



TRANS MOUNTAIN CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2022

Management's Responsibility for Financial Statements

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 28, 2023. 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, 2022, and financial performance and cash flows for the year ended December 31, 2022.

"signed"

Dawn Farrell
President & Chief Executive Officer
Trans Mountain Corporation

"signed"

Mark Maki
Chief Financial Officer
Trans Mountain Corporation

March 28, 2023



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada



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 2022, 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 2022, 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.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the consolidated financial statements which describes events or conditions that indicate the existence of a material uncertainty that may cast substantial doubt about the Corporation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

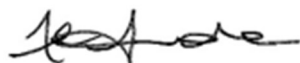
In our opinion, the transactions of Trans Mountain Corporation and its wholly-owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial 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.



Firyal Awada, CPA, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
28 March 2023



Chartered Professional Accountants

Calgary, Canada
28 March 2023

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

Year ended December 31,	2022	2021
Revenues <i>(Note 4)</i>	478,004	443,144
Expenses		
Pipeline operating costs	156,785	140,732
Depreciation and amortization <i>(Notes 8, 10)</i>	104,331	102,374
Salaries and benefits	91,062	79,208
Taxes, other than income taxes	36,900	33,789
Administration	6,604	8,195
	395,682	364,298
Operating income	82,322	78,846
Equity allowance for funds used during construction	704,334	373,981
Interest expense, net of capitalized debt financing costs <i>(Note 18)</i>	(82,352)	(87,756)
Other, net	1,934	873
Foreign exchange gain (loss)	1,835	(335)
Income before income taxes	708,073	365,609
Income tax expense <i>(Note 6)</i>	(174,076)	(92,332)
Net income	533,997	273,277

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)

Year ended December 31,	2022	2021
Net income	533,997	273,277
Other comprehensive income (loss), net of tax		
Currency translation adjustment	17,126	(444)
Pension and post-employment benefits (<i>Note 13</i>)	28,425	21,435
	45,551	20,991
Comprehensive income	579,548	294,268

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,	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	162,488	115,740
Accounts receivable	122,213	87,262
Other current assets (Note 7)	41,170	61,549
	325,871	264,551
Property, plant and equipment (Note 8)	24,205,240	14,562,231
Right-of-use asset	65,531	108,786
Regulatory assets (Note 15)	131,111	85,444
Goodwill (Note 9)	888,098	888,098
Restricted investments	90,481	96,263
Restricted cash	78,514	72,761
Deferred amounts and other assets (Note 10)	198,220	210,288
Total Assets	25,983,066	16,288,422
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 11)	1,099,574	887,187
Interest payable	19,664	-
Regulatory liabilities (Note 15)	80,228	81,818
Other current liabilities (Note 12)	40,175	71,893
	1,239,641	1,040,898
Debt (Note 16)	15,052,768	7,552,600
Long term interest payable (Note 17)	36,808	-
Deferred income taxes (Note 6)	914,294	729,570
Regulatory liabilities (Note 15)	92,556	100,026
Pension and post-employment benefits (Note 13)	51,166	74,637
Lease liabilities (Note 5)	48,873	56,207
Other deferred credits (Note 14)	7,918	10,240
Total Liabilities	17,444,024	9,564,178
Equity	8,539,042	6,724,244
Total Liabilities and Equity	25,983,066	16,288,422

Going concern (Note 2)

Litigation, commitments and contingencies (Note 21)

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)

Year ended December 31,	2022	2021
Operating activities		
Net income	533,997	273,277
Items not affecting cash		
Depreciation and amortization	104,331	102,374
Equity allowance for funds used during construction	(704,334)	(373,981)
Deferred income tax expense (Note 6)	174,484	90,674
Changes in non-cash working capital items (Note 19)	61,817	(78,183)
Total Cash and cash equivalents and Restricted cash provided by operating activities	170,295	14,161
Investing activities		
Capital expenditures	(8,464,148)	(4,950,351)
Insurance proceeds (Note 21)	24,495	-
Internal-use software expenditures	(10,981)	(1,012)
Purchase of restricted investments	(16,162)	(10,237)
Total Cash and cash equivalents and Restricted cash used in investing activities	(8,466,796)	(4,961,600)
Financing activities		
Issuances of debt	8,709,750	2,725,250
Repayment of debt (Note 17)	(1,595,000)	-
Capital contributions (Note 17)	1,235,250	2,229,750
Debt issuance costs	(2,553)	-
Total Cash and cash equivalents and Restricted cash provided by financing activities	8,347,447	4,955,000
Effects of exchange rate changes on Cash and cash equivalents and Restricted cash	1,555	749
Net increase in Cash and cash equivalents and Restricted cash	52,501	8,310
Cash and cash equivalents and Restricted cash, beginning	188,501	180,191
Cash and cash equivalents and Restricted cash, end	241,002	188,501
Cash and cash equivalents, beginning	115,740	104,454
Restricted cash, beginning	72,761	75,737
Cash and cash equivalents and Restricted cash, beginning	188,501	180,191
Cash and cash equivalents, end	162,488	115,740
Restricted cash, end	78,514	72,761
Cash and cash equivalents and Restricted cash, end	241,002	188,501

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 (loss)	Total Equity
Balance at December 31, 2020	2,064,150	1,885,500	281,195	(30,619)	4,200,226
Capital contributions (<i>Note 17</i>)	-	2,229,750	-	-	2,229,750
Net income	-	-	273,277	-	273,277
Other comprehensive income, net of tax	-	-	-	20,991	20,991
Balance at December 31, 2021	2,064,150	4,115,250	554,472	(9,628)	6,724,244
Capital contributions (<i>Note 17</i>)	-	1,235,250	-	-	1,235,250
Net income	-	-	533,997	-	533,997
Other comprehensive income, net of tax	-	-	-	45,551	45,551
Balance at December 31, 2022	2,064,150	5,350,500	1,088,469	35,923	8,539,042

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 His Majesty in Right of Canada and is an agent Crown corporation. TMC is subject to the provisions of Part X of the *Financial Administration Act* and the provisions of the *Income Tax Act*.

On April 25, 2022, the Governor General in Council, under subsection 7(1) of the Government Corporations Operation Act, issued a proclamation that the Government Corporations Operation Act no longer applies to Trans Mountain Corporation. This status change to a non-agent Crown corporation allows TMC to borrow from parties other than the Government of Canada. See Note 16 for details on debt.

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

The consolidated financial statements have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The going concern basis of presentation assumes that TMC will continue in operation for at least one year after the date the consolidated financial statements are issued and contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business.

The Corporation’s ability to continue as a going concern is dependent upon its ability to service its existing debt and fund the remaining construction costs of the TMEP. On February 18, 2022, the Deputy Prime Minister and Minister of Finance reaffirmed the government’s commitment to complete the TMEP; however, the Minister stated that TMC needed to secure external financing to fund the remaining costs of the project. On April 29, 2022, TMC entered into a one year facility with a syndicate of third party lenders for \$10.0 billion (the “Syndicated Facility”). As of December 31, 2022, there was \$7.2 billion drawn on the Syndicated Facility. Subsequent to year end, on March 24, 2023, the Syndicated Facility was amended and restated with a two year term facility for \$11 billion (the “Long-term Syndicated Facility”). However, in order to meet obligations as they become due, TMC will require additional funding through external financing. TMC expects the external financing will be obtained in a timely manner and on terms satisfactory to TMC. However, there is no assurance that external financing will be obtained. The above factors cause material uncertainty that casts substantial doubt as to TMC’s ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the carrying value of the assets and liabilities, the reported revenues and expenses (including the application of rate regulated accounting) or the balance sheet classifications that might be necessary if TMC was unable to obtain the necessary funds to service its existing debt and finance the remaining construction costs of the TMEP. Such adjustments could be material.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with 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, 2022. TMC believes that U.S. GAAP provides better comparability with industry peers and best reflects the economic effects of the actions of regulatory bodies on its operations. In preparing these 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 28, 2023. Subsequent events have been evaluated from December 31, 2022 to the date the consolidated financial statements were available for issue on March 28, 2023 and, other than the financing described in Note 16, there are no subsequent events which would require adjustment to the consolidated financial statements and related disclosures.

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.

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 are regulated by the Canada Energy Regulator ("CER", previously known as the National Energy Board) under the Canadian Energy Regulator Act. Puget's operations are regulated by the United States Federal Energy Regulatory Commission ("FERC") and the U.S. Department of Transportation ("U.S. DOT") for pipeline companies.

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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies *(continued)*

Regulation (continued)

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 15.

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.

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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies *(continued)*

Revenue Recognition (continued)

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).

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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies *(continued)*

Leases (continued)

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 5 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 13 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.

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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies *(continued)*

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.

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

Long-lived Asset Impairments

Long-lived assets, including property, plant and equipment as well as other intangibles are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset 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, 2022 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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies *(continued)*

Acquisitions and Goodwill (continued)

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 15 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 15 regarding pipeline abandonment surcharges retained in the Trust.

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 probable. Environmental liabilities assumed in a business combination are recorded at estimated fair value, where appropriate.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies *(continued)*

Environmental Matters (continued)

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, 2022 and 2021, there was \$7.9 million and \$8.0 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

Income taxes

Effective January 1, 2022, TMC adopted ASU No. 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*," on a prospective basis. The amendments simplify the accounting for income taxes by removing certain exceptions for recognizing deferred taxes and adding clarifications to existing guidance. The adoption of this accounting update did not have a material impact on the consolidated financial statements.

Accounting Standards Updates ("ASU") Not Yet Adopted as of December 31, 2022

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 timelier recognition of losses. Topic 326 will be effective as of January 1, 2023 and earlier adoption is permitted. Management is currently reviewing the effect of this ASU on the consolidated financial statements.

4. Revenue Recognition

Disaggregation of Revenues

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

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Transportation		
Fee-based services	400,518	338,118
Regulatory adjustment ^(a)	7,730	38,827
	408,248	376,945
Leases (Note 5)	67,127	63,619
Other	2,629	2,580
Total revenue	478,004	443,144

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

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. 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, 2022 and 2021, there were no contract assets recognized. Contract liabilities are substantially related to capital improvements paid for in advance by certain customers, generally in the Corporation's non rate regulated businesses, which are subsequently recognized as revenue on a straight-line basis over the initial term of the related customer contracts.

The following table presents the activity in contract liabilities:

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Opening balance	4,203	4,415
Additions	446	418
Transfer to revenues	(658)	(630)
Ending balance	3,991	4,203
Presented as:		
Other current liabilities	213	213
Other deferred credits	3,778	3,990
Total contract liabilities	3,991	4,203

Revenue Allocated to Remaining Performance Obligations

The following table presents the estimated revenue allocated to remaining performance obligations for contracted revenue that has not yet been recognized, representing the "contractually committed" revenue as of December 31, 2022 that will be invoiced or transferred from contract liabilities and recognized in future periods.

Year	Estimated Revenue
<i>(In thousands of Canadian dollars)</i>	
2023	41,451
2024	3,715
2025	213
2026	213
2027	213
Thereafter	2,927
Total	48,732

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

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. 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 82 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:

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Lease cost:		
Operating lease cost ^(a)	62,392	68,592
Short-term and variable cost	15,527	3,519
Total operating lease cost	77,919	72,111
Other information:		
Operating cash flows from operating leases	(4,098)	(3,293)
Investing cash flows from operating leases	(55,929)	(58,085)
Reduction in operating ROU assets	57,981	61,703
(a) Includes capitalized lease costs of \$59.1 million and \$65.4 million for the years ended December 31, 2022 and 2021, respectively		

The following table presents other information related to operating leases:

December 31,	2022	2021
Weighted-average remaining lease term	30.0 years	20.5 years
Weighted-average discount rate	4.44%	4.56%

Lease Maturity analysis

The operating lease payments under non-cancellable leases, excluding short-term leases, as of December 31, 2022 are as follows:

Year	Operating Lease Payments
<i>(In thousands of Canadian dollars)</i>	
2023	29,578
2024	5,711
2025	3,227
2026	2,903
2027	2,979
Thereafter	103,645
Total undiscounted cash flows	148,043
Less: imputed interest	(70,364)
Total operating lease liabilities	77,679
Presented as:	
Other current liabilities (Note 12)	28,806
Lease liabilities	48,873

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. 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 16 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 as their variability is 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.

The following table presents the lease income recognized. 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 4 for revenue details.

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Lease income from merchant tanks	67,127	63,619
Lease income from housing	267	234

The future undiscounted minimum operating lease payments to be received based on contractual agreements as of December 31, 2022 are as follows:

	Operating Lease Payments to be Received
<i>(In thousands of Canadian dollars)</i>	
2023	54,536
2024	47,559
2025	45,613
2026	43,699
2027	41,819
Thereafter	344,046
Total	577,272

The cost, accumulated depreciation, and net book value of property, plant and equipment that represent operating leases are as follows:

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Cost	510,539	510,174
Accumulated depreciation	(75,132)	(57,034)
Net book value	435,407	453,140

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Income Taxes

Components of the income tax provision are as follows:

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Current tax (recovery) expense	(408)	1,658
Deferred tax expense	174,484	90,674
Total income tax expense	174,076	92,332

The current and deferred tax rate was 24.67% for both 2022 and 2021. The difference between the statutory income tax and the effective income tax recognized is summarized below.

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Statutory income tax expense	174,682	90,196
Decrease (Increase) as a result of:		
Non-deductible expenditures	292	254
Foreign tax rate differential	(706)	(564)
Intercompany foreign dividend withholding tax	-	2,171
Other	(192)	275
Total income tax expense	174,076	92,332

Deferred tax assets and liabilities result from the following:

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Deferred tax assets		
Non-capital losses	312,853	202,496
Reserves	5,771	9,898
Total Deferred tax assets	318,624	212,394
Deferred tax liabilities		
Property, plant and equipment	(1,232,918)	(941,964)
Total deferred tax liabilities	(1,232,918)	(941,964)
Total deferred income taxes	(914,294)	(729,570)

Expiration Periods for Deferred Tax Assets: There were non-capital loss carryforwards of \$1.3 billion and \$0.8 billion as of December 31, 2022 and 2021, respectively, which will start to expire in 2037.

Unrecognized Tax Benefits: There were no unrecognized tax benefits as of December 31, 2022 and 2021.

7. Other Current Assets

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Prepaid expenses and deposits	16,904	11,780
Inventory	7,489	6,802
Regulatory assets (Note 15)	16,777	42,967
Total other current assets	41,170	61,549

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

December 31, <i>(In thousands of Canadian dollars)</i>	Useful Life in Years	2022	2021
Pipelines	30-64	1,256,593	1,160,162
Tanks and Station Equipment	5-51	1,925,377	1,904,719
Other	5-40	32,569	18,896
Accumulated depreciation, depletion, and amortization		(415,492)	(299,104)
		2,799,047	2,784,673
Construction work in progress		21,096,124	11,467,553
Land		310,069	310,005
Property, plant and equipment		24,205,240	14,562,231

Depreciation and amortization expense charged against property, plant and equipment was \$100.3 million for the year ended December 31, 2022 and \$99.1 million for the year ended December 31, 2021.

Equity AFUDC and capitalized debt financing costs charged against property, plant and equipment totaled \$704.3 million and \$446.4 million, respectively for the year ended December 31, 2022 and \$374.0 million and \$216.6 million, respectively for the year ended December 31, 2021, which was primarily related to the TMEP. See Note 3 for more details on the regulatory concept of AFUDC.

As of December 31, 2022, construction work in progress related to the TMEP was \$21.1 billion, compared to \$11.4 billion as of December 31, 2021.

9. Goodwill

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

A goodwill impairment test was performed as of December 31, 2022 and did not result in an impairment charge. The fair value of the reporting unit was estimated using an income-based approach based on discounted cash flows. The estimate of fair value required the use of significant unobservable inputs, including assumptions related to the discount rate, the timing and cost to complete the TMEP, and the extent cash flows will be re-contracted at the end of the initial TMEP term contracts, and therefore, the fair value is representative of a Level 3 fair value. The project cost estimate for the TMEP is \$30.9 billion and the project is expected to be in-service in the first quarter of 2024. For purposes of determining the fair value, the estimate of discounted cash flows included probability-weighted scenarios of various in-service dates for the TMEP. The estimate of discounted cash flows was determined using a discount rate of 8% which reflects the time value of money based on the risks associated with the Corporation's assets that have not otherwise been incorporated in the cash flow estimates.

Changes in these key assumptions would impact the fair value of the reporting unit which could result in impairment. In reference to a base valuation, sensitivity analysis of key assumptions was performed. An increase in the assumed discount rate by 50 basis points on the expected cash flows would reduce the fair value below the carrying value, resulting in a full impairment of the goodwill balance. A decrease in the percentage of re-contracted cash flows at the end of the initial TMEP term contracts of 10% would also reduce the fair value below the carrying value, resulting in a partial impairment of the goodwill balance. An increase in project costs by \$1.2 billion and a three month delay, while reducing the fair value, does not result in an impairment.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Deferred Amounts and Other Assets

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Prepaid construction advances	116,887	150,146
Internal-use software	24,892	17,894
Pension and post-employment benefits (Note 13)	19,971	7,403
Other recoverable assets	36,470	34,845
Total deferred amounts and other assets	198,220	210,288

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, 2022 and 2021 was \$4.0 million and \$3.3 million, respectively. Accumulated depreciation and amortization on internal-use software as of December 31, 2022 and 2021 was \$9.3 million and \$5.3 million, respectively.

11. Accounts Payable and Accrued Liabilities

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Trade accounts payable and other accrued liabilities	135,852	107,247
Property, plant and equipment accrued liabilities and contractor retainage	963,722	779,940
Total accounts payable and accrued liabilities	1,099,574	887,187

12. Other Current Liabilities

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Operating lease liabilities (Note 5)	28,806	62,361
Environmental accrual	7,461	6,419
Pension and post-employment benefits (Note 13)	1,634	1,440
Contract liabilities and other deferred revenue	955	557
Finance lease liabilities	1,319	1,116
Total other current liabilities	40,175	71,893

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. 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, 2021. 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, 2022.

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 2022-2023 and the 2019-2021 Incentive Toll Settlement ("ITS").

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. 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	
	2022	2021	2022	2021
Change in benefit obligation:				
Benefit obligation, opening	314,919	328,558	18,055	21,330
Service cost	13,352	12,478	563	570
Interest cost	8,721	6,901	489	433
Actuarial (gain) loss	(75,710)	(25,629)	(4,418)	(3,575)
Benefits paid	(12,421)	(10,265)	(712)	(703)
Participant contributions	4,071	3,550	-	-
Expenses paid	(748)	(674)	-	-
Benefit obligation, ending	252,184	314,919	13,977	18,055
Change in plan assets:				
Fair value of plan assets, opening	264,300	254,861	-	-
Return on plan assets	(31,251)	7,724	-	-
Employer contributions	9,381	9,379	712	703
Participant contributions	4,071	3,550	-	-
Benefits paid	(12,421)	(10,265)	(712)	(703)
Expenses paid	(748)	(674)	-	-
Adjustments	-	(275)	-	-
Fair value of plan assets, ending	233,332	264,300	-	-
Funded status – net liabilities	18,852	50,619	13,977	18,055
Presented as follows:				
Non-current benefit asset ^(a)	19,971	7,403	-	-
Current benefit liabilities ^(b)	(839)	(665)	(795)	(775)
Non-current benefit liabilities ^(c)	(37,984)	(57,357)	(13,182)	(17,280)
Total net liabilities	(18,852)	(50,619)	(13,977)	(18,055)

(a) Amounts included in "Deferred amounts and other assets" on the consolidated balance sheet (Note 10).

(b) Amounts included in "Other current liabilities" on the consolidated balance sheet (Note 12).

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

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Post-employment Benefits *(continued)*

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

As of December 31, 2022, the most significant source of actuarial gains was the increase in the applicable bond yields used to determine the present value of obligations. These gains were offset by lower than expected asset returns. There were also less significant changes due to refreshed census data as of December 31, 2021 for all plans. As of December 31, 2021, the most significant source of actuarial gains was the increase in the applicable bond yields used to determine the present value of obligations. These gains were offset by lower than expected asset returns. There were also less significant changes due to refreshed census data as of December 31, 2020 for the Legacy and TMCI registered pension plans.

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

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Fair value of plan assets	233,332	264,300
Accumulated benefit obligation	229,235	283,469
Funded status – plan surplus (deficit)	4,097	(19,169)

Certain plans included in the above have an accumulated benefit obligation in excess of the fair value of plan assets. These plans included the Legacy supplemental pension plan and the TMCI supplemental pension plan as of December 31, 2022 and 2021. For these plans, the total projected benefit obligation, accumulated benefit obligation and fair value of plan assets were as follows:

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Fair value of plan assets	4,000	3,934
Projected benefit obligation	42,823	49,517
Accumulated benefit obligation	37,007	41,430

Certain plans have a projected benefit obligation in excess of the fair value of plan assets. These plans included the Legacy supplemental pension plan and the TMCI supplemental pension plan as of December 31, 2022 and the Legacy supplemental pension plan, the TMCI registered pension plan, and the TMCI supplemental pension plan as of December 31, 2021. For these plans, the projected benefit obligation and fair value of plan assets were as follows:

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Fair value of plan assets	4,000	156,215
Projected benefit obligation	42,823	214,237

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Post-employment Benefits *(continued)*

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:

December 31, <i>(In thousands of Canadian dollars)</i>	Pension		OPEB	
	2022	2021	2022	2021
Unrecognized net actuarial gain	(33,409)	(416)	(5,597)	(1,181)
Unrecognized prior service cost	2,344	2,669	-	-
Accumulated other comprehensive (income) loss	(31,065)	2,253	(5,597)	(1,181)

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.

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, 2022 and 2021, the target asset allocation for the Legacy plans was 95% fixed income and 5% equity and the target allocation for the TMCI plans was 40% fixed income, 50% equity, and 10% real estate investments.

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.

December 31, <i>(In thousands of Canadian dollars)</i>	2022	2021
Measured within Level 1 of fair value hierarchy		
Cash	4,914	7,004
Mutual funds (a)	211,374	244,753
Measured within Level 2 of fair value hierarchy		
Real estate investment funds	17,044	12,543
Total plan assets	233,332	264,300

(a) Mutual funds were invested in approximately 65% fixed income and 35% equity as of December 31, 2022 and 2021.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Pension and Post-employment Benefits (continued)

Plan Assets (continued)

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 2 are real estate investment funds for which the fair value is determined using inputs other than quoted prices included in Level 1 that are observable for the assets.

Expected Payment of Future Benefits and Employer Contributions

Following are the expected future benefit payments as of December 31, 2022:

Year	Pension	OPEB
<i>(In thousands of Canadian dollars)</i>		
2023	12,845	795
2024	13,519	817
2025	13,933	833
2026	14,307	842
2027	14,671	854
2028-2032	76,453	4,502

In 2023, employer contributions are expected to be approximately \$11.1 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	
	2022	2021	2022	2021
Assumptions related to benefit obligations:				
Discount rate	5.27%	3.20%	5.27%	3.23%
Rate of compensation increase	3.75% (a)	3.50%	N/A	N/A
Assumptions related to benefit costs:				
Discount rate for benefit obligations	3.20%	2.61%	3.23%	2.64%
Discount rate for interest on benefit obligations	2.82%	2.14%	2.77%	2.07%
Discount rate for service cost	3.33%	2.79%	3.41%	2.88%
Discount rate for interest on service cost	3.07%	2.46%	3.33%	2.74%
Expected return on plan assets	4.36%	3.51%	N/A	N/A
Rate of compensation increase	3.50%	3.50%	N/A	N/A

(a) The rate of compensation increase assumed in determining the defined benefit obligation as of December 31, 2022 is 5.00% for 2023 and 3.75% thereafter.

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 5.14% gradually decreasing to 4.00% by the year 2040.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. 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 pre-tax other comprehensive income related to the pension and OPEB plans for the years ended December 31, 2022 and 2021 are presented in the table below.

	Pension		OPEB	
Year ended December 31,	2022	2021	2022	2021
<i>(In thousands of Canadian dollars)</i>				
Components of net benefit cost:				
Service cost	13,352	12,478	563	570
Interest cost	8,721	6,901	489	433
Expected return on plan assets	(11,469)	(9,031)	-	-
Amortization of prior service cost	325	325	-	-
Amortization of net loss	-	467	-	32
Net benefit cost	10,929	11,140	1,052	1,035
Other changes recognized in other comprehensive income:				
Net gain arising during the year	(32,993)	(24,056)	(4,416)	(3,575)
Amortization of prior service cost	(325)	(325)	-	-
Amortization of net loss	-	(467)	-	(32)
Total recognized in total other comprehensive income	(33,318)	(24,848)	(4,416)	(3,607)
Total recognized in net benefit cost and other comprehensive income	(22,389)	(13,708)	(3,364)	(2,572)

14. Other Deferred Credits

December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Contract liabilities and other deferred revenue	3,779	4,739
Environmental liabilities	399	1,605
Finance lease liabilities	3,740	3,896
Total other deferred credits	7,918	10,240

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. 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,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Bulk oil cargo fee	311	733
Under-collections of transportation revenue and capacity incentives	16,466	42,234
Total current regulatory assets (Note 7)	16,777	42,967
Under-collections of transportation revenue	-	476
Bulk oil cargo fee - TMEP	131,111	84,968
Total non-current regulatory assets	131,111	85,444
Total regulatory assets	147,888	128,411
Westridge dock premiums	72,840	76,556
Over-collections of transportation revenue	2,244	1,666
Redirect fee	5,144	3,596
Total current regulatory liabilities	80,228	81,818
Pipeline abandonment surcharge	92,556	100,026
Total non-current regulatory liabilities	92,556	100,026
Total regulatory liabilities	172,784	181,844

Under/Over-collections of transportation revenue and capacity incentives

For 2022 and 2021, tolls were governed by the terms of the 2022 - 2023 Incentive Toll Settlement ("ITS") and the 2019 - 2021 ITS, respectively. The ITS is a negotiated settlement between TMP LP and its shippers, as approved by 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 CER 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

15. Accounting for Regulatory Activities (*continued*)

Westridge dock premium

On April 12, 2006, the CER 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, 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 CER. The use of amounts in the Trust is restricted to pay for future abandonment costs.

16. Debt

The carrying value of debt included in the consolidated balance sheet is as follows:

December 31,	2022	2021
(In thousands of Canadian dollars)		
Syndicated Facility	7,200,000	-
Credit Agreement with parent		
Acquisition Facility	2,506,350	2,506,350
Construction Facility	5,346,418	5,046,250
Total Debt	15,052,768	7,552,600

Credit Agreement with Parent

TMC has a credit agreement with TMP Finance dated August 29, 2018 (the "Credit Agreement") which includes an "Acquisition Facility", a non-revolving term loan facility, and a "Construction Facility", a revolving construction credit facility to be used primarily to finance the TMEP construction. See Note 17 for further details on transactions with related parties. The facilities have an interest rate of 5% on amounts drawn. The facilities mature on the earlier of the maturity date, which is August 29, 2025, and in the event of certain changes in ownership. There are no financial covenants under the Credit Agreement.

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

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

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Debt (continued)

Syndicated Facility

On April 29, 2022, TMC entered into a one year senior unsecured revolving facility for \$10.0 billion with a syndicate of lenders (the "Syndicated Facility"). The Syndicated Facility expires April 29, 2023, contains a six month extension option and includes a guarantee provided by the Government of Canada. See Note 17 for details on the guarantee. Borrowings under the Syndicated Facility bear interest at the Canadian Prime rate or the Canadian Dollar Offered Rate ("CDOR") plus applicable margins and a commitment fee of 0.04% on the unadvanced portion of the facility. Initial proceeds of \$1.6 billion drawn from the facility were used to repay advances provided by TMP Finance after February 18, 2022.

Subsequent to year end, on March 24, 2023, the Corporation amended and restated the Syndicated Facility with a two year senior unsecured Equator Principles 4 ("EP4") compliant revolving facility for a total of \$11.0 billion with a syndicate of lenders (the "Long-term Syndicated Facility"), which includes a letter of credit facility of \$100 million. EP4 is a risk management framework adopted by financial institutions for identifying, assessing, and managing environmental and social risks in development projects. The Long-term Syndicated Facility matures on March 24, 2025 and allows TMC to request certain extension terms up to August 31, 2025. It also includes a guarantee provided by the Government of Canada with associated fees.

17. Transactions with Related Parties

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

Funding from Parent

In addition to the credit agreements in Note 16, TMC also has a funding agreement with TMP Finance dated August 30, 2018 as amended most recently on March 31, 2022 (the "Funding Agreement") under which cash proceeds of each funding request are comprised of 55% debt funding in accordance with the Credit Agreement and 45% equity funding.

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

The following table presents transactions with TMP Finance:

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Issuances of debt ^(a)	1,895,168	2,725,250
Repayment of debt	(1,595,000)	-
Capital contributions	1,235,250	2,229,750
Interest and commitment fees on debt	394,237	309,648

(a) Issuances for the year ended December 31, 2022 include interest and commitment fees of \$385.4 million incurred under the Credit Agreement, paid in kind semiannually and added to the Construction Facility principal.

Guarantee from the Government of Canada

The Government of Canada has provided TMC with a guarantee in relation to its Syndicated Facility (see Note 16). In exchange for this guarantee, TMC pays a fee of 5% per annum less the daily weighted average interest rate per annum payable by TMC in accordance with the Syndicated Facility. For the years ended December 31, 2022 and 2021, TMC incurred \$36.8 million and nil in guarantee fees, respectively. Guarantee fees are included in interest expense and are payable on August 31, 2025, or upon events of default. As of December 31, 2022 and 2021, the guarantee fee payable was \$36.8 million and nil, respectively, and recorded in "Long term interest payable."

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Interest Expense, Net of Capitalized Debt Financing Costs

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Interest, guarantee, and commitment fees on debt		
Syndicated Facility (Note 16)	108,426	-
Credit Agreement with parent (Note 17)	394,237	309,648
Guarantee fee due to Government of Canada (Note 17)	36,808	-
Capitalized debt financing costs	(446,425)	(216,569)
Interest income and other	(10,694)	(5,323)
Total interest expense, net of capitalized debt financing costs	82,352	87,756

19. Supplemental Cash Flow Information

The following table presents the changes in operating non-cash working capital:

	(Increase)/ Decrease in Operating Working Capital	
Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Accounts receivable	(31,852)	(3,476)
Deferred amounts and other assets	21,407	(23,706)
Regulatory assets	(45,667)	(23,015)
Accounts payable and accrued liabilities	28,675	9,609
Interest payable ^(a)	74,020	-
Pension and post-employment benefits	1,889	2,102
Regulatory liabilities	12,884	(44,373)
Lease liabilities	2,365	7,195
Other liabilities and deferred credits	(1,904)	(2,519)
Total	61,817	(78,183)

(a) The decrease in operating working capital related to interest includes paid in kind interest on the Credit Agreement with TMP Finance. Refer to Note 16.

The following table presents other cash flow information:

Year ended December 31,	2022	2021
<i>(In thousands of Canadian dollars)</i>		
Interest and Income Taxes Paid		
Cash interest paid, net of amounts capitalized	18,771	93,299
Cash (refunded) paid for income taxes	(452)	1,664
Non-cash Investing and Financing Activities		
Increase in non-cash property, plant and equipment due to accruals and contractor advances	217,008	359,214
Increase in non-cash property, plant and equipment due to capitalized debt financing costs	367,738	-
Increase (decrease) in property, plant and equipment due to foreign currency translation	16,230	(1,165)
Right-of-use assets obtained in exchange for new lease obligations	15,825	99,105
Issuances of debt for interest and commitment fees paid in kind	385,418	-

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Risk Management and Financial Instruments

Credit Risk

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

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

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

Foreign Currency Transactions and Translation

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

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet financial obligations, including commitments, as they become due. Liquidity risk is managed by ensuring access to sufficient funds to meet obligations. Cash requirements are forecasted to ensure funding is available to settle financial liabilities when they become due. The primary sources of liquidity and capital resources are funds generated from operations and issuance of debt. See Note 16 for details on debt. Given the significant ongoing expenditures expected in connection with the TMEP, TMC will require additional financing in order to complete the project and service its existing debt as further described in Note 2.

Interest Rate Risk

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

Significant Shippers

For the year ended December 31, 2022, there were six customers that each individually represented between 13-17% of total revenue. For the year ended December 31, 2021, there were six customers that each individually represented between 10-17% 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 15. 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.

TRANS MOUNTAIN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

21. Litigation, Commitments and Contingencies

Legal Proceedings

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

TMEP Litigation

In 2021, following the Corporation's termination of the general construction contract (the "Contract") with the general construction contractor for Spreads 1, 4B and 6 (the "GCC"), the GCC provided the Corporation with a Dispute Claim in relation to amounts it claims are owed pursuant to the Contract resulting from the termination. The Corporation responded with a position that the Corporation is entitled to reimbursement from the GCC for the costs incurred resulting from the events leading to the termination. In 2022, the Corporation filed a notice of dispute, and both parties have stated their positions; however, the final settlement amount cannot be reasonably estimated.

Commitments

As of December 31, 2022 and 2021, irrevocable commitments related to property, plant, and equipment were \$47.4 million and \$66.6 million, respectively. These commitments were primarily related to the TMEP.

Other operating commitments as of December 31, 2022 and 2021 were \$8.5 million and \$6.3 million, respectively.

Flood Insurance Proceeds

In the fourth quarter of 2021, there was widespread flooding in British Columbia and Washington State, which resulted in financial losses, including damage to TMC's assets and delays to the TMEP construction. During the year ended December 31, 2022, insurance proceeds of \$30.3 million were recognized. The amount represents funds received or receivable from insurance providers related to interim settlements on the flood related claims of which \$27.2 million was recognized as a recovery of capital costs on rate-regulated assets and \$3.1 million was recognized as a recovery within "Pipeline operating costs" in the consolidated statement of income. The amount and timing of any future insurance proceeds cannot be reasonably estimated.