

**TRUST FUND FOR ABANDONMENT OF THE PIPELINE
ASSETS OF TRANSCANADA PIPELINES LIMITED**

TRUST FUND FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019



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INDEPENDENT AUDITORS' REPORT

To the Trustees of the Trust Fund for Abandonment of the Pipeline Assets of TransCanada PipeLines Limited

Opinion

We have audited the financial statements of the Trust Fund for Abandonment of the Pipeline Assets of TransCanada PipeLines Limited (the "Entity"), which comprise the statement of net assets as at December 31, 2020, the statement of operations and changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its results of operations for the year then ended in accordance with U.S. generally accepted accounting principles.

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 Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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.

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

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



In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 Entity'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 Entity'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 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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

KPMG LLP

Chartered Professional Accountants

April 15, 2021
Calgary, Canada

STATEMENT OF NET ASSETS

<i>at December 31 (thousands of Canadian \$)</i>	2020	2019
Assets		
Cash and cash equivalents	12,553	15,861
Contributions receivable (Note 3)	10,181	10,233
Interest receivable	1,258	1,537
Investments (Note 5)	1,004,060	808,846
	1,028,052	836,477
Liabilities		
Accounts payable (Note 6)	5,374	19,322
Deferred tax liabilities (Note 7)	9,123	749
	14,497	20,071
Net Assets	1,013,555	816,406

The accompanying notes to the trust fund statements are an integral part of these statements.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

<i>year ended December 31 (thousands of Canadian \$)</i>	2020	2019
Income		
Interest income	10,594	15,636
Dividend income	7,924	4,324
Change in fair value of investments		
Realized gains on sale of investments	11,331	34,516
Unrealized gains on investments	72,819	17,298
	102,668	71,774
Expenses		
Administrative expense	(1,864)	(1,073)
Income before income taxes	100,804	70,701
Current income tax expense (Note 7)	(5,356)	(9,579)
Deferred income tax expense (Note 7)	(8,374)	(749)
Net Income	87,074	60,373
Contributions (Note 3)	110,075	136,736
Change in Net Assets during the year	197,149	197,109
Net Assets, Beginning of Year	816,406	619,297
Net Assets, End of Year	1,013,555	816,406

The accompanying notes to the trust fund statements are an integral part of these statements.

1. DESCRIPTION OF TRUST FUND

Commencing January 1, 2015, TransCanada PipeLines Limited (TCPL or the Company) is required by the Canada Energy Regulator (CER), formerly the National Energy Board (NEB), to collect funds to cover estimated future pipeline abandonment costs. The requirement to collect funds is in accordance with directions from the MH-001-2013 Decision that approved set-aside and collection mechanisms for abandonment cost funding for CER regulated pipeline companies. The CER approves amounts to be collected by the Company from its shippers in respect of estimated future pipeline abandonment costs. Amounts collected by the Company are used to fund the trust (Trust Fund) that holds and invests these funds.

The Company is the beneficiary of the Trust Fund, however, the Company may only access the funds held by the Trust Fund with approval of the CER.

The Canadian Imperial Bank of Commerce is the trustee, custodian and investment manager of the Trust Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

These financial statements present the information of the Trust Fund as a separate reporting entity independent of the Company. They are prepared for regulatory purposes only, in accordance with United States generally accepted accounting principles (GAAP). The Trust Fund is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies. The Trust Fund financial statements do not portray the funding requirements of abandoning the pipeline.

b. Use of Estimates and Judgment

In preparing these financial statements, TCPL is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses since the determination of these items may be dependent on future events. The Company uses the most current information available and exercises careful judgment in making these estimates and assumptions. Actual results could differ from those estimates.

c. Cash and Cash Equivalents

The Trust Fund's Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less and are recorded at cost, which approximates fair value.

d. Financial Instruments

All of the Trust Fund's investments, receivables and payables are non-derivative financial instruments. Cash and cash equivalents, Contributions receivable, Interest receivable and Accounts payable have carrying amounts that approximate their fair value due to the nature of the item or the short time to maturity. The Trust Fund's investments are designated and recorded at fair value on the Statement of Net Assets. Fair value disclosures relating to these investments are included in Note 8 of these Trust Fund financial statements. Purchases and sales of investments are recorded as of the trade date. Transactions that have not been settled are reflected in the Statement of Net Assets as receivables or payables. Changes in fair value are recognized in the Statement of Operations and Changes in Net Assets.

e. Interest Income

Interest income on investments represents coupon interest and is recorded when earned.

f. Dividend Income

Dividend income on investments represents dividends earned and is recorded when earned.

g. Net Realized Gains and Losses on Sale of Investments

Net realized gains and losses on the sale of investments are the differences between the net proceeds received and the cost of investments sold.

h. Net Unrealized Gains and Losses on Investments

Net unrealized gains and losses arise from changes in the fair value of investments.

i. Foreign Currency Translation

Purchases and sales of foreign securities are converted to Canadian dollar amounts at the prevailing rate of exchange on respective transaction dates. All assets and liabilities of the Trust denominated in foreign currencies are translated into Canadian dollar amounts based on the end-of-period exchange rate.

