

Management's discussion and analysis

July 31, 2024

On July 27, 2023, the Board of Directors of TC Energy Corporation (TC Energy or the Parent) approved a proposed reorganization of TC Energy into two independent, investment-grade, publicly listed companies (the spinoff Transaction). On June 4, 2024, TC Energy shareholders approved the spinoff Transaction. Pursuant to the spinoff Transaction, TC Energy's Liquids Pipelines business will be transferred to South Bow Corporation (South Bow) by way of a plan of arrangement under the *Canada Business Corporations Act*.

Under the spinoff Transaction, common shareholders of TC Energy as of the record date to be established for the spinoff Transaction will receive, in exchange for each TC Energy share held, one new TC Energy share and 0.2 of a South Bow common share.

This management's discussion and analysis (MD&A) has been prepared in respect of the assets and liabilities comprising the Liquids Pipelines business of TC Energy. It discusses our business, operations, financial position, risks and other factors for the three and six months ended June 30, 2024 and should be read with the accompanying unaudited financial statements of South Bow and unaudited Condensed combined carve-out financial statements of the Liquids Pipelines business for the three and six months ended June 30, 2024, which have been prepared in accordance with U.S. GAAP.

This MD&A should also be read in conjunction with the audited financial statements of South Bow for the period from incorporation on December 15, 2023 to December 31, 2023 and the audited Combined carve-out financial statements for the Liquids Pipelines business for the years ended December 31, 2023, 2022 and 2021.

Basis of Presentation

The unaudited Condensed combined carve-out financial statements for the Liquids Pipelines business have been prepared on a carve-out basis and reflect the historical results of TC Energy's Liquids Pipelines business. The Condensed combined carve-out financial statements are not necessarily indicative of results that would have been realized if the Liquids Pipelines business had been operated separately as a stand-alone company during the periods presented, nor will they necessarily be indicative of future results of the Liquids Pipelines business as they will exist upon completion of the spinoff Transaction.

About This Document

As at the date hereof, South Bow has not carried on any active business. Pursuant to the spinoff Transaction, South Bow will become an independent, public corporation. Unless otherwise indicated, the disclosure in this MD&A has been prepared assuming the spinoff Transaction will be completed.

Throughout this MD&A, the terms we, us and our mean the Liquids Pipelines business. All information is as of July 31, 2024 and all amounts are in Canadian dollars, unless noted otherwise.

FORWARD-LOOKING INFORMATION

We disclose forward-looking information to help the reader understand management's assessment of our future plans and financial outlook and our future prospects overall.

Statements that are **forward looking** are based on certain assumptions and on what we know and expect today and generally include words like **anticipate, expect, believe, may, will, should, estimate** or other similar words.

Forward-looking statements in this MD&A include information about the following, among other things:

- our financial and operational performance
- expectations about strategies and goals for growth and expansion
- expected cash flows and future financing options available, including portfolio management
- expectations about South Bow following the completion of the spinoff Transaction
- expectations regarding the size, timing, conditions and outcome of ongoing and future transactions, including the spinoff Transaction
- expected access to and cost of capital
- expected costs and schedules for planned projects, including projects under construction such as the Blackrod Connection project
- expected capital expenditures, contractual obligations, commitments and contingent liabilities, including environmental remediation costs
- expected regulatory processes and outcomes
- expected outcomes with respect to legal proceedings, including arbitration and insurance claims
- the expected impact of future tax and accounting changes
- expected industry, market and economic conditions, including their impact on our customers and suppliers.

Forward-looking statements do not guarantee future performance. Actual events and results could be significantly different because of assumptions, risks or uncertainties related to our business or events that happen after the date of this MD&A.

Our forward-looking information is based on the following key assumptions and subject to the following risks and uncertainties:

Assumptions

- realization of expected benefits from acquisitions, divestitures and the spinoff Transaction
- regulatory decisions and outcomes
- planned and unplanned outages and the use of our pipelines
- integrity and reliability of our assets
- anticipated construction costs, schedules and completion dates
- access to capital markets, including portfolio management
- expected industry, market and economic conditions, including the impact of these on our customers and suppliers
- inflation rates, commodity and labour prices
- interest, tax and foreign exchange rates
- nature and scope of hedging.

Risks and uncertainties

- realization of expected benefits from acquisitions, divestitures and the spinoff Transaction

- the terms, timing and completion of the spinoff Transaction, including the timely receipt of all necessary approvals
- that market or other conditions are no longer favourable to completing the proposed spinoff Transaction
- business disruption during the period prior to or directly following the proposed spinoff Transaction
- our ability to successfully implement our strategic priorities and whether they will yield the expected benefits
- our ability to implement a capital allocation strategy aligned with maximizing shareholder value
- the operating performance of our pipelines and storage assets
- amount of capacity sold and rates achieved in our business
- production levels within supply basins
- construction and completion of capital projects
- cost and availability of, and inflationary pressures on, labour, equipment and materials
- the availability and market prices of commodities
- access to capital and insurance markets on competitive terms
- interest, tax and foreign exchange rates
- performance and credit risk of our counterparties
- regulatory decisions and outcomes of legal proceedings, including arbitration and insurance claims
- our ability to effectively anticipate and assess changes to government policies and regulations, including those related to the environment
- our ability to realize the value of tangible assets and contractual recoveries
- competition in the business in which we operate
- unexpected or unusual weather
- acts of civil disobedience
- cyber security and technological developments
- sustainability-related risks
- impact of energy transition on our business
- economic conditions in North America as well as globally
- global health crises, such as pandemics and epidemics, and the impacts related thereto
- recovery of costs resulting from unexpected pollution or environmental events related to our operations.

You can read more about these factors and others in this MD&A and our 2023 MD&A.

As actual results could vary significantly from the forward-looking information, you should not put undue reliance on forward-looking information and should not use future-oriented information or financial outlooks for anything other than their intended purpose. We do not update our forward-looking statements due to new information or future events unless we are required to by law.

FOR MORE INFORMATION

You can find more information about the Liquids Pipelines business in our 2023 MD&A, as well as disclosure documents filed by TC Energy, which are available under TC Energy's profile on SEDAR+ (www.sedarplus.ca).

NON-GAAP MEASURES

This MD&A references the following non-GAAP measures:

- comparable EBITDA
- comparable EBIT
- comparable earnings
- funds generated from operations
- comparable funds generated from operations.

We believe such non-GAAP measures improve our ability to compare results between reporting periods and enhance understanding of our operating performance. These measures do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Discussions throughout this MD&A on the factors impacting comparable earnings are consistent with the factors that impact net income (loss), except where noted otherwise. Discussions throughout this MD&A on the factors impacting comparable earnings before interest, taxes, depreciation and amortization (comparable EBITDA) and comparable earnings before interest and taxes (comparable EBIT) are consistent with the factors that impact earnings, except where noted otherwise.

Comparable measures

We calculate comparable measures by adjusting certain GAAP measures for specific items we believe are significant but not reflective of our underlying operations in the period. Except as otherwise described herein, these comparable measures are calculated on a consistent basis from period to period and are adjusted for specific items in each period, as applicable.

Our decision not to adjust for a specific item in reporting comparable measures is subjective and made after careful consideration. We adjust for the following items:

- gains or losses on sales of assets or assets held for sale
- valuation allowances and adjustments resulting from changes in legislation and enacted tax rates
- unrealized fair value adjustments related to risk management activities
- legal, contractual, bankruptcy and other settlements
- impairment of plant, property and equipment, equity investments and other assets
- acquisition, integration and restructuring costs.

We exclude from comparable measures the unrealized gains and losses from changes in the fair value of derivatives related to commodity price risk management activities. These derivatives generally provide effective economic hedges but do not meet the criteria for hedge accounting. These changes in fair value are recorded in net income. As these amounts do not accurately reflect the gains and losses that will be realized at settlement, we do not consider them reflective of our underlying operations.

Separation costs related to the spinoff Transaction recognized in our results primarily include internal costs and external fees related to separation activities. These items have been excluded from comparable measures as we do not consider them reflective of our ongoing underlying operations.

The following table identifies our non-GAAP measures against their most directly comparable GAAP measures:

Comparable measure	GAAP measure
comparable EBITDA	earnings (losses)
comparable EBIT	earnings (losses)
comparable earnings	net income (loss)
funds generated from operations	net cash provided by operations
comparable funds generated from operations	net cash provided by operations

Comparable EBITDA and comparable EBIT

Comparable EBITDA represents earnings (losses) adjusted for specific items described in the Comparable measures section above, excluding charges for depreciation and amortization. We use comparable EBITDA as a measure of our earnings from ongoing operations as it is a useful indicator of our performance. Comparable EBIT represents earnings (losses) adjusted for specific items and is an effective tool for evaluating trends. Refer to the Financial results section for a reconciliation to earnings (losses).

Comparable earnings

Comparable earnings represents Net income adjusted for specific items described in the Comparable measures section above. Comparable earnings is comprised of earnings (losses), Interest expense, Interest income and other and Income tax (expense) recovery, adjusted for specific items. Refer to the Financial highlights section for reconciliations to Net income.

Funds generated from operations and comparable funds generated from operations

Funds generated from operations reflects net cash provided by operations before changes in operating working capital. The components of changes in working capital are disclosed in our Combined carve-out financial statements for the year ended December 31, 2023. We believe funds generated from operations is a useful measure of our operating cash flows because it excludes fluctuations from working capital balances, which do not necessarily reflect underlying operations in the same period, and is used to provide a consistent measure of the cash-generating ability of our business. Comparable funds generated from operations is adjusted for the cash impact of specific items described in the Comparable measures section above. Refer to the Financial Condition section for a reconciliation to Net cash provided by operations.

Financial highlights

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Income				
Revenues	758	702	1,492	1,257
Net income (loss)	121	204	271	334
Comparable EBITDA ¹	327	360	731	676
Comparable earnings ¹	98	208	253	387
Cash flows				
Net cash provided by operations	131	55	291	348
Comparable funds generated from operations	157	318	409	626
Capital spending ²	27	11	44	24
Proceeds from sales of assets, net of transaction costs	18	—	31	63

- 1 Comparable EBITDA, comparable earnings and comparable funds generated from operations are all non-GAAP measures. Additional information on Earnings (losses), the most directly comparable GAAP measure, can be found in the Earnings and Net Income table set forth below.
- 2 Capital spending reflects cash flows associated with our Capital expenditures and Contributions to equity investments. Refer to the Financial condition – Cash (used in) provided by investing activities section for additional information.

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Earnings (losses)	271	272	586	449
Interest expense	(128)	(26)	(256)	(56)
Interest income and other	8	14	18	31
Income (loss) before income taxes	151	260	348	424
Income tax (expense) recovery	(30)	(56)	(77)	(90)
Net income (loss)	121	204	271	334

Net income (loss) decreased by \$83 million and \$63 million for the three and six months ended June 30, 2024 compared to the same periods in 2023. The following specific items were recognized in Net income (loss) and were excluded from comparable earnings:

2024 results

- an after-tax charge of \$7 million and \$11 million for the three and six months ended June 30, 2024 incurred due to separation costs related to the spinoff Transaction (2023 – nil).

2023 results

- a \$49 million after-tax charge as a result of the FERC Administrative Law Judge initial decision on Keystone issued in February 2023 in respect of a tolling-related complaint pertaining to amounts recognized from 2018 to 2022 which consists of a one-time, pre-tax charge of \$57 million and accrued pre-tax carrying charges of \$6 million
- after-tax preservation and other costs for Keystone XL pipeline project assets of \$3 million and \$7 million for the three and six months ended June 30, 2023, which could not be accrued as part of the Keystone XL asset impairment charge
- a \$1 million after-tax charge related to Focus Project costs. The Focus Project was launched by TC Energy to identify opportunities to improve safety, productivity and cost-effectiveness.

Net income in each period included unrealized gains and losses from changes in our risk management activities, all of which we exclude along with the above noted items, to arrive at comparable earnings. A reconciliation of Net income (loss) to comparable earnings is shown in the following table.

RECONCILIATION OF NET INCOME (LOSS) TO COMPARABLE EARNINGS

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Net income (loss)	121	204	271	334
Specific items (net of tax):				
Liquids Pipelines business separation costs	7	—	11	—
Keystone regulatory decisions	—	—	—	49
Keystone XL preservation and other	—	3	—	7
Focus Project costs	—	1	—	1
Risk management activities	(30)	—	(29)	(4)
Comparable earnings	98	208	253	387

COMPARABLE EBITDA TO COMPARABLE EARNINGS

Comparable EBITDA represents earnings (losses) adjusted for the specific items described above and excludes charges for depreciation and amortization. For further information on our reconciliation of comparable EBITDA to earnings (losses) refer to the Financial results section.

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Comparable EBITDA	327	360	731	676
Depreciation and amortization	(84)	(82)	(167)	(164)
Interest expense included in comparable earnings	(128)	(26)	(256)	(50)
Interest income and other	8	14	18	31
Income tax (expense) recovery included in comparable earnings	(25)	(58)	(73)	(106)
Comparable earnings	98	208	253	387

Comparable earnings – 2024 versus 2023

Comparable earnings decreased by \$110 million and \$134 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 and was primarily the net effect of:

- changes in comparable EBITDA described in the Financial Results section
- higher interest expense due to long-term debt issuances to affiliates in third quarter 2023.

Financial Results

The following is a reconciliation of comparable EBITDA and comparable EBIT (our non-GAAP measures) to earnings (losses) (the most directly comparable GAAP measure).

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Keystone Pipeline System	313	345	702	646
Intra-Alberta pipelines ¹	18	18	35	35
Other	(4)	(3)	(6)	(5)
Comparable EBITDA	327	360	731	676
Depreciation and amortization	(84)	(82)	(167)	(164)
Comparable EBIT	243	278	564	512
Specific items:				
Liquids Pipelines business separation costs	(9)	—	(14)	—
Keystone regulatory decisions	—	—	—	(57)
Keystone XL preservation and other	—	(5)	—	(10)
Focus Project costs	—	(1)	—	(1)
Risk management activities	37	—	36	5
Earnings (losses)	271	272	586	449
Comparable EBITDA denominated as follows:				
Canadian dollars	96	91	195	182
U.S. dollars	169	200	395	366
Foreign exchange impact	62	69	141	128
Comparable EBITDA	327	360	731	676

1 Intra-Alberta pipelines include Grand Rapids and White Spruce.

Earnings decreased by \$1 million and increased by \$137 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 and included the above specific items which have been excluded from our calculation of comparable EBITDA and comparable EBIT. Refer to the Financial Highlights section for additional information on specific items.

A stronger U.S. dollar for the three and six months ended June 30, 2024 had a positive impact on the Canadian dollar equivalent earnings from our U.S. operations compared to the same periods in 2023. Refer to the Foreign exchange section for additional information.

Comparable EBITDA decreased by \$33 million and increased by \$55 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 primarily due to the net effect of:

- lower margins from liquids marketing activities, primarily in second quarter 2024, in part due to the commencement of incremental WCSB egress capacity
- higher contribution from uncontracted volumes on the Keystone Pipeline System in 2024 compared to 2023 as a result of Milepost 14 incident-related capacity impacts in 2023
- higher throughput on the U.S. Gulf Coast section of the Keystone Pipeline System driven by an increase in contracted volumes.

Depreciation and amortization was generally consistent for the three and six months ended June 30, 2024 compared to the same periods in 2023.

FOREIGN EXCHANGE

Certain of our entities generate all or most of their earnings in U.S. dollars and, since we report our financial results in Canadian dollars, changes in the value of the U.S. dollar against the Canadian dollar directly affect our comparable EBITDA and may also impact comparable earnings. If our U.S. operations continue to grow, this exposure would increase. A portion of the U.S. dollar-denominated comparable EBITDA exposure is naturally offset by U.S. dollar-denominated amounts below comparable EBITDA within Depreciation and amortization, Interest expense and other income statement line items.

The components of our financial results denominated in U.S. dollars are set out in the table below. Comparable EBITDA is a non-GAAP measure.

Pre-tax U.S. dollar-denominated income and expense items

(millions of US\$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Comparable EBITDA	169	200	395	366
Depreciation and amortization	(49)	(50)	(97)	(97)
Interest expense on long-term debt to affiliates	(65)	(19)	(129)	(36)
	55	131	169	233
Average exchange rate – U.S. to Canadian dollars	1.37	1.34	1.36	1.35

OTHER INCOME STATEMENT ITEMS

Interest Expense

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Interest expense on long-term debt to affiliates				
Canadian dollar-denominated	(38)	—	(75)	—
U.S. dollar-denominated	(65)	(19)	(129)	(36)
Foreign exchange impact	(23)	(7)	(46)	(13)
	(126)	(26)	(250)	(49)
Other interest and amortization expense	(2)	—	(6)	(1)
Interest expense included in comparable earnings	(128)	(26)	(256)	(50)
Specific item:				
Keystone regulatory decisions	—	—	—	(6)
Interest expense	(128)	(26)	(256)	(56)

Interest expense increased by \$102 million and by \$200 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 and included accrued carrying charges of \$6 million for the first quarter 2023 as a result of a pre-tax charge related to the FERC Administrative Law Judge initial decision on Keystone. This decision was issued in February 2023 in respect of a tolling-related complaint pertaining to amounts recognized from 2018 to 2022. These carrying charges have been removed from our calculation of Interest expense included in comparable earnings.

Interest expense included in comparable earnings increased by \$102 million and \$206 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 primarily due to the net effect of:

- long-term debt to affiliates issuances in third quarter 2023
- higher effective interest rates in 2024 compared to 2023.

Interest Income and Other

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Interest income and other	8	14	18	31

Interest income and other decreased by \$6 million and \$13 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 primarily due to lower cash pooling balances with affiliates, partially offset by higher cash balances.

Income tax (expense) recovery

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Income tax (expense) recovery included in comparable earnings	(25)	(58)	(73)	(106)
Specific items:				
Liquids Pipelines business separation costs	2	—	3	—
Keystone regulatory decisions	—	—	—	14
Keystone XL preservation and other	—	2	—	3
Risk management activities	(7)	—	(7)	(1)
Income tax (expense) recovery	(30)	(56)	(77)	(90)

Income tax expense decreased by \$26 million and \$13 million for the three and six months ended June 30, 2024 compared to the same periods in 2023. The income tax impacts on specified items referenced throughout the MD&A have been removed from our calculation of Income tax expense included in comparable earnings.

Income tax expense included in comparable earnings decreased by \$33 million and \$33 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 primarily due to higher earnings subject to tax in 2023 and favourable U.S. state tax rate changes in 2023.

Outlook

We expect our 2024 comparable EBITDA to be consistent with 2023.

We continue to monitor developments in energy markets, our construction projects and regulatory proceedings for any potential impacts on the above outlook.

Our expected total capital expenditures for 2024 as outlined in the 2023 MD&A increased due to costs associated with the Blackrod Connection project. Our 2024 capital program is focused on normal course maintenance capital expenditures and constructing the Blackrod Connection project.

Capital program

Our capital program consists of long-life infrastructure assets supported by long-term commercial arrangements with creditworthy counterparties and/or regulated business models.

Our capital program consists of approximately \$459 million of secured projects that represent commercially supported, committed projects that are either under construction or are preparing to commence the permitting stage. The estimated costs of the Blackrod Connection project are included within this amount.

During the six months ended June 30, 2024, approximately \$32 million of maintenance capital expenditures were incurred.

All projects are subject to cost and timing adjustments due to factors including weather, market conditions, route refinement, land acquisition, permitting conditions, scheduling and timing of regulatory permits, as well as other potential restrictions and uncertainties, including inflationary pressures on labour and materials. Amounts exclude capitalized interest, where applicable.

Secured projects

Estimated and incurred project costs referred to in the following table include 100 per cent of the capital expenditures related to our wholly-owned projects and our share of equity contributions to fund projects within our equity investments.

(millions of \$)	Expected in-service date	Estimated project cost	Project costs incurred at June 30, 2024
Blackrod Connection Project	2026	250	6
Recoverable maintenance capital expenditures	2024-2026	207	32
Non-recoverable maintenance capital expenditures	2024-2026	2	—
Total secured projects		459	38

Recent developments

Final FERC Decision

In 2019 and 2020, three Keystone customers initiated complaints before FERC and the CER regarding certain costs within the variable toll calculation. In February 2023, FERC released its initial decision in respect of the complaint, which addressed previously charged tolls between 2018 and 2022. On July 25, 2024, FERC released its Order on Initial Decision (Order) in respect of the complaint and as a result, we recognized an additional estimated liability of \$25 million in second quarter 2024.

We continue to assess the impact of this Order, with amounts to be finalized upon submission of a compliance filing in third quarter 2024.

Blackrod Connection Project

The Blackrod Connection project is now supported by long-term committed contracts. The expected total capital cost of the project is approximately \$250 million with a targeted in-service date of early 2026.

TC Energy Indemnified Liquids Liabilities

At closing of the spinoff Transaction, TC Energy and South Bow will enter into a Separation Agreement providing that TC Energy expects to indemnify South Bow for 86% of total net liabilities and costs associated with the Milepost 14 incident and the existing variable toll disputes on the Keystone Pipeline System (excluding any future impacts to the variable toll) subject to a maximum liability to South Bow of \$30 million for those two matters. Any amounts that may ultimately be payable in respect of these liabilities and costs above the current accrued amount are indeterminable at this time.

Keystone XL NAFTA Claim

In 2021, TC Energy filed a Request for Arbitration to formally initiate a legacy North American Free Trade Agreement (NAFTA) claim to recover economic damages resulting from the revocation of the Presidential Permit for the Keystone XL pipeline project. The United States objected on the basis that the transition provisions under the United States-Mexico-Canada Agreement (USMCA) that protect investments made while NAFTA was in force apply only in connection with actions taken before July 1, 2020, when USMCA replaced NAFTA. The arbitral Tribunal adjudicating the claim issued a split decision on July 12, 2024 in which the majority of the panel agreed with the United States position and concluded that it did not have jurisdiction to hear TC Energy's claim. TC Energy is currently assessing the decision to determine whether there are grounds to change it.

Financial condition

Historically, our business has generated positive cash flows from operations. Following the spinoff Transaction, our capital structure and sources of liquidity will change from our historical practices. Our ability to fund our operating needs will depend on our ability to continue to generate positive cash flow from operations, and on our ability to obtain debt financing on acceptable terms or to issue equity. Based upon our history of generating positive cash flows, we believe our existing cash and cash generated from operations will be sufficient to service our current obligations. Management believes that our cash balances and funds provided by operating activities, along with expected borrowing capacity and access to capital markets, taken as a whole, provide adequate liquidity to meet all of our current and long-term obligations when due, including third-party debt that we expect to incur in connection with the spinoff Transaction to refinance our long-term debt to affiliates and to fund capital expenditures.

At June 30, 2024, our current assets totaled \$3.6 billion and current liabilities amounted to \$2.7 billion, providing us with a working capital surplus of \$0.9 billion compared to \$0.8 billion at December 31, 2023. We consider these working capital levels to be normal for our business.

CASH PROVIDED BY OPERATING ACTIVITIES

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Net cash provided by operations	131	55	291	348
Increase (decrease) in operating working capital	18	260	106	222
Funds generated from operations	149	315	397	570
Specific items:				
Liquids Pipelines business separation costs, net of current income tax	7	—	11	—
Keystone regulatory decisions, net of current income tax	—	—	—	49
Keystone XL preservation and other, net of current income	—	3	—	7
Current income tax expense on risk management activities	1	—	1	—
Comparable funds generated from operations	157	318	409	626

Net cash provided by operations

Net cash provided by operations increased by \$76 million and decreased by \$57 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 primarily due to changes in funds generated from operations and timing of working capital changes.

Comparable funds generated from operations

Comparable funds generated from operations, a non-GAAP measure, helps us assess the cash generating ability of our businesses by excluding the timing effects of working capital changes as well as the cash impact of our specific items.

Comparable funds generated from operations decreased by \$161 million and \$217 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 primarily due to changes in comparable EBITDA and higher interest expense.

CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Capital spending				
Capital expenditures	(27)	(11)	(44)	(24)
Proceeds from sale of assets, net of transaction costs	18	—	31	63
Keystone XL contractual recoveries	3	3	5	5
Deferred amounts and other	2	5	2	2
Net cash (used in) provided by investing activities	(4)	(3)	(6)	46

Net cash (used in) provided by investing activities decreased by \$1 million for the three months ended June 30, 2024 compared to the same period in 2023 primarily due to higher capital expenditures offset by higher proceeds from the sale of Keystone XL assets.

Net cash (used in) provided by investing activities decreased by \$52 million for the six months ended June 30, 2024 compared to the same period in 2023 primarily due to lower proceeds from the sale of Keystone XL assets and higher capital expenditures.

CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Distributions on Class C interests	(1)	(1)	(2)	(42)
Parent's net investment contributions (distributions), net	(364)	(51)	(168)	(357)
Net cash (used in) provided by financing activities	(365)	(52)	(170)	(399)

Net cash (used in) provided by financing activities decreased by \$313 million and increased by \$229 million for the three and six months ended June 30, 2024 compared to the same periods in 2023 primarily due to higher Parent's net investment distributions for the three months ended June 30, 2024 and lower Parent's net investment distributions for the six months ended June 30, 2024.

CREDIT FACILITIES

At June 30, 2024, we had total revolving credit facilities of \$250 million and US\$500 million (December 31, 2023 – \$100 million and nil, respectively) with an outstanding balance of nil (December 31, 2023 – nil).

CONTRACTUAL OBLIGATIONS

Capital expenditure commitments at June 30, 2024 have increased by approximately \$47 million from those reported at December 31, 2023 reflecting commitments for development of the Blackrod project and other contractual commitments.

In February 2024, the Company entered into a 13-year lease contract for its Calgary office space. The total commitment for base rent under the lease contract is \$32 million with payments starting in 2025.

There were no other material changes to our contractual obligations in second quarter 2024 or to payments due in the next five years or thereafter. Refer to 2023 MD&A for additional information about our contractual obligations.

Financial risks and financial instruments

We are exposed to various financial risks and have strategies, policies and limits in place to manage the impact of these risks on our earnings and cash flows and, ultimately, shareholder value.

Risk management strategies, policies and limits are designed to ensure our risks and related exposures are in line with our business objectives and risk tolerance.

Refer to our 2023 Liquids Pipelines business carve-out MD&A for additional information about the risks we face in our business which have not changed materially since December 31, 2023, other than as noted within this MD&A.

INTEREST RATE RISK

We utilize debt issued to affiliates to finance our operations which exposes us to interest rate risk. We rely on TC Energy for funding and management of our interest rate risk.

FOREIGN EXCHANGE RISK

Certain of our entities generate all or most of their earnings in U.S. dollars and, since we report our financial results in Canadian dollars, changes in the value of the U.S. dollar against the Canadian dollar directly affect our comparable EBITDA and

may also impact comparable earnings. If our U.S. dollar-denominated operations continue to grow, this exposure increases. A portion of this risk is offset by interest expense on our U.S. dollar-denominated debt.

COUNTERPARTY CREDIT RISK

Our exposure to counterparty credit risk includes cash and cash equivalents, accounts receivable, environmental provision and certain contractual recoveries, available-for-sale assets and the fair value of derivative assets.

At times, our counterparties may endure financial challenges resulting from commodity price and market volatility, economic instability and political or regulatory changes. In addition to actively monitoring these situations, there are a number of factors that reduce our counterparty credit risk exposure in the event of default, including:

- contractual rights and remedies together with the utilization of contractually-based financial assurances
- the competitive position of our assets and the demand for our services
- potential recovery of unpaid amounts through bankruptcy and similar proceedings.

We review financial assets carried at amortized cost for impairment using the lifetime expected loss of the financial asset at initial recognition and throughout the life of the financial asset. We use historical credit loss and recovery data, adjusted for our judgment regarding current economic and credit conditions, along with reasonable and supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other. We had no significant credit losses and no significant amounts past due or impaired, as well as no significant credit risk concentrations at June 30, 2024 and December 31, 2023.

LIQUIDITY RISK

Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due. We have relied on TC Energy for funding and management of our liquidity risk; however, South Bow will be responsible to manage liquidity risk following completion of the spinoff Transaction.

RELATED PARTY TRANSACTIONS

TC Energy is responsible for providing certain administrative and operating services (corporate expenses) necessary to operate our business. As such, the allocation of corporate expenses attributable to us are considered related party transactions. Allocated corporate expenses are capitalized or expensed based on the nature of the underlying expenditure. We also incur operating costs with TC Energy's subsidiaries for costs that are not allocated but are direct costs to us that are capitalized or expensed based on the nature of the underlying expenditure. