292
Interest expense, net of capitalized debt financing costs <i>(Note 16)</i>	(85,012)	(84,609)
Other, net	(257)	(1,708)
Foreign exchange loss	(813)	(289)
<b>Income before income taxes</b>	<b>188,746</b>	<b>98,533</b>
Income tax (expense) recovery <i>(Note 5)</i>	(47,944)	32,322
<b>Net income</b>	<b>140,802</b>	<b>130,855</b>

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

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

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Net income</b>	140,802	130,855
<b>Other comprehensive loss, net of tax</b>		
Currency translation adjustment	(6,728)	(14,812)
Pension and post-employment benefits <i>(Note 12)</i>	(9,227)	(7,189)
	<b>(15,955)</b>	<b>(22,001)</b>
<b>Comprehensive income</b>	<b>124,847</b>	<b>108,854</b>

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

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

As of December 31,	2020	2019
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	104,454	423,899
Accounts receivable	83,821	62,801
Other current assets (Note 6)	33,445	19,511
	<b>221,720</b>	<b>506,211</b>
Property, plant and equipment (Note 7)	8,976,864	5,744,369
Right-of-use asset	76,066	67,659
Regulatory assets (Note 14)	62,429	40,853
Goodwill (Note 8)	888,098	888,098
Restricted investments	93,986	70,911
Restricted cash	75,737	63,015
Deferred amounts and other assets (Note 9)	235,238	60,619
<b>Total Assets</b>	<b>10,630,138</b>	<b>7,441,735</b>
<b>Liabilities and Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 10)	540,466	305,868
Regulatory liabilities (Note 14)	139,050	196,888
Other current liabilities (Note 11)	27,767	23,180
	<b>707,283</b>	<b>525,936</b>
Loans from parent (Note 15)	4,827,350	3,257,100
Deferred income taxes (Note 5)	631,875	584,885
Regulatory liabilities (Note 14)	95,126	131,185
Pension and post-employment benefits (Note 12)	99,816	87,297
Lease liabilities (Note 4)	57,144	51,955
Other deferred credits (Note 13)	11,318	12,748
<b>Total Liabilities</b>	<b>6,429,912</b>	<b>4,651,106</b>
Equity	4,200,226	2,790,629
<b>Total Liabilities and Equity</b>	<b>10,630,138</b>	<b>7,441,735</b>

Litigation, commitments and contingencies (Note 19)

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

Approved on behalf of the Board of Directors

“signed”  
**William Downe**  
Director

“signed”  
**Brian Ferguson**  
Director

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

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Net income for the year	140,802	130,855
Items not affecting cash		
Depreciation and amortization	98,009	100,551
Equity allowance for funds used during construction	(184,440)	(91,292)
Deferred income tax expense (recovery) (Note 5)	50,310	(31,508)
Changes in non-cash working capital items (Note 17)	(133,010)	48,705
<b>Total Cash and cash equivalents and Restricted cash (used in) provided by operating activities</b>	<b>(28,329)</b>	<b>157,311</b>
<b>Investing activities</b>		
Capital expenditures	(3,102,990)	(1,070,066)
Internal use software expenditures	(12,065)	(10,094)
Purchase of restricted investments	(16,278)	(13,957)
Working capital settlement on acquisition	-	37,020
<b>Total Cash and cash equivalents and Restricted cash used in investing activities</b>	<b>(3,131,333)</b>	<b>(1,057,097)</b>
<b>Financing activities</b>		
Issuances of loans from parent (Note 15)	1,570,250	643,500
Repayment of loans from parent (Note 15)	-	(500,000)
Capital contributions (Note 15)	1,284,750	526,500
<b>Total Cash and cash equivalents and Restricted cash provided by financing activities</b>	<b>2,855,000</b>	<b>670,000</b>
Effects of exchange rate changes on Cash and cash equivalents and Restricted cash	(2,061)	(1,343)
Net decrease in Cash and cash equivalents and Restricted cash	(306,723)	(231,129)
Cash and cash equivalents and Restricted cash, beginning of year	486,914	718,043
<b>Cash and cash equivalents and Restricted cash, end of year</b>	<b>180,191</b>	<b>486,914</b>
Cash and cash equivalents, beginning of year	423,899	169,200
Restricted cash, beginning of year	63,015	548,843
<b>Cash and cash equivalents and Restricted cash, beginning of year</b>	<b>486,914</b>	<b>718,043</b>
Cash and cash equivalents, end of year	104,454	423,899
Restricted cash, end of year	75,737	63,015
<b>Cash and cash equivalents and Restricted cash, end of year</b>	<b>180,191</b>	<b>486,914</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash interest paid, net of amounts capitalized	89,298	89,441
Cash (refunded) paid for income taxes	(632)	538
<b>Non-cash Investing and Financing</b>		
Change in non-cash property, plant and equipment due to accruals and contractor advances	44,465	162,552
(Decrease) Increase in property, plant and equipment due to foreign currency translation	(4,775)	13,536
Right-of-use assets obtained in exchange of lease obligations	28,576	82,699

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

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

	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total Equity
Balance at December 31, 2018	2,064,150	74,250	9,538	7,337	<b>2,155,275</b>
Capital contributions ( <i>Note 15</i> )	-	526,500	-	-	<b>526,500</b>
Net income	-	-	130,855	-	<b>130,855</b>
Other comprehensive loss income, net of tax	-	-	-	(22,001)	<b>(22,001)</b>
<b>Balance at December 31, 2019</b>	<b>2,064,150</b>	<b>600,750</b>	<b>140,393</b>	<b>(14,664)</b>	<b>2,790,629</b>
Capital contributions ( <i>Note 15</i> )	-	1,284,750	-	-	<b>1,284,750</b>
Net income	-	-	140,802	-	<b>140,802</b>
Other comprehensive loss, net of tax	-	-	-	(15,955)	<b>(15,955)</b>
<b>Balance at December 31, 2020</b>	<b>2,064,150</b>	<b>1,885,500</b>	<b>281,195</b>	<b>(30,619)</b>	<b>4,200,226</b>

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

# TRANS MOUNTAIN CORPORATION

## NOTES TO 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 Her 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*.

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 also 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 consolidated financial statements include operating results of TMC and the wholly owned Trans Mountain Entities, including the Trans Mountain Pipeline Reclamation Trust (the “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.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation***

The accompanying 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 (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”). The *Canada Business Corporations Act* subsection 71(1) requires the preparation of annual financial statements in accordance with Canadian GAAP. TMC applied for and received an exemption from this requirement, allowing TMC to use U.S. GAAP in the preparation of its consolidated financial statements for the year ended December 31, 2020. TMC believes that U.S. GAAP provides better comparability with industry peers and better reflects the economic effects of the actions of regulatory bodies on its operations. In preparing these annual consolidated financial statements in accordance with U.S. GAAP, all intercompany items have been eliminated on consolidation.

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 consolidated financial statements.

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.

These consolidated financial statements were authorized by the board of directors on March 3, 2021. Subsequent events have been evaluated from December 31, 2020 to the date the consolidated financial statements were available for issue on March 3, 2021 and there are no subsequent events which would require adjustment to the consolidated financial statements and related disclosures.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Use of Estimates***

Certain amounts included in or affecting the consolidated financial statements and related disclosures must be estimated, requiring certain assumptions with respect to values or conditions, which cannot be known with certainty at the time the consolidated financial statements are prepared. These estimates and assumptions affect the amounts reported for assets and liabilities, revenues and expenses during the reporting period, and the disclosures, including as it relates to contingent assets and liabilities at the date of the consolidated financial statements. These estimates are evaluated on an ongoing basis, utilizing historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from estimates. Any effects on the business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

In March 2020, the World Health Organization declared a global pandemic following the outbreak of a novel strain of the coronavirus ("COVID-19"). Despite periods of volatility in the macroeconomic environment, the Corporation has not been materially impacted and in management's opinion, COVID-19 does not have a significant impact on these established estimates.

Certain accounting policies are of more significance in the financial statement preparation process than others. Set out below are the principal accounting policies applied in the preparation of the accompanying consolidated financial statements.

#### ***Regulation***

TMP LP's operations were regulated by the National Energy Board ("NEB") under the NEB Act up to August 28, 2019 when the NEB Act was replaced by the Canadian Energy Regulator Act. The Canada Energy Regulator ("CER") now regulates TMP LP's operations. Puget's operations are regulated by the United States Federal Energy Regulatory Commission ("FERC") and the U.S. Department of Transportation Office of Pipeline Safety ("U.S. DOT").

The CER exercises statutory authority over matters such as construction and operation of facilities, rates and ratemaking, and accounting practices for Canadian pipelines crossing a provincial or international border. To recognize the economic effects of the actions of the regulator, TMP LP applies the provisions of ASC 980 *Regulated Operations*, under which the timing of recognition of certain revenues and expenses may differ from that otherwise expected under U.S. GAAP for non-regulated businesses. The FERC exercises statutory authority over rates and ratemaking for U.S. interstate or international pipelines, including the Puget Pipeline, while the U.S. DOT regulates facilities operations.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates or paid out of the Trust to cover future abandonment costs in relation to the CER's Land Matters Consultation Initiative ("LMCI"). Regulatory assets and liabilities are recognized based on the actions, or expected future actions, of the regulator. To the extent that the regulator's actions differ from expectations, the timing and amount of recovery or settlement of regulatory balances could differ from those recorded. See Note 14.

Allowance for funds used during construction ("AFUDC") is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. AFUDC includes both an interest component (interest during construction or "IDC") and, if approved by the regulator, a cost of equity component ("Equity AFUDC"), which are both capitalized based on rates set out in a regulatory agreement. In the absence of rate regulation, TMP LP would capitalize interest using a capitalization rate based on its cost of borrowing, whereas the capitalized equity component, the corresponding earnings during the construction phase and the subsequent depreciation would not be recognized.

#### ***Revenue Recognition***

Revenue from contracts with customers is accounted for in accordance with ASC Topic 606. The unit of account in Topic 606 is a performance obligation, which is a promise in a contract to transfer to a customer either a distinct good or service (or bundle of goods and services) or a series of distinct goods or services provided over a period of time. Topic 606 requires that a contract's transaction price, which is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, be allocated to each performance obligation in the contract based on relative standalone selling prices and recognized as revenue when (point in time) or as (over time) the performance obligation is satisfied.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies *(continued)*

#### *Revenue Recognition (continued)*

##### *Nature of Revenue*

TMC primarily provides crude oil and refined petroleum transportation services on a fee basis. The regulated tariffs for the TMPL and Puget Pipeline are designed to provide revenues sufficient to recover the costs of providing transportation services to shippers, including a return on invested capital. TMPL and Puget Pipeline are common carrier pipelines, generally providing services on a non-firm basis. Non-firm, interruptible ("spot") transportation services are provided when and to the extent that it is determined capacity is available in these pipeline systems. The shippers pay a per-unit rate for actual quantities of product delivered from the transportation system.

Regulatory adjustments are made for TMPL's revenue according to terms prescribed in its toll settlement with shippers as approved by the CER. Differences between transportation revenue recognized pursuant to its toll settlement and actual toll receipts are recognized as regulatory assets or liabilities and are settled in future tolls.

TMC also provides leased storage space for tanks under long-term contracts. While the CER does not economically regulate these tank leases like the transportation services, the lease rates are designed to recover the operating costs of the tanks and to provide a return on invested capital. Refer to the Leases discussion below for lessor accounting policies.

Other revenues include pipe rack rent revenue at TMC's terminals and other miscellaneous revenues.

##### *Transportation Revenue from Contracts with Customers*

The customer service contracts primarily include transportation service contracts. Generally, for the majority of these contracts: (i) the promise is to transfer (or stand ready to transfer) a series of distinct integrated services over a period of time, which is a single performance obligation; (ii) the transaction price includes fixed and/or variable consideration, which amount is determinable at contract inception and/or at each month end based on the right to invoice at month end for the value of services provided to the customer that month; and (iii) the transaction price is recognized as revenue over the service period specified in the contract (which can be a day, including each day in a series of promised daily services, a month, a year, or other time increment, including a deficiency makeup period) as the services are rendered using a time-based (passage of time) or units-based (units of service transferred) method for measuring transfer of control of the services and progress towards satisfying the performance obligation, based on the nature of the promised service (e.g., firm or non-firm) and the terms and conditions of the contract (e.g., contracts with or without makeup rights).

Firm services (also called uninterruptible services) are services that are promised to be available to the customer at all times during the period(s) covered by the contract, with limited exceptions. The firm service contracts are typically structured with take-or-pay or minimum volume provisions, which specify minimum service quantities a customer will pay for even if it chooses not to receive or use them in the specified service period. The transaction price is recognized as revenue in the specified service period as the promised units of services are transferred to the customer.

Non-firm services (also called interruptible services) are the opposite of firm services in that such services are provided to a customer on an "as available" basis. Generally, there is no obligation to perform these services until a customer's periodic request for service is accepted. For the majority of the non-firm service contracts, the customer will pay only for the actual quantities of services it chooses to receive or use, and the transaction price is typically recognized as revenue as those units of service are transferred to the customer in the specified service period (typically a daily or monthly period).

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies *(continued)*

#### **Leases**

##### *Lessee*

An arrangement is determined to be, or contain, a lease at inception. Right-of-use (“ROU”) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized based on the present value of future lease payments over the lease term at commencement date. For purposes of determining the lease liabilities, the lease term is deemed to include the renewal option when it is reasonably certain that it will be exercised. As most of TMC’s leases do not provide an implicit rate, an incremental borrowing rate based on the lease term is used to determine the present value of the lease payments. The implicit rate is used when readily determinable. Where leases are subject to changes based on an index or rate, the lease liability is not remeasured based on these changes and instead, are treated as variable lease payments. For certain leases, related to real estate, the lease and non-lease components are accounted for as a single component.

Leases are classified as either operating or finance leases. Operating leases are recognized as “Right-of-use assets” and corresponding liabilities are included in “Other current liabilities” and “Lease liabilities” on the accompanying consolidated balance sheet. Operating lease costs are recognized as a single lease cost on a straight-line basis over the lease term. Finance lease assets are included in “Property, plant, and equipment” and the corresponding liabilities are included in “Other current liabilities” and “Other deferred credits” on the accompanying consolidated balance sheet. Finance lease costs include recognition of interest expense on the lease liability and amortization of the ROU asset.

##### *Lessor*

Leases where the Corporation is the lessor are classified and accounted for as operating leases. The Corporation recognizes lease payments as income over the lease term on a straight-line basis. For certain leases, including the merchant tanks, the lease and non-lease components are accounted for as a single component. Variable lease payments are recognized as income in the period in which the change in facts and circumstances on which these payments are based occur. See Note 4 for additional information regarding leases.

#### **Pensions and post-employment benefits**

The differences between the fair value of each of the pension and other post-employment benefit plans’ assets and the benefit obligations are recorded as either assets or liabilities on the accompanying consolidated balance sheet. Deferred plan costs and income—unrecognized losses and gains, unrecognized prior service costs and credits, and any remaining unamortized transition obligations—are recorded in “Accumulated other comprehensive income” or as a regulatory asset or liability for certain regulated operations until they are amortized as a component of benefit expense. The service cost component of net benefit expense is recognized in “Salaries and benefits” and the other components of the net benefit expense are recognized in “Other, net” with the accompanying consolidated statement of income. See Note 12 for additional information regarding the pension and other post-employment benefit plans.

#### **Income Taxes**

Income tax expense is based on an estimate of the effective tax rate in effect or to be in effect during the relevant periods. The changes in tax legislation are included in the relevant computations in the period in which such changes are enacted. The Corporation does business in various jurisdictions with differing laws concerning how income subject to each jurisdiction’s tax regime is measured and at what effective rate such income is taxed, which requires an estimate of how income will be apportioned among the various jurisdictions in order to arrive at an overall effective tax rate. Changes in the effective rate, including any effect on previously recorded deferred taxes, are recorded in the period in which the need for such change is identified.

Deferred income tax assets and liabilities are recognized for temporary differences between the basis of assets and liabilities for financial reporting and tax purposes. Deferred tax assets are reduced by a valuation allowance for the amount that is, more likely than not, to not be realized. While estimated future taxable income and prudent and feasible tax planning strategies are considered in determining the amount of the valuation allowance, any change in the amount that is expected to ultimately be realized will be included in income in the period in which such a determination is reached.

# **TRANS MOUNTAIN CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **2. Summary of Significant Accounting Policies *(continued)***

#### ***Foreign Currency***

Transactions in foreign currencies are initially recorded at the exchange rate in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars using the closing exchange rate at the balance sheet date. The resulting exchange rate differences are included in the consolidated statement of income.

The assets and liabilities of Puget, which uses U.S. dollars as its functional currency, are translated to Canadian dollars at period-end exchange rates. Income and expense items are translated at weighted-average rates of exchange prevailing during the period and its equity accounts are translated by using historical exchange rates. The cumulative translation adjustments balance is included in "Accumulated other comprehensive income" on the consolidated statement of equity and would be recognized in earnings upon the sale of Puget.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid short-term investments with original maturities of three months or less.

#### ***Restricted Cash***

Cash and cash equivalents that are restricted as to withdrawal or usage are presented as restricted cash on the consolidated balance sheet and are presented as non-current to the extent they are to be used to satisfy long-term obligations. Restricted cash consists of cash in the Trust that is to be used to satisfy the LMCI liabilities as well as cash held as security for letters of credit.

#### ***Accounts Receivable***

Provisions for losses on accounts receivable due from customers are established if it is determined to be probable that all or part of the outstanding balance will not be collected. Collectability is reviewed regularly and an allowance or adjustments are established as necessary using the specific identification method.

#### ***Inventories***

Inventories, which consist of materials and supplies, are valued at weighted-average cost, and are periodically reviewed for physical deterioration and obsolescence.

#### ***Internal-Use Software***

Internal-use software projects are recognized at historical cost and included in "Deferred amounts and other assets" on the accompanying consolidated balance sheet. TMC capitalizes costs incurred during the application development stage of internal-use software projects. In general, software assets are amortized on a straight-line basis over the assets estimated useful lives, commencing when the asset is available for use.

#### ***Property, Plant and Equipment***

Property, plant and equipment is recorded at historical cost. Expenditures are capitalized for construction, expansion, major renewals and betterments. Maintenance and repair costs are expensed as incurred. Expenditures are capitalized for project development if they are expected to have future benefit. Interest on borrowed funds is capitalized for non-rate-regulated assets. For rate-regulated assets, AFUDC is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. IDC and interest capitalized on non-rate-regulated assets are referred to herein as "capitalized debt financing costs" and result in a reduction in interest expense. Equity AFUDC is recognized as other income in "Equity allowance for funds used during construction" in the accompanying consolidated statement of income.

Depreciation is recorded on a straight-line basis over the assets estimated useful lives. Depreciation rates for regulated assets are approved by the regulator. The depreciation rates for TMP LP's assets were revised effective January 1, 2020 as a result of a depreciation study that lowered the overall depreciation rate for TMP LP for the year ended December 31, 2020 and for future periods.

Construction work in progress stops accumulating AFUDC and begins depreciating when the assets are available for their intended use.

# **TRANS MOUNTAIN CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **2. Summary of Significant Accounting Policies *(continued)***

#### ***Long-lived Asset Impairments***

Long-lived assets, including property, plant and equipment as well as other intangibles, and investments are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or investment may not be recoverable. Impairment losses are recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount.

If triggering events exist, a review is completed of the carrying value of the long-lived assets and any appropriate impairments are recorded prior to conducting the goodwill impairment test. Because the impairment test for long-lived assets held in use is based on undiscounted cash flows, there may be instances where an asset or asset group is not considered impaired, even when its fair value may be less than its carrying value, because the asset or asset group is recoverable based on the cash flows to be generated over the estimated life of the asset or asset group. For the year ended December 31, 2020 there were no impairments recorded to long-lived assets.

#### ***Acquisitions and Goodwill***

Business combinations are accounted for using the acquisition method of accounting and, accordingly, the assets and liabilities of the acquired entities are primarily measured at their estimated fair values at the date of acquisition.

The excess, if any, of the fair value of the consideration transferred over the estimated fair value of the net assets acquired is classified as goodwill. Goodwill is not subject to amortization but must be tested for impairment at least annually. Goodwill is tested for impairment by comparing the fair value of a reporting unit with its carrying amount. To the extent the carrying amount of the reporting unit exceeds its fair value a loss is recognized for the excess. Goodwill is also evaluated for impairment to the extent events or conditions indicate a risk of possible impairment. Generally, the evaluation of goodwill for impairment involves a quantitative test, although under certain circumstances an initial qualitative evaluation may be sufficient to conclude that goodwill is not impaired without conducting the quantitative test.

#### ***Restricted Investments***

Restricted investments are long-term investments in Canadian government and Federal agency bonds held in the Trust. The restricted long-term investments by the Trust are to be used solely for the purposes of satisfying future abandonment costs under the LMCI. There are related LMCI long-term obligations of an amount equal to the restricted cash and restricted investments in the Trust recorded in "Regulatory liabilities" on the accompanying consolidated balance sheet. The abandonment cost estimate used to measure and fund the Trust is based on a set of assumptions and a collection period established by the CER. The restricted assets are measured at fair value with offsetting adjustments recorded to the LMCI liabilities. Fair values for the restricted investments are determined based on observable prices and inputs for similar instruments available in the market, utilizing widely accepted cash flow models to value such instruments. Such techniques represent a Level 2 fair value measurement. See Note 14 regarding the amounts recorded in "Regulatory liabilities".

#### ***Asset Retirement Obligations ("ARO")***

Liabilities are recorded for obligations related to the retirement and removal of long-lived assets used in the Corporation's businesses. Liabilities are recorded for the fair value of ARO on a discounted basis when they are incurred and can be reasonably estimated, which is typically at the time the assets are installed or acquired. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, and the initial capitalized costs are depreciated over the useful lives of the related assets. The liabilities are eventually extinguished when the asset is taken out of service.

Due to the lack of information that can be derived from past experience or industry practice, the timing and scope of future removal and site restoration costs for the Corporation's assets is not reasonably determinable. Therefore, no ARO is recognized in these consolidated financial statements. Also see Note 14 regarding pipeline abandonment surcharges retained in the Trust.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 2. Summary of Significant Accounting Policies *(continued)*

#### **Environmental Matters**

Environmental expenditures are capitalized or expensed, as appropriate. Certain environmental expenditures required in obtaining rights-of-way, regulatory approvals or permitting as part of construction are capitalized. Environmental costs that relate to an existing condition caused by past operations, which do not contribute to current or future revenue generation are accrued and expensed. Generally environmental liabilities are not discounted to a net present value and are recorded as environmental liabilities when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, recording of these accruals coincides with completion of a feasibility study or commitment to a formal plan of action. Receivables are recognized for anticipated associated insurance recoveries when such recoveries are deemed to be virtually certain. Environmental liabilities assumed in a business combination are recorded at estimated fair value, where appropriate.

Reviews of potential environmental issues and claims that could impact the Corporation's assets or operations are routinely conducted. These reviews assist in identifying environmental issues and estimating the costs and timing of remediation efforts. Environmental liabilities are also routinely adjusted to reflect changes in previous estimates. In making environmental liability estimations, the material effect of environmental compliance, pending legal actions against the Corporation, and potential third-party liability claims are considered. Often, as the remediation evaluation and effort progresses, additional information is obtained, requiring revisions to estimated costs. These revisions are reflected in income in the period in which they are reasonably determinable. As of December 31, 2020 and 2019, there was \$9.1 million and \$7.3 million, respectively accrued for outstanding environmental matters and are included in "Other current liabilities" and "Other deferred credits" within the accompanying consolidated balance sheet.

#### **Adoption of New Accounting Pronouncements**

##### *Pensions and post-employment benefits*

Effective January 1, 2020, TMC elected to adopt ASU No. 2018-14 on a retrospective basis. This guidance modifies the annual disclosure requirements for employers that sponsor defined benefit pension or other post-employment plans. The adoption of this accounting update did not have a material impact on the consolidated financial statements.

### 3. Revenue Recognition

#### **Disaggregation of Revenues**

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

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
<i>(In thousands of Canadian dollars)</i>		
Transportation		
Fee-based services	350,300	367,607
Regulatory adjustment	11,982	(10,309)
	362,282	357,298
Leases <i>(Note 4)</i>	63,647	60,146
Other	1,726	2,308
	427,655	419,752

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. Revenue Recognition *(continued)*

#### **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 years ended December 31, 2020 and 2019, 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:

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
<i>(In thousands of Canadian dollars)</i>		
Opening balance	4,628	4,840
Additions	392	385
Transfer to Revenues	(605)	(597)
Ending balance	4,415	4,628
Presented as:		
Other current liabilities	213	213
Other deferred credits	4,202	4,415
	4,415	4,628

#### **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 December 31, 2020 that will be invoiced or transferred from contract liabilities and recognized in future periods.

<b>Year</b>	<b>Estimated Revenue</b>
<i>(In thousands of Canadian dollars)</i>	
2021	26,341
2022	2,432
2023	213
2024	213
2025	213
Thereafter	3,351
Total	32,763

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. Revenue Recognition *(continued)*

#### **Revenue Allocated to Remaining Performance Obligations**

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 TMEP.

### 4. Leases

#### **Lessee**

TMC incurs operating lease costs related primarily to real estate buildings, land, and office equipment. The operating leases have remaining lease terms ranging from one to 84 years. TMC is obligated to pay variable costs as it relates to building and land, such as a proportionate share of property taxes, insurance and common area maintenance. These payments are excluded from the lease liabilities. Some leases have options to extend the lease which are included in the lease term for purposes of determining the lease liabilities when it is reasonably certain that the renewal option will be exercised.

The following table presents the amounts recognized related to operating leases:

<b>Year ended December 31,</b>	<b>2020</b>	<b>2019</b>
<i>(In thousands of Canadian dollars)</i>		
Lease cost:		
Operating lease cost <sup>(a)</sup>	22,003	14,690
Short-term and variable cost	3,089	2,634
<b>Total operating lease cost</b>	<b>25,092</b>	<b>17,324</b>
Other information:		
Operating cash flows from operating leases	(3,715)	(2,828)
Investing cash flows from operating leases	(18,857)	(11,304)
Amortization of operating ROU assets	18,562	11,697

(a) Includes capitalized lease costs of \$18.9 million and \$11.3 million for the years ended December 31, 2020 and 2019, respectively

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. Leases (continued)

#### Lessee (continued)

The following table presents other information related to operating leases:

December 31,	2020	2019
Weighted-average remaining lease term	31.2 years	30.5 years
Weighted-average discount rate	4.46%	5.19%

#### Lease Maturity analysis

The operating lease payments under non-cancellable leases, excluding short-term leases, as of December 31, 2020 are as follows:

(In thousands of Canadian dollars)	
2021	19,593
2022	13,584
2023	6,766
2024	4,323
2025	2,214
Thereafter	103,008
Total undiscounted cash flows	149,488
Less: imputed interest	(73,432)
Total operating lease liabilities	76,056
Presented as:	
Other current liabilities (Note 11)	18,912
Lease liabilities	57,144

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. Leases (continued)

#### Lessor

Operating leases in which the Corporation is the lessor relate to merchant tanks owned by the Corporation and housing located along the pipeline right of way or in the proximity of pump stations. These leases have remaining lease terms of up to 20 years, some of which have extension options of up to 5 years per the renewal term. The agreement terms on certain merchant tanks are subject to automatic renewal for successive 5-year terms unless terminated by either party within the specified notice period. In relation to the same merchant tanks, the Corporation retains the right to relinquish the right of the lessee to use any specified tank, or multiples of such, if the assets are required for regulated service and the appropriate notice period of approximately 2 years is given. Options for a lessee to renew the contract are not included as part of future minimum operating lease revenues. None of the Corporation's leases allow the lessee to purchase the leased asset.

Some leases contain payments for both lease and non-lease components, such as the services associated with the operation of the various merchant tanks. Variable lease payments related to the service of operating certain merchant tanks have been excluded from the future operating lease revenues due to their variability dependent on the use of the merchant tanks, market conditions and pricing, occurrence or non-occurrence of certain events or based on other factors controlled by TMC as lessor.

Merchant tank income is recognized in "Lease revenue" and includes the variable lease payments described above. Housing income is recognized in "Other revenue." See Note 3 for revenue details.

The following table presents the lease income recognized:

Year ended December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Lease income from merchant tanks	63,647	60,146
Lease income from housing	228	219

The future undiscounted minimum operating lease revenues based on contractual agreements are as follows.

<i>(In thousands of Canadian dollars)</i>	
2021	50,681
2022	49,038
2023	46,956
2024	41,358
2025	39,735
Thereafter	380,733
Total	608,501

The cost and net book value of property, plant and equipment that represent operating leases were \$509.3 million and \$470.4 million, respectively, at December 31, 2020 and \$509.5 million and \$488.6 million, respectively, at December 31, 2019.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. Income Taxes

Components of the income tax provision are as follows:

<b>Year ended December 31,</b> <i>(In thousands of Canadian dollars)</i>	<b>2020</b>	<b>2019</b>
Current tax recovery	2,366	814
Deferred tax (expense) recovery	(50,310)	31,508
Total Income tax (expense) recovery	(47,944)	32,322

There was a reduction in the Alberta corporate tax rate in June 2019 from 12% to 8%. As a result, the blended Federal and Provincial (Alberta and BC) deferred tax rate was reduced from 27% in 2018 to 24.67% in 2019. This tax rate reduction resulted in a deferred income tax recovery for the year ended December 31, 2019. For 2020, the deferred tax rate remained at 24.67% and the current tax rate was reduced from 26.71% in 2019 to 25.25% in 2020 as a result of the Alberta corporate tax rate reduction in December 2020.

The difference between the statutory income tax and the effective income tax recognized is summarized below.

<b>Year ended December 31,</b> <i>(In thousands of Canadian dollars)</i>	<b>2020</b>	<b>2019</b>
Statutory income tax expense	(47,658)	(26,318)
Decrease (Increase) as a result of:		
Non-deductible expenditures	(284)	(312)
Foreign tax rate differential	831	1,293
Difference between current and deferred tax rate	987	1,482
Deferred tax rate change	-	53,437
Other	(1,820)	2,740
Total income tax (expense) recovery	(47,944)	32,322

Deferred tax assets and liabilities result from the following:

<b>December 31,</b> <i>(In thousands of Canadian dollars)</i>	<b>2020</b>	<b>2019</b>
Deferred tax assets		
Non-capital losses	92,859	50,181
Reserves	23,741	28,917
Total Deferred tax assets	116,600	79,098
Deferred tax liabilities		
Property, plant and equipment	(748,475)	(663,983)
Total deferred tax liabilities	(748,475)	(663,983)
Total deferred income taxes	(631,875)	(584,885)

**Expiration Periods for Deferred Tax Assets:** There were non-capital loss carryforwards as of December 31, 2020 and 2019 of \$376.7 million and \$203.0 million, respectively, which will start to expire in 2037.

**Unrecognized Tax Benefits:** There were no unrecognized tax benefits as of December 31, 2020 and 2019.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 6. Other Current Assets

December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Prepaid expenses and deposits	9,339	5,859
Inventory	7,109	6,509
Regulatory assets (Note 14)	16,997	7,143
	33,445	19,511

### 7. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

December 31,	Useful Life in Years	2020	2019
<i>(In thousands of Canadian dollars)</i>			
Pipelines	30-64	1,139,451	1,121,924
Tanks and Station Equipment	5-51	1,879,317	1,843,619
Other	5-40	35,285	24,786
Accumulated depreciation, depletion, and amortization		(223,114)	(130,667)
		2,830,939	2,859,662
Construction work in progress		5,836,311	2,575,075
Land		309,614	309,632
Property, plant and equipment		8,976,864	5,744,369

Depreciation and amortization expense charged against property, plant and equipment was \$96.2 million for the year ended December 31, 2020 and \$100.3 million for the year ended December 31, 2019.

Equity AFUDC and capitalized debt financing costs charged against property, plant and equipment totaled \$184.4 million and \$106.8 million, respectively for the year ended December 31, 2020 and \$91.3 million and \$58.6 million, respectively for the year ended December 31, 2019, which was primarily related to the TMEP. See Note 2 for more details on the regulatory concept of AFUDC.

As of December 31, 2020, construction work in progress related to the TMEP was \$5.8 billion, compared to \$2.5 billion as of December 31, 2019.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 8. Goodwill

Goodwill relates to the TMC acquisition of the entities that operate the TMPL and Puget Pipeline on August 31, 2018.

A goodwill impairment test was performed as of December 31, 2020 and did not result in an impairment charge. The fair value of the reporting unit was estimated using an income-based approach based on the discounted cash flows. The estimate of fair value required the use of significant unobservable inputs, including assumptions related to the timing of the TMEP construction, discount rate, and cost estimates, and therefore, the fair value is representative of a Level 3 fair value. The total approved project cost estimate for the TMEP is \$12.6 billion, which includes \$1.7 billion of financial carrying costs, and the project is expected to be in-service by the end of 2022. 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, including in-service dates of 2022 and 2023. The estimate of discounted cash flows was determined using a discount rate of approximately 8.1% 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 with an estimated in-service date at the end of 2022, sensitivity analysis of key assumptions was performed. An increase in the assumed discount rate by 25 basis points on the expected cash flows would result in a reduction to the fair value of the reporting unit by approximately \$700 million. If project costs increase by \$600 million, this would result in a reduction to the fair value by approximately \$200 million. If there is a one-year delay to the in-service date of the project, this would result in a reduction to the fair value by approximately \$1.2 billion. Under each of these individual scenarios the decrease in the fair value of the reporting unit would not result in an impairment charge.

### 9. Deferred Amounts and Other Assets

December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Prepaid construction advances	169,650	39,490
Internal-use software	20,161	9,874
Pension and post-employment benefits <i>(Note 12)</i>	6,186	6,006
Other recoverable assets	39,241	5,249
	235,238	60,619

Prepaid construction advances relate to advances paid to construction contractors for the TMEP.

Depreciation and amortization expense charged against "Deferred amounts and other assets" related to internal-use software for the years ended December 31, 2020 and 2019 was \$1.8 million and \$0.3 million, respectively. Accumulated depreciation and amortization on internal-use software at December 31, 2020 and 2019 was \$2.1 million and \$0.3 million, respectively.

### 10. Accounts Payable and Accrued Liabilities

December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Trade accounts payable and other accrued liabilities	97,642	71,263
Property, plant and equipment payable and accrued liabilities	442,824	234,605
	540,466	305,868

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 11. Other Current Liabilities

December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Operating lease liabilities (Note 4)	18,912	16,262
Environmental accrual	6,096	3,641
Pension and post-employment benefits (Note 12)	1,397	1,293
Contract liabilities and other deferred revenue	630	1,470
Finance lease liabilities	732	514
	27,767	23,180

### 12. Pension and Post-employment Benefits

TMCI sponsors pension plans covering eligible Canadian employees and retirees (the Legacy and TMCI plans). Legacy plans are closed to new participants. The plans include registered defined benefit pension plans (the Legacy plan includes a defined contribution component and is included in the following disclosures), and supplemental unfunded arrangements which provide pension benefits in excess of Income Tax Act limits. Post-employment benefits other than pension are also provided for qualified retired employees.

Retirement benefits under the defined benefit plans are based on employees' years of credited service and pensionable earnings. Contributions for the defined benefit component of the plans are based on independent actuarial valuations. The most recent actuarial valuation for the defined benefit pension plans for funding purposes was completed as of December 31, 2019. Contributions for the defined contribution component of the Legacy plan were based on pensionable earnings.

Certain employees are eligible to receive supplemental benefits under the defined benefit plans. The supplemental plans provide pension benefits in excess of Income Tax Act limits, but consistent with the plan formula. The TMCI supplemental plan is unfunded and the Legacy supplemental plan is secured by a letter of credit.

Other post-employment benefits ("OPEB") are provided to current and future retirees and their dependents, including depending on circumstance, supplemental health, dental and life insurance coverage. Medical benefits under those OPEB plans may be subject to deductibles, co-payment provisions, dollar caps and other limitations on the amount of employer costs, and the Corporation reserves the right to change these benefits. Post-employment benefits are unfunded and annual expense is recorded on an accrual basis based on independent actuarial determination, considering, among other factors, health care cost escalation. The most recent actuarial valuation for accounting purposes was completed as of December 31, 2020.

Pension and OPEB benefits expense associated with labour attributable to TMPL's regulated operations is incorporated as part of fixed costs under the terms of the 2019-2021 Incentive Toll Settlement ("ITS").

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Pension and Post-employment Benefits *(continued)*

#### **Benefit Obligation, Plan Assets, and Funded Status**

The following table provides information about the pension and OPEB plans.

Year ended December 31, <i>(In thousands of Canadian dollars)</i>	Pension		OPEB	
	2020	2019	2020	2019
<b>Change in benefit obligation:</b>				
Benefit obligation, opening	298,253	257,424	19,550	17,623
Service cost	10,354	8,583	510	416
Interest cost	8,608	9,007	555	606
Actuarial loss	22,199	29,611	1,269	1,728
Benefits paid	(13,455)	(9,704)	(554)	(823)
Participant contributions	3,223	2,975	-	-
Expenses paid	(624)	(696)	-	-
Plan amendments	-	1,053	-	-
Benefit obligation, ending	328,558	298,253	21,330	19,550
<b>Change in plan assets:</b>				
Fair value of plan assets, opening	235,219	202,555	-	-
Return on plan assets	20,193	30,754	-	-
Employer contributions	10,305	9,335	554	823
Participant contributions	3,223	2,975	-	-
Benefits paid	(13,455)	(9,704)	(554)	(823)
Expenses paid	(624)	(696)	-	-
Fair value of plan assets, ending	254,861	235,219	-	-
<b>Funded Status – net liability</b>	<b>73,697</b>	<b>63,034</b>	<b>21,330</b>	<b>19,550</b>
<b>Presented as follows:</b>				
Non-current benefit asset (a)	6,186	6,006	-	-
Current benefit liability (b)	(562)	(470)	(835)	(823)
Non-current benefit liability (c)	(79,321)	(68,570)	(20,495)	(18,727)
	(73,697)	(63,034)	(21,330)	(19,550)

(a) Amounts included in "Deferred amounts and other assets" on the consolidated balance sheet (Note 9).

(b) Amounts included in "Other current liabilities" on the consolidated balance sheet (Note 11).

(c) Amounts included in "Pension and post-employment benefits" on the consolidated balance sheet.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Pension and Post-employment Benefits *(continued)*

#### *Benefit Obligation, Plan Assets, and Funded Status (continued)*

As of December 31, 2020 and 2019, the most significant source of actuarial losses is the decrease in the applicable bond yields used to determine the present value of obligations. There were less significant changes due to experience gains and losses from other assumption changes as well as refreshed census data.

The funded status based on the accumulated benefit obligation for all pension plans is as follows:

December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Accumulated benefit obligation	293,969	265,827
Fair value of plan assets	254,861	235,219
Funded Status – Plan Deficit	(39,108)	(30,608)

Certain pension plans included in the above have an accumulated benefit obligation in excess of the fair value of plan assets. For these plans, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were as follows:

December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Projected benefit obligation	217,443	191,835
Accumulated benefit obligation	184,391	161,069
Fair value of plan assets	137,560	122,795

#### *Components of Accumulated Other Comprehensive Income*

The following table details the amounts of pre-tax accumulated other comprehensive loss related to the pension and OPEB plans, which are included in “Accumulated other comprehensive income” on the accompanying consolidated balance sheet as of December 31, 2020 and 2019:

December 31,	Pension		OPEB	
	2020	2019	2020	2019
<i>(In thousands of Canadian dollars)</i>				
Unrecognized net actuarial loss	24,107	12,802	2,426	1,157
Unrecognized prior service cost	2,994	3,319	-	-
Accumulated other comprehensive loss	27,101	16,121	2,426	1,157

Actuarial gains and losses and prior service costs deferred in accumulated other comprehensive income are amortized into income over either the period of expected future service of active participants, or over the expected future lives of inactive plan participants.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Pension and post-employment benefits *(continued)*

#### **Plan Assets**

The investment policies and strategies for the assets of the pension plans are established by the Pension Committee (the "Committee"), which is responsible for investment decisions and management oversight of the plans. The stated philosophy of the Committee is to manage these assets in a manner consistent with the purpose for which the plans were established and the time frame over which the plans' obligations need to be met. The objectives of the investment management program are to (i) meet or exceed plan actuarial earnings assumptions over the long term and (ii) provide a reasonable return on assets within established risk tolerance guidelines and to maintain the liquidity needs of the plans with the goal of paying benefit and expense obligations when due. In seeking to meet these objectives, the Committee recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. In order to reduce portfolio risk and volatility, the Committee has adopted a strategy of using multiple asset classes.

As of December 31, 2020 and 2019, the target asset allocation for the Legacy plans was 95% fixed income and 5% equity. The target allocation for the TMCI plans was 50% fixed income and 50% equity as of December 31, 2020 compared to 45% fixed income and 55% equity as of December 31, 2019.

Below are the details of the pension plan assets by class and a description of the valuation methodologies used for assets measured at fair value.

<b>December 31,</b>	<b>2020</b>	<b>2019</b>
<i>(In thousands of Canadian dollars)</i>		
Measured within Level 1 of fair value hierarchy		
Cash	6,834	6,286
Mutual funds (a)	241,440	228,933
Measured within Level 3 of fair value hierarchy		
Real estate	6,587	-
	<b>254,861</b>	<b>235,219</b>

(a) Mutual funds were invested in approximately 70% fixed income and 30% equity for the years ended December 31, 2020 and 2019.

Level 1 asset fair values are based on quoted market prices for the instruments in actively traded markets. Included in this level are cash and exchange traded mutual funds. These investments are valued at the closing price reported on the active market on which the individual securities are traded.

Included in Level 3 are real estate investments, for which the fair value of assets is determined using a market approach based on inputs that are unobservable and significant to the overall fair value measurement. The following table presents the net change in the Level 3 fair value category.

<b>December 31,</b>	<b>2020</b>
<i>(In thousands of Canadian dollars)</i>	
Opening balance	-
Purchases and sales	6,556
Realized and unrealized gains	31
Ending balance	<b>6,587</b>

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Pension and Post-employment Benefits *(continued)*

#### **Expected Payment of Future Benefits and Employer Contributions**

Following are the expected future benefit payments as of December 31, 2020:

	Pension	OPEB
<i>(In thousands of Canadian dollars)</i>		
2021	11,644	835
2022	12,045	851
2023	12,617	871
2024	13,101	894
2025	13,380	917
2026-2030	70,138	4,808

In 2021, employer contributions are expected to be approximately \$9.8 million and \$0.8 million for the pension and OPEB plans, respectively.

#### **Actuarial Assumptions**

Benefit obligations and net benefit cost are based on actuarial estimates and assumptions. The following table details the weighted-average actuarial assumptions used in determining the benefit obligation and net benefit costs of the pension and OPEB plans:

December 31,	Pension		OPEB	
	2020	2019	2020	2019
Assumptions related to benefit obligations:				
Discount rate	2.61%	3.12%	2.64%	3.13%
Rate of compensation increase	3.50%	3.75%	N/A	N/A
Assumptions related to benefit costs:				
Discount rate for benefit obligations	3.12%	3.81%	3.13%	3.82%
Discount rate for interest on benefit obligations	2.94%	3.57%	2.90%	3.52%
Discount rate for service cost	3.18%	3.89%	3.21%	3.95%
Discount rate for interest on service cost	3.06%	3.73%	3.18%	3.91%
Expected return on plan assets	3.89%	4.63%	N/A	N/A
Rate of compensation increase	3.75%	4.00%	N/A	N/A

The expected long-term rates of return on plan assets were determined by combining a review of the historical returns realized within the portfolio, the investment strategy included in the plans' investment policy, and capital market projections for the asset classes in which the portfolio is invested and their target weightings of each asset class.

Actuarial estimates for the OPEB plan benefit obligation assumed a weighted-average annual rate of increase in the per capita cost of covered health care benefits of 5.25% gradually decreasing to 4.00% by the year 2040.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. Pension and Post-employment Benefits *(continued)*

#### **Components of Net Benefit Cost and Other Amounts Recognized in Other Comprehensive Income**

The components of net benefit cost and other amounts recognized in pretax other comprehensive income related to the pension and OPEB plans for the years ended December 31, 2020 and 2019 are presented in the table below, excluding regulatory amounts amortized as a component of net benefit expense. For the year ended December 31, 2019, \$1.1 million was amortized as a component of net benefit expense related to previous regulatory differences for flow through pension costs under the 2016-2018 ITS. The regulatory differences were fully amortized in the year ended December 31, 2019.

Year ended December 31, <i>(In thousands of Canadian dollars)</i>	Pension		OPEB	
	2020	2019	2020	2019
<b>Components of net benefit cost:</b>				
Service cost	10,354	8,583	510	416
Interest cost	8,608	9,007	555	606
Expected return on plan assets	(9,231)	(9,278)	-	-
Amortization of prior service cost	325	278	-	-
Net benefit cost	10,056	8,590	1,065	1,022
<b>Other changes recognized in other comprehensive loss (income):</b>				
Net loss arising during the year	11,305	8,136	1,269	1,728
Prior service cost arising during the year	-	1,053	-	-
Amortization of prior service cost	(325)	(278)	-	-
Total recognized in total other comprehensive loss	10,980	8,911	1,269	1,728
Total recognized in net benefit cost and other comprehensive loss	21,036	17,501	2,334	2,750

### 13. Other Deferred Credits

December 31,	2020	2019
<i>(In thousands of Canadian dollars)</i>		
Contract liabilities and other deferred revenue	5,296	6,733
Environmental liabilities	2,964	3,706
Finance lease liabilities	3,058	2,309
	11,318	12,748

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 14. Accounting for Regulatory Activities

The following table summarizes the regulatory asset and liability balances. The current regulatory assets are included in "Other current assets" within the consolidated balance sheet.

December 31, (In thousands of Canadian dollars)	2020	2019
Bulk oil cargo fee	1,917	6,018
Under-collections of transportation revenue and capacity incentives	15,080	1,125
Total current regulatory assets (Note 6)	16,997	7,143
System Optimization surcharge	5,091	-
Bulk oil cargo fee - TMEP	57,338	40,853
Total non-current regulatory assets	62,429	40,853
Total regulatory assets	79,426	47,996
Westridge dock premiums	133,532	179,936
Over-collections of transportation revenue	1,992	11,162
Redirect fee	3,526	5,790
Total current regulatory liabilities	139,050	196,888
Westridge dock premiums	-	57,068
Pipeline abandonment surcharge	95,126	74,117
Total non-current regulatory liabilities	95,126	131,185
Total regulatory liabilities	234,176	328,073

#### *Under/Over-collections of transportation revenue and capacity incentives*

For 2020 and 2019, tolls were governed by the terms of the 2019 - 2021 Incentive Toll Settlement ("ITS"). The ITS is a negotiated settlement between TMP LP and its shippers, as approved by the NEB (now known as the CER). Under the terms of the ITS, tolls are designed to recover an approved rate of return on capital, an allowance for income taxes, and estimated operating expenses and depreciation for the upcoming year. Differences between expected and actual toll proceeds cause a transportation revenue variance (an under or over collection of revenue) in a given year. These under or over collections are recorded as regulatory assets or liabilities, respectively, and they are collected from or refunded to shippers via toll adjustments in subsequent years.

#### *Bulk oil cargo fee ("BOCF")*

The BOCF is intended to provide the Western Canada Marine Response Corporation ("WCMRC") with funds for spill response and is collected from shippers based on volume of commodities moved through the WCMRC's response area. TMP LP remits the BOCF related to traffic through the Westridge Marine Terminal (the "dock") to WCMRC and collects it from TMPL shippers through a tariff provision.

On January 19, 2016, the NEB approved an alternative funding mechanism for WCMRC to enhance spill response capability for expected traffic increases related to the TMEP (the "TMEP BOCF"). The TMEP BOCF is remitted to WCMRC by TMP LP and is to be recovered through TMPL tolls in the 5 years after the TMEP in-service.

## **TRANS MOUNTAIN CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **14. Accounting for Regulatory Activities (*continued*)**

##### *System Optimization*

As part of the ongoing effort to optimize pipeline capacity and improve transportation services, a project was identified to upgrade several pump stations (the "System Optimization"). A portion of the project is recoverable from the shippers through a System Optimization surcharge as approved by the NEB effective July 1, 2019. An equivalent amount of Westridge dock premium is refunded to offset the surcharge. The System Optimization was substantially completed in 2020 and the regulatory asset represents the remaining amount recoverable through the surcharges.

##### *Westridge dock premium*

On April 12, 2006, the NEB approved the inclusion of a Westridge dock premium in the TMPL tariff structure as a means of allocating capacity to shippers at the Westridge dock. The premiums collected do not result in revenue and are recorded as regulatory liabilities because they are refundable to shippers in future periods through tariff reductions incorporated into the following year's toll filings. The timing of such tariff reductions varies depending on the toll filing which is agreed with the shippers and approved annually by the CER (previously the NEB) but it is generally one year or more. Customer demand for capacity at the dock determines the amount of premiums collected and therefore, the amount added to the regulatory liability can vary year to year.

##### *Redirect fee*

Shippers are charged an alternate delivery point fee for deliveries to destinations other than the designated delivery point upon nomination. These fees do not result in revenue, because they are collected on behalf of the shippers merely as a means of organizing scheduling and are not compensation for providing services. These collections are recorded as regulatory liabilities and are refunded to shippers via toll adjustments in subsequent years.

##### *Pipeline abandonment surcharges*

Amounts represent collection of surcharges related to future pipeline abandonment which is retained in the Trust. The Trust was established in 2015 in the Province of Alberta to set aside funds collected through pipeline abandonment surcharges over a collection period established by the NEB. The use of amounts in the Trust is restricted to pay for future abandonment costs.

#### **15. Transactions with Related Parties**

##### ***Affiliate Activities***

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.

##### ***Loans from Parent***

TMC has a credit agreement with TMP Finance dated August 29, 2018 as amended July 30, 2019 (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 drawn and a standby fee of 0.065% on the unadvanced portion. The facilities mature on the earlier of the maturity date, which is August 29, 2023 and August 28, 2023 for the Acquisition Facility and Construction Facility, respectively, and in the event of certain changes in ownership.

TMC also has a funding agreement with TMP Finance dated August 30, 2018 as amended July 30, 2019 (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. Under the Funding Agreement, the Maximum Funding Amount in respect of construction funding increased from \$2.4 billion to \$3.8 billion on January 1, 2020.

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 15. Transactions with Related Parties (continued)

#### Loans from Parent (continued)

On October 1, 2020, an amendment to the Funding Agreement was executed which states a Maximum Funding Amount in respect of construction funding of \$4.7 billion up to December 30, 2020 and up to \$5.7 billion thereafter, which may be increased to \$6.1 billion at the discretion of TMP Finance.

Under the Credit Agreement, no funding or advance requests under the Construction Facility can be made after the drawdown date, which may be extended at the discretion of TMP Finance. On October 27, 2020 the drawdown date was extended from December 31, 2020 to March 31, 2021.

In order to finance the continued construction of the TMEP, in the normal course of business TMC will require the Funding Agreement to be amended to increase the Construction Facility's Maximum Funding Amount, and the Credit Facility will be amended to extend the drawdown date beyond March 31, 2021.

TMP LP also has a line of credit agreement with TMP Finance dated March 25, 2019 for \$500 million (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.

The total available credit as of December 31, 2020 and outstanding amounts presented as long-term loans from parent as of December 31, 2020 and 2019 with TMP Finance are shown in the table below. There are no required payments on the borrowings until maturity. There are no financial covenants.

December 31,	2020	2019
(In thousands of Canadian dollars)	Total available credit	Outstanding amount
Acquisition Facility	2,506,350	2,506,350
Construction Facility	3,135,000	2,321,000
Financial Capacity Line of Credit	500,000	-
	6,141,350	4,827,350
		3,257,100

The total interest and commitment fees incurred on loans from parent for the years ended December 31, 2020 and 2019 were \$195.9 million and \$147.8 million, respectively.

#### Equity Contributions

Pursuant to the Funding Agreement and concurrent with the borrowings against the Construction Facility, TMP Finance contributed additional capital of \$1,284.8 million and \$526.5 million for the years ended December 31, 2020 and 2019, respectively, which represents 45% of the total funds received from TMP Finance.

### 16. Interest Expense, net of capitalized debt financing costs

Year ended December 31,	2020	2019
(In thousands of Canadian dollars)		
Interest and commitment fees on loan from parent	195,899	147,832
Capitalized debt financing costs	(106,797)	(58,573)
Interest income and other	(4,090)	(4,650)
	85,012	84,609

# TRANS MOUNTAIN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 17. Change of Operating Assets and Liabilities

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

Year ended December 31, (In thousands of Canadian dollars)	(Increase)/ Decrease in Operating Working Capital	
	2020	2019
Accounts receivable	(21,220)	42,822
Deferred amounts and other assets	(18,253)	8,657
Regulatory assets	(21,576)	(16,285)
Accounts payable and accrued liabilities	30,266	1,722
Pension and post-employment benefits	195	546
Regulatory liabilities <sup>(a)</sup>	(100,693)	10,707
Lease liabilities	(568)	558
Other liabilities and deferred credits	(1,161)	(22)
	(133,010)	48,705

(a) The decrease in regulatory liabilities is primarily related to refunds in Westridge dock premiums. Refer to Note 14.

### 18. 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 and gas exploration and development, or energy marketing or transportation industries. The COVID-19 pandemic along with energy demand and supply disruption has led to significant commodity price volatility and restricted capital market access in some cases for these industries; however, there has been no material negative impact to the Corporation as a result of these events. There may be exposure to long-term downturns in energy commodity prices and economic instability from these events 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 December 31, 2020 and 2019, 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 rated A-, A3, or A Low or better, minimizing the risk of non-performance by counter parties.

#### 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 (loss) gain in the accompanying consolidated statement of income. Management does not believe that the exposure to foreign currency transactions is significant.

# **TRANS MOUNTAIN CORPORATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **18. Risk Management and Financial Instruments (*continued*)**

#### ***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 loans from parent. See Note 15. Given the significant expenditures expected in connection with the TMEP, TMC will require the continued availability of future financing from TMP Finance in order to proceed with the project.

#### ***Interest Rate Risk***

The Corporation does not have significant exposure to interest rate risk as loans from its parent are at fixed interest rates and there were no floating interest rate instruments throughout the period or at the balance sheet date. As such, exposure to interest rate risk would arise on refinancing.

#### ***Significant Shippers***

For the year ended December 31, 2020, there were five customers that each individually represented between 11-16% of total revenue. For the year ended December 31, 2019, there were six customers that each individually represented between 11-18% of total revenue.

#### ***Fair Value Measurements***

Financial assets or liabilities measured at fair value are not carried on a recurring basis, other than the Trust described in Note 14. The fair value of financial instruments reflects management's best estimate of market value based on generally accepted valuation techniques or models and are supported by observable market prices and rates. When such values are not available, a discounted cash flow analysis from applicable yield curves based on observable market inputs is used to estimate fair value.

#### ***Fair Value of Financial Instruments***

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The fair value of the financial instruments is classified according to the following hierarchy based on the observable inputs used to value the instrument:

- Level 1— inputs to the valuation methodology are quoted prices unadjusted for identical assets or liabilities in active markets;
- Level 2— inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (i.e. derived from prices); and
- Level 3 — inputs to the valuation model are not based on observable market data.

Fair value measurements are classified in the fair value hierarchy based on the lowest level input that is significant to that fair value measurement. This assessment requires judgment considering factors specific to an asset or liability and may affect placement within the fair value hierarchy. Level 1 is used for the fair value of cash, cash equivalents and restricted cash and level 2 is used for restricted investments. Due to the short-term or on demand nature of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities, the carrying amounts for these balances are determined to approximate fair value.

### **19. 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. Included in accounts payable were accruals of nil and \$0.3 million for outstanding legal proceedings as of December 31, 2020 and 2019, respectively.

## **TRANS MOUNTAIN CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **19. Litigation, Commitments and Contingencies (*continued*)**

##### ***TMEP Litigation***

The TMEP has been subject to various legal actions to challenge the federal government's approval of the TMEP.

On August 30, 2018, the Federal Court of Appeal ("FCA" or "the Court") released its judgment in the matter of Tsleil-Waututh Nation et al. v. Attorney General of Canada et al. ("Tsleil-Waututh"). In its decision, the Court quashed the Order in Council approving the TMEP and remitted the matter to the Governor in Council ("GIC") to remedy two areas: the scope of the NEB's (now known as the CER) review, and Phase III consultations with Indigenous peoples. On the scope of the NEB's review, the Court decided that the NEB's review of the TMEP unjustifiably excluded TMEP related shipping from the TMEP's definition. The Court determined the GIC must require the NEB to reconsider its recommendation and related conditions. On Phase III consultations with Indigenous peoples, the Court determined that the Government of Canada must re-do its Phase III consultations before the TMEP could be submitted again to the GIC for approval.

On February 22, 2019, the NEB released its Reconsideration Report, in which the NEB concluded that the TMEP is in the Canadian public interest. The NEB recommended that the GIC approve the TMEP subject to 156 conditions, which are measures that the NEB can enforce upon TMPL and the TMEP under its authority as regulator. The NEB's report also contained 16 recommendations to the GIC, which relate to items outside the scope of the NEB's authority and beyond the control of TMPL or the TMEP, but within the authority of the GIC. Management believes the conditions are reasonable and has incorporated these conditions into the TMEP project execution plan.

On June 18, 2019, the GIC issued a new Order in Council approving the TMEP and directing the NEB to grant a Certificate of Public Convenience and Necessity ("CPCN") for the TMEP. The NEB issued the amended CPCN on June 21, 2019, subject to 156 conditions. Further, following consideration of public comments, on July 19, 2019, the NEB issued its decision that it would rely on decisions and orders with respect to the TMEP that were issued prior to the FCA's decision in Tsleil-Waututh.

Twelve parties/groups filed motions with the FCA for leave (the "Leave Motions") to judicially review the new Order in Council re-approving the TMEP. In general, the Leave Motions argue that the NEB, the Government of Canada, and/or the GIC failed to comply with the FCA's decision in Tsleil-Waututh in the NEB's Reconsideration hearing and the Phase III consultation process. On September 4, 2019, the FCA dismissed six of the Leave Motions and granted Leave to Appeal for the other six applications. Two of the six parties for whom Leave to Appeal was granted withdrew from further proceedings with the FCA. Final argument was heard on December 16-18, 2019. The FCA released its decision on February 4, 2020, dismissing the applications of all four remaining applicants.

On November 4, 2019, five of the six applicants for whom the Leave Motions were dismissed by the FCA had filed appeals to the Supreme Court of Canada ("SCC"). On March 5, 2020 the SCC released its decision dismissing all Leave applications with costs.

Following the February 4, 2020 Decision of the FCA above, the four unsuccessful FCA applicants filed Leave Motions with the SCC on April 6, 2020 and Trans Mountain filed a Response opposing the Leave applications. On July 2, 2020 the SCC issued its decision dismissing all applications for Leave. This matter is now concluded.

## **TRANS MOUNTAIN CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **19. Litigation, Commitments and Contingencies (*continued*)**

##### ***TMEP Litigation (continued)***

In addition to the judicial reviews of the NEB Recommendation Report and GIC's order at the FCA, two judicial review proceedings were commenced at the Supreme Court of B.C. by the Squamish Nation and the City of Vancouver. The petitions alleged a duty and failure to consult or accommodate First Nations, and generally, among other claims, that the Province did not conduct a proper provincial environmental assessment before issuing the provincial Environmental Assessment Certificate ("EAC"). The Squamish and Vancouver judicial review proceedings were heard in October and November 2017, respectively, and on May 24, 2018, the court dismissed both proceedings. Appeals to the B.C. Court of Appeal ("BCCA") were filed by Vancouver and Squamish and were heard together on May 6 to May 8, 2019. The BCCA released its decision on September 17, 2019. The BCCA dismissed the applications to quash the EAC but allowed both appeals for the limited extent of remitting the conditions to the respective provincial Ministers for reconsideration and consequent adjustment in light of the changes the NEB made to its original report in the reconsideration. The BCCA stated that provincial authority did not extend to "order[ing] assessments that the [NEB] expressly refused to order" and must be limited to conditions within the province's jurisdiction. The Court dismissed all other claims including those related to additional provincial assessment, public consultation, and Indigenous consultation and accommodation. In April 2020 the BC Environmental Assessment Office ("EAO") announced a process for the reconsideration of any consequential adjustments. The EAO is preparing a draft report for the Ministers and has released a draft for public comment. After the public comment period ends, the EAO will prepare a final report for submission to the Ministers for consideration.

##### ***Commitments***

As of December 31, 2020 and 2019, irrevocable commitments related to property, plant, and equipment were \$168.4 million and \$186.2 million, respectively. These commitments were primarily related to the TMEP.

Other operating commitments as of December 31, 2020 and 2019 were \$5.1 million and \$2.4 million, respectively.

#### **20. Recent Accounting Pronouncements**

##### ***Accounting Standards Updates ("ASU") Not Yet Adopted as of December 31, 2020***

###### ***Financial Instruments — Topic 326***

On June 16, 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" followed by a series of related accounting standard updates (Collectively referred to as "Topic 326"). Topic 326 modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. Topic 326 will be effective as of January 1, 2022 and earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.

###### ***Income taxes — ASU No. 2019-12***

In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*." This ASU simplifies the accounting for income taxes by removing certain exceptions for recognizing deferred taxes and adds guidance to reduce complexity in certain areas. ASU No 2019-12 will be effective as of January 1, 2022, and earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.