Foreign currency differences arising on translation are recognized in Unrealized gains on investments in the Statement of Operations and Changes in Net Assets.

j. Administrative Expense

Administrative expense includes administration fees and audit costs incurred by the Company and paid or payable by the Trust Fund.

k. Income Taxes

The Trust Fund is a Qualifying Environmental Trust as defined in the Canadian Income Tax Act (Income Tax Act) and is subject to income taxes on earnings from the Trust pursuant to Part XII.4 of the Income Tax Act. The Trust Fund uses the asset and liability method of accounting for income taxes. This method requires the recognition of deferred income tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates at the statement of net assets date that are anticipated to apply to taxable income in the years in which temporary differences are expected to be reversed or settled. Changes to these balances are recognized in net income in the period in which they occur.

3. CONTRIBUTIONS AND DISTRIBUTIONS

The Company contributes amounts to the Trust Fund which are collected from shippers through abandonment surcharges as approved by the CER. At December 31, 2020, the Trust Fund accrued approximately \$10 million of Contributions receivable from the Company (2019 - \$10 million). This represents amounts to be billed for December transportation services that have been collected from the shippers and subsequently contributed to the Trust Fund in January 2021.

Distributions from the Trust Fund are subject to CER approval and are restricted for use towards abandonment activities. For the years ended December 31, 2020 and 2019, no funds were distributed to the Company from the Trust Fund.

4. CAPITAL DISCLOSURES

The Trust Fund defines capital as all investments including cash and cash equivalents. The Trust Fund's objective is to accumulate assets in a consistent and rational manner over the useful life of the pipeline so that funds are available to meet the pipeline's future pipeline abandonment obligations.

The trustee is responsible for ensuring that the assets of the Trust Fund are managed in accordance with the Statement of Investment Policies and Procedures (SIPP) which was initially approved by the NEB in decision MH-001-2013. A revised SIPP was submitted to the NEB on April 26, 2019 and approved in order TG-005-2019.

5. INVESTMENTS

The following table summarizes the investments held by the Trust Fund:

			2020		2019	
<i>at December 31 (thousands of Canadian \$)</i>	Coupon Rates	Maturity Dates	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents						
Cash and cash equivalents	N/A	N/A	6,267	6,267	13,689	13,689
Cash in foreign currency ¹	N/A	N/A	6,553	6,286	2,191	2,172
			12,820	12,553	15,880	15,861
Fixed income securities - Canadian government bonds						
	1.50 %	2024	—	—	18,048	17,854
	1.95 %	2025	—	—	21,172	20,933
	2.25 %	2025	—	—	68,612	67,604
	2.55 %	2025	—	—	37,518	36,999
	0.25 %	2026	32,878	32,966	—	—
	1.50 %	2026	26,983	28,045	29,778	29,361
	1.90 %	2026	45,031	46,951	33,443	32,920
	1.00 %	2027	17,448	18,616	25,345	24,895
	2.35 %	2027	31,109	32,984	35,776	35,152
	8.00 %	2027	4,371	4,423	4,371	4,298
	2.00 %	2028	22,198	23,265	40,364	39,552
	2.35 %	2028	14,745	15,372	13,939	13,669
	2.65 %	2028	50,255	53,192	44,700	43,875
	2.10 %	2029	37,099	39,420	30,267	30,030
	2.25 %	2029	22,547	23,864	41,906	40,971
	3.63 %	2029	2,512	2,651	2,512	2,463
	5.75 %	2029	46,359	47,336	44,170	42,825
	0.50 %	2030	50,390	50,688	—	—
	1.25 %	2030	89,020	87,871	—	—
	1.75 %	2030	65,320	65,008	—	—
			558,265	572,652	491,921	483,401
Global equity index funds	N/A	N/A	366,199	431,408	310,396	325,445
			924,464	1,004,060	802,317	808,846
Total investments			937,284	1,016,613	818,197	824,707

^{1.} The cost for cash in foreign currency represents historical translation amount in Canadian dollars.

6. ACCOUNTS PAYABLE

The following table summarizes the Trust Fund's accounts payable:

<i>at December 31 (thousands of Canadian \$)</i>	2020	2019
Securities purchased	—	9,725
Income tax payable	5,356	9,579
Administrative expense payable	18	18
	5,374	19,322

7. INCOME TAXES

The following table presents a reconciliation of income tax expense:

<i>year ended December 31 (thousands of Canadian \$)</i>	2020	2019
Income before income taxes	100,804	70,701
Federal and provincial statutory income tax rate	24.0 %	26.5 %
Expected income tax expense	24,188	18,736
Non-taxable gains on investments	(10,095)	(6,865)
Alberta rate change	(363)	(87)
Decrease in valuation allowance	—	(1,456)
Income Tax Expense	13,730	10,328

As at December 31, 2020, deferred income tax liabilities totaled \$9 million (December 31, 2019 - \$1 million) for unrealized gains on investments. Income tax payments of \$10 million were made in 2020 (2019 - \$4 million).

The Trust is resident in Alberta and pays tax at a rate of 24.0 per cent (15.0 per cent Federal, 9.0 per cent Alberta) in 2020 (2019 - 26.5 per cent) on its income earned. In December 2020, a reduction to the Alberta corporate tax rate, effective July 1, 2020, was enacted and resulted in a decrease in net deferred income tax liabilities.

The Trust is not able to carry forward net capital losses as these losses are allocated to the beneficiary in the year sustained. As a result, the Trust cannot recognize a deferred income tax asset related to net capital losses.

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Trust Fund's investments are governed by the SIPP which outlines investment guidelines and monitoring procedures appropriate to the objectives of the Trust Fund.

The investments held by the Trust Fund are exposed to financial risks which can include market risk (consisting of interest rate risk, equity price risk and foreign currency risk), and counterparty credit risk. These risks are managed by maintaining and following the SIPP which provides guidelines for the asset mix of the investment portfolio regarding equity market exposure.

a. Market Risk

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate as a result of changes in market conditions, and consists of the following:

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fixed income securities held by the Trust Fund are directly exposed to interest rate risk.

The following table summarizes the fair value of fixed income securities held by the Trust Fund, by maturity dates, as well as the average effective yield by class of investment:

<i>at December 31 (thousands of Canadian \$)</i>	2020		2019	
	Fair Value	Average Effective Yield	Fair Value	Average Effective Yield
Canadian government bonds (maturing before 5 years)	—	—	17,854	1.68 %
Canadian government bonds (maturing 5 to 10 years)	572,652	0.72 %	465,547	1.88 %
	572,652		483,401	

Equity Price Risk

Equity price risk is the risk that the value of an equity investment will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or by other factors affecting all instruments traded in the market. Global equity index funds held by the Trust Fund are exposed to equity price risk which is managed by limiting amounts invested in equity holdings, in accordance with the SIPP. At December 31, 2020, the Trust Fund held \$431 million (2019 - \$325 million) in global equity index funds.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Foreign currency-denominated cash and cash equivalents and foreign equity index funds held by the Trust Fund are exposed to foreign currency risk. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value and future cash flows of these investments. Foreign currency risk is managed by limiting the Trust Fund's investment in foreign securities, in accordance with the SIPP. At December 31, 2020, the Trust Fund held \$431 million (2019 - \$325 million) in foreign currency-denominated equity index funds and \$6 million (2019 - \$2 million) in U.S. dollar-denominated cash.

b. Counterparty Credit Risk

Counterparty credit risk represents the financial loss the Company would experience if a counterparty to a financial instrument failed to meet its obligations in accordance with the terms and conditions of the related contract or agreement with the Trust Fund. Investments of the Trust Fund are exposed to counterparty credit risk through bonds and money market instruments. This risk is managed through the SIPP that limits the Trust Fund's debt investments exclusively to instruments that have an investment grade rating with a prescribed rating agency at the time of purchase. The Trust Fund's investments in Canadian government bonds minimize its exposure to counterparty credit risk.

c. Fair Value of Financial Instruments

When fair value measurements are required for the Trust Fund's financial assets and liabilities, they are classified into one of three categories based on the fair value hierarchy below.

In Level I, the fair value of assets and liabilities is determined by reference to quoted prices in active markets for identical assets and liabilities that the Trust Fund has the ability to access at the measurement date.

In Level II, determination of the fair value of assets and liabilities is based on the extrapolation of inputs, other than quoted prices included within Level I, for which all significant inputs are observable directly or indirectly. Such inputs include published exchange rates, interest rates, interest rate swap curves, yield curves, and broker quotes from external data service providers. Transfers between Level I and Level II would occur when there is a change in market circumstances.

In Level III, the fair value of assets and liabilities is determined using a market approach based on inputs that are unobservable or where observable data does not support a significant portion of the overall fair value measurement. Assets and liabilities measured at fair value can fluctuate between Level II and Level III depending on the proportion of the value of the contract that extends beyond the time frame for which inputs are considered to be observable. As contracts near maturity and observable market data become available, the contracts are transferred out of Level III and into Level II.

The Trust Fund's Investments in fixed income securities are recorded at fair value which is based on the extrapolation of inputs including interest rates and yield curves, and are classified in Level II of the fair value hierarchy. The Trust Fund's investments in global equity index funds are recorded at fair value which is determined by reference to quoted prices in active markets for identical assets at the measurement date, and are classified in Level I of the fair value hierarchy. Credit risk has been taken into consideration when calculating the fair value of these assets.

There were no transfers from Level II to Level I for the year ended December 31, 2020 and 2019. Furthermore, the Trust Fund has no Level III financial instruments.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 15, 2021, the date that these financial statements were authorized to be issued, and there were no additional events or transactions during the period that would require recognition or disclosure.