



Canada Development
Investment Corporation

La corporation de développement
des investissements du Canada

CANADA DEVELOPMENT INVESTMENT CORPORATION

2022 to 2026

CORPORATE PLAN AMENDMENT SUMMARY

and

2022 CAPITAL BUDGET AMENDMENT SUMMARY

November 2022

CDEV CORPORATE PLAN AMENDMENT SUMMARY
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Overview of November 2022 Amendment to 2022 Corporate Plan

Since the time that CDEV's 2022 Corporate Plan Amendment (the "2022 Plan Amendment") which includes Trans Mountain Corporation's ("TMC") 2022 Plan Amendment was approved, events have occurred that require amendment and inclusion in the 2022 Plan. These external events include:

- A significant increase in the expected Trans Mountain Expansion Project (TMEP) capital spending in 2022 due to various factors including: project execution changes and delays related to the 2021 BC floods, and the incurrence of higher project costs due to greater than estimated quantities of work, labour hours, and conditions including difficult terrain, changes in scope, changes due to archeological finds, delays and work-arounds due to many factors that are detailed in Appendix A.

Capital Expenditure Authority

The existing capital expenditure authority provided by the approved 2022 Plan Amendment is not sufficient to cover expected expenditures for the TMEP in Q4 2022. As a result, the 2022 Plan Amendment requires an additional amendment of the following areas contained therein:

- Increased capital expenditure authority for 2022

Borrowing Authority

No amendments are being sought to the borrowing approved in the 2022 Plan Amendment.

Financial Statements and Corporate Plan

The underlying assumptions supporting the financial data presented in this Amendment to the 2022 Corporate Plan are largely consistent with those presented in TMC's and CDEV's prior 2022 Amended Corporate Plan other than for the increase in expected capital expenditures for 2022 and 2023. Financial statements for the Corporate Plan years 2023 through 2026 have not been included as forecasting and analysis and completion assumptions for the TMEP are underway and not finalized.

1.0 EXECUTIVE SUMMARY AND PURPOSE OF AMENDMENT

It is through this amendment that CDEV is requesting an increase to its 2022 Capital Budget for the TMEP project from \$5.8 billion to \$9.4 billion excluding capitalized interest. This authority includes a contingency of \$1 billion at the CDEV level but excludes any financing costs which might be capitalized and added to the property, plant and equipment of TMEP. CDEV and its subsidiary TMC will be able to operate within the 2023 budgeted capital expenditures referenced in the approved Corporate Plan Amendment of April 2022 which referred to a \$1.9 billion capital expenditure budget for 2023, until the 2023 Corporate Plan is approved.

2.0 MANDATE AND BUSINESS OVERVIEW

Canada TMP Finance Ltd.

No changes to Canada TMP Finance Ltd activities.

Trans Mountain Corporation

Significant progress in the construction of the TMEP was made through to September 2022, despite various challenges including: less productive construction than planned, cost increases due to wildlife impacts, project execution in flooded areas, and other previously unknown conditions encountered during construction. As of September 30, 2022, construction on the project had progressed to approximately 70% complete and the overall project was approximately 75% complete. TMC still projects an expected mechanical completion date for the project in the last quarter of 2023 with an in-service date in Q1 of 2024.

3.0 CORPORATE GOVERNANCE AND OPERATING ENVIRONMENT

No change is proposed for this section of the 2022 Plan.

4.0 CORPORATE PERFORMANCE

The corporate performance of CDEV remains substantially unchanged from that submitted in the 2022 Corporate Plan other than the increase in the 2022 a capital expenditures as detailed below and in this Amendment to the TMC 2022 - 2026 Corporate Plan attached in Appendix A.

5.0 CDEV - OBJECTIVES AND STRATEGIES FOR THE PERIOD 2022 TO 2026

Our main objectives are to manage the interests the Government assigns to us in a commercial manner. This Amendment does not change the objectives of TMC with the main one remaining to safely operate the existing pipeline and secondly to complete the TMEP project safely and effectively in a commercial manner. For more detail, please see Appendix A – TMC Second Amendment to the 2022-2026 Corporate Plan.

To satisfy its ownership and supervisory role CDEV undertakes several activities including having the CDEV Chair and President each attend all project oversight committee meetings, and TMC Board meetings. The CDEV CFO also attends many of these meetings and meetings with TMC senior management

5.1 Trans Mountain Corporation

A revised project cost estimate for TMEP is being developed by TMC management and will be presented in the 2023 Corporate Plan.

The capital budget for 2022 is being increased from the level approved in the April 2022 Amendment to ensure continued and prudent construction of TMEP to preserve schedule, contain overall costs that would be incurred if the project was stopped to wait for budget approval, in case the approval of the 2023 Corporate Plan is delayed. See section 6.4 – Capital Budget.

5.8 Borrowing Plan

No changes to the borrowing plan authorities are being requested in this Amendment. The expected commercial bank borrowings as at year-end 2022 are forecast to increase from \$5.125 billion in the April Plan Amendment to \$7.406 billion in this Amendment, within the approved borrowing authority.

5.9 Risks and Risk Mitigation Summary

The risks and mitigants detailed in the 2022 Corporate Plan remain substantially unchanged in this Amendment other than the risks related to the economic return on the TMC investment given the increase in costs and delay in project completion.

6.0 FINANCIAL SECTION

Given the focus of this Amendment on the revised Capital Budget for 2022 and the first four months of 2023, the financial statements for 2022 through 2026 have not been revised. We note that TMC prepares its financial projections under US GAAP while CDEV converts this information into IFRS in its financial reports. The greatest difference is in the capital cost of the TMEP property, plant and equipment and likewise capital expenditures. TMC's total capital expenditures includes a portion of financial costs for an equity return on capital (part of AFUDC) and is therefore the total increase in capital assets is higher. Under IFRS, only capitalized loan interest is added to the capital cost of an asset under construction. Cash capital expenditures are the same under each framework.

6.4 Capital Budget

Summary of Capital Expenditures

\$ million	2022	2023	2024	2025	2026
TMC – TMEP original Plan	4,953	2,047			
TMC – TMEP flood impact (Feb)	300	200			
	5,253	2,247			
TMC – TMEP Revised in Amendment (April 2022)	5,771	1,888			
TMC/CDEV – Capitalized Interest (April 2022)	650	845			
TMC – TMEP Revised in Amendment (October 2022)	8,383	1,888			
Capitalized Interest Consolidated (TMC and CDEV) (October 2022)	760	845			
TMC – maintenance	95	52	41	43	44
CHHC	37	27	26	27	30
CDEV Office and ancillary	1	0	0	0	0
CEEFC (not consolidated)	0	0	0	0	0
Total (CDEV consolidated with CEEFC)	9,276	2,812	67	70	74

The \$1.9 billion in 2023 TMEP capital expenditures that was included in the approved April 2022 Amendment remains in effect and will be in effect for expenditures in the first months of 2023 until a 2023 Plan is approved.

6.5 Operating Budget

No change other than in the interest expenses and guarantee fee paid by TMC due to the increase in borrowings in 2022.

APPENDIX A



TRANS MOUNTAIN CORPORATION

A wholly owned subsidiary of

Canada Development Investment Corporation

AMENDMENT to 2022 to 2026 CORPORATE PLAN SUMMARY

And Amendment to 2022 Capital Budget

October 2022



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2022 – 2026 Corporate Plan Amendment

TMC requests herewith an amendment to its Amended 2022-2026 Corporate Plan (2022 Plan) to address (1) increased 2022 capital budget funding for its approved expansion project; and (2) acknowledgment that TMC intends to spend its 2023 capital budget and will present a revised 2023 capital budget as part of CDEV's 2023 Corporate Plan. The 2023 capital budget authorization is to ensure continuity of construction progress on the expansion project while the 2023 – 2027 Corporate Plan is under review. The 2022 capital budget was amended in April 2022 to incorporate estimated costs of flooding in British Columbia on expansion project capital expenditures and the acceleration of spending out of 2023 into 2022 to support achievement of the planned Q4 2023 commencement of service for TMEP.

Background

TMC is completing an expansion of its pipeline system from Edmonton, Alberta to Burnaby, British Columbia, the Trans Mountain Expansion Project (TMEP or project). TMEP will increase the capacity of the pipeline from approximately 300,000 barrels per day (bpd) to 890,000 bpd. Construction of the pipeline commenced in 2017, halted in September 2018 and resumed following revised regulatory approvals in late 2019.

TMEP is 80% backed by 15 and 20-year shipper contracts for pipeline capacity that will provide tolls for service to Canadian, US, and Pacific rim markets through our terminal and related port facility in Burnaby, BC. Spot transportation available on the pipeline system is 20% of overall pipeline capacity and is expected to be approximately 75% utilized at a 10% premium to the contract rates. The contractual structure of the tolls is firm (i.e., ship or pay) and the agreements have been approved by the Canadian Energy Regulator (CER). There are no practical provisions in these agreements to abandon completion of the project.

The project involves the construction of 990 kilometers (KM) of new pipeline from Edmonton AB to the port near Burnaby BC, 19 storage tanks, 12 pumpstations, the reactivation of 193 KM of pipeline, and extensive work at the Edmonton, Kamloops, Sumas, and Burnaby terminals. The Westridge BC oil tanker loading facility is being completely modernized to provide 3 state of the art loading facilities and the retirement of the legacy oil tanker loading location.

The current plan is to mechanically complete the project by the fourth quarter of 2023 with first oil deliveries commencing in the first quarter of 2024. This schedule is subject to possible delays that could be caused by volatile weather, labor disruptions, other challenges, and difficult terrain execution conditions.

As of October 10, 2022, the overall project, including pre-construction activities, is over 75% complete. Construction specific progress (a subset of overall project completion) stands at 70%.



Pipeline construction is 65% complete, facilities such as pumpstations and terminals are 92% complete and lower mainland activities are 81% complete.

The original scope permitting is complete. New permit requirements are monitored on an ongoing basis in conjunction with the roll out of construction activities and the management of change process. Changes to construction execution activities may drive further need for permits. The permitting team continues to work closely with permitting agencies and authorities to advance the timely completion of all new permits.

The highest physical progress months for the pipeline activities are summer through mid-December. The capital budget for 2022 is now forecast at \$9.5 billion compared to \$6.8 billion in the prior plan. The prior 2022 spending profile was originally estimated in September 2021 and then updated for early initial indications of the impacts of flooding in BC on the project. Flooding impacts have become clearer in the intervening time as work progressed over the spring and summer of 2022. In addition, further engineering, design, and other activities have advanced from April on approximately 30 technically challenging construction execution packages. Spending for the last four months of 2022 is estimated to average \$0.9 billion per month for September through November and \$0.6 billion for December. As such, an amendment of the 2022 capital budget is required.

Shippers have audit rights as part of the toll setting process once TMEP enters service. This audit process will confirm what components of the project's costs flow-through as uncapped costs in the shippers' tolls (i.e., recovered from the customer) and what costs are to the account of TMC and its shareholder. It is prudent to continue the current construction pace and progress as demobilization of construction due to insufficient budget funds would add an incremental \$2-\$3 billion to the final cost of the project, potentially entirely at the shareholder's cost.

For the reasons noted above, TMC is seeking an amendment of the 2022 Plan increasing the capital budget authority for TMEP from \$6.8 billion to \$9.5 billion. Capital spending for 2023 will be addressed in the 2023 – 2027 Corporate Plan (2023 Plan). Activities of TMC and its subsidiaries are otherwise consistent with prior Corporate Plan submissions for 2022.



Financial Information

Cash flow generated after the commencement of service, expected in early 2024 is significant and will be adequate to commence repayment of debt and return capital to its owner. TMC's existing pipeline operations routinely generates approximately \$180 million of annual Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and TMC expects this will continue through to the commencement of service of TMEP. Once TMEP enters service EBITDA will grow to more than \$2.0 billion per year. TMC is and will continue to be a commercially viable business in-line with its stated Mandate.

Capital Budget Amendment

TMEP has progressed significantly since the beginning of 2022 and the submission of the 2022 Plan. 2022 Capital spending exclusive of allowance for funds used during construction (AFUDC) is expected to approximate \$8.4 billion in 2022, (\$9.5 billion inclusive of AFUDC). Inclusive of AFUDC, costs of TMEP totaled \$6.8 billion for 2022 in the 2022 Plan approved by Treasury Board. The proposed increase of \$2.6 billion in 2022 capital spending requested in this amendment is attributable to several factors including:

- Project execution changes and delays resulting from the flooding events in British Columbia in late 2021 that had significant impacts throughout 2022.
- Incurred final project costs due to greater than estimated quantities of work, labor hours, and conditions including difficult terrain, changes in scope, changes due to additional archeological finds, delays and work-arounds due to regulatory requirements to tailor construction to migratory bird patterns, changes in scope to accommodate additional ground water, changing under-highway crossing techniques, changes in construction methodologies to overcome significantly higher quantities of rock, excavation activities, blasting, slope shoring, dewatering, and challenging trenchless construction activities.

Five primary drivers have been identified in a preliminary root cause analysis of overall project cost changes (rough order of magnitude percentages are shown). Those drivers are (1) engineering and plan maturity (45%); (2) external events (30%); (3) practices above standard construction (15%); (4) safety (5%); (5) accommodation of stakeholders (5%). As the root causes manifest, TMEP's scope of work, construction methodology, productivity, and project schedule can be impacted. In addition, each root cause may have multiple follow-on effects. For example, incomplete engineering and plan maturity may cause added scope, changed methodology, lower productivity, and an extension in schedule.

The completion of TMEP "in a timely and commercially viable manner" is core to TMC's mandate. TMC must continue to incur and make commitments for essential expenditures related to the construction of TMEP because of the critical importance of the project to Canada's energy and economic security, and to avoid the resulting significant costs, project delay, and other harm that would result by a halt in construction.



If TMEP were to stand-down activity and contractors demobilized in 2022, remobilized in 2023, and demobilized again at project completion this will absolutely extend schedule at an incrementally greater cost of \$2 - \$3 billion. AFUDC for the project will approximate \$160 million per month as the project nears completion. Each month's delay will add to the overall project cost. Another consequence of demobilization due to budget constraints will be risk of recovery and passing through certain costs in the uncapped tolling mechanism, resulting in a lower recovery of capital by the shareholder. These factors collectively would negatively impact TMEP returns. Workforce productivity would be lost, and over 10,000 workers furloughed because of a work stoppage.

TMC will seek approval of its 2023 – 2027 Corporate Plan (2023 Plan) in the near future.

TMC intended to update the 2022 capital budget in the context of the 2023 Plan. Management believed this approach would have provided a fulsome basis for consideration of 2022 and 2023 matters together. This collective approach incorporating significantly more data into the TMEP cost estimate from experience gained in 2022, further engineering and design work on the project, and progress achieved on particularly challenging aspects of construction, is not as advanced as TMC had planned. TMC is also currently taking actions to re-contract significant portions of the project construction activity to incentivize greater cost and schedule efficiency. This effort is ongoing and will impact the overall cost estimate. Given the in-flight activities and work to-do in developing the 2023 Plan, TMC management is bringing forward this 2022 Plan amendment in advance of completing the 2023 Plan work.

The Amendment to the capital budget is provided in Appendix 1.

Risks and Mitigation Strategies

TMC manages risks through an established combination of policies, procedures, and operating practices. Ongoing reporting and review of individual risks and related increase, decrease, and potential mitigation strategies is part of the monitoring process. Risk simulation exercises are periodically conducted such as Schedule Risk Assessment (SRA), and Quantitative Risk Assessment (QRA) on TMEP. These techniques typically involve engagement with senior management, project execution management, contractors, other experts, and advisors. On TMEP, these risk assessment exercises are conducted at a level that highlights key risks to each major component of construction.

A risks section is included in Trans Mountain's 2022 Plan. The risks identified remain a reasonable summary of risks that broadly impact both Trans Mountain corporately and the TMEP. Individual risks are assessed based on probability of occurrence and consequence. The highest consequence risks are identified and mitigation strategies are developed. When a risk is mitigated, another risk will take priority until it too is mitigated, and that process continues to a project's completion. As major portions of TMEP are completed, those components of the Project are de-risked. A significant portion of construction is complete at the end of third-quarter 2022. Risks are most pronounced on sections of the Project where progress is lower, or significant technical challenges must be overcome. Cost and schedule are ultimately impacted by the realization of risks.

Examples of key risks remaining and related mitigation strategies:

- Archeological delays and/or chance find
 - Mitigation strategies include comprehensive archeological programs, Indigenous monitors, and potentially alternative construction techniques.
- Failure or slower than planned productivity of a trenchless crossing
 - Multiple tunnel boring machines on a particularly difficult series of crossings in central BC, alternative crossing techniques or locations.
- Less than expected contractor performance
 - Where practical, replacement of legacy construction contracts with compensation arrangements that reward performance (productivity and schedule) and penalize inefficient execution by contractors.
- Incomplete engineering on technically challenging areas (TCA) / failure of a TCA execution
 - Separate task forces have been established on approximately 30 TCA's where engineering was incomplete at the time of the 2022 Plan and execution plans have been developed (or are being developed).
- Environment, migratory birds, and species at risk
 - Planning of work to execute construction during limited available activity windows; construction techniques, and recovery/protection of the natural resource.

Many significant risks have been mitigated with progress on construction to-date. However, significant residual risks remain, especially with respect to the mountainous areas of BC, identified TCA's across TMEP, and the Indigenous heritage and agricultural areas in the Lower Mainland.

Funding Authorization Utilization

TMC is not seeking an increase to its authorized borrowing through this corporate plan amendment. Existing authority is expected to be sufficient until the 2023 Corporate Plan is approved.

Appendix 1: Amended Capital Budget for 2022

The following table presents the Amended Capital Spending to the end of April 2023 (2022 Plan spending for 2023 is consistent with the prior amended Plan). The TMEP Capital Budget for 2022 has increased by \$2.6 billion from \$5.8 billion to \$8.4 billion excluding AFUDC.

Trans Mountain Corporation 2022-2023 Capital Spending (Cdn Millions)	Annual 2022 Amended	Annual 2022 Proposed Amendment	2023 (as previously reported)
TMEP before AFUDC	5,771	8,383	1,888
AFUDC	1,032	1,147	1,043
TMEP after AFUDC	6,803	9,530	2,931
Non-TMEP capital	95	95	52
Total capital spending	6,898	9,625	2,983

Trans Mountain Corporation 2022-2023 Capital Spending Cash basis (excludes Equity AFUDC) (Cdn Millions)	Annual 2022 Amended	Annual 2022 Proposed Amendment	2023 (as previously reported)
TMEP before capitalized interest	5,771	8,383	1,888
Capitalized interest	378	445	382
TMEP before capitalized interest	6,149	8,828	2,270
Non-TMEP capital	95	95	52
Total capital spending	6,244	8,923	2,322

Trans Mountain Corporation 2022-2023 Capital Spending Accrual vs Cash reconciliation (Cdn Millions)	Annual 2022 Amended	Annual 2022 Proposed Amendment	2023 (as previously reported)
Capital spending - accrual basis	6,898	9,625	2,983
Less equity AFUDC (non-cash)	(654)	(702)	(661)
Capital spending - cash basis	6,244	8,923	2,322



TMEP Assumptions

Schedule

The updated project execution schedule targets a mechanical completion date in the fourth quarter of 2023 and first cash flow in early 2024. Timely regulatory and permitting approvals, land access, and no critical construction failures that cause a construction season delay are required to achieve the in-service date. The project execution schedule is also sensitive to labor availability, construction productivity, construction conditions, weather, environmental, archeological and safety requirements. A comprehensive risk management process that includes tracking of current or potential risks is maintained and incorporated in project execution decisions.

Cost

For purposes of the economic analysis that follows, a total forecast capital cost is assumed for TMEP. An updated total TMEP forecast will be included in the 2023 – 2027 Corporate Plan.

The contracted tariff rates negotiated for TMEP were not directly tied to the cost of the project. Instead, the rates were set with reference to market-based rates. However, the tariff rates negotiated for transportation also contained a mechanism that passes through certain defined costs to shippers for particularly challenging or cost sensitive pieces of the construction (i.e., “Uncapped” costs). The combination of these two mechanisms adjusts the contracted and spot tariff rates to absorb a portion of the capital cost increases. Resulting incremental project economics are in-line with regulated rates of return. Current estimates show that a positive return to shareholder continues to be possible and the 2023 Plan will address the range of expected return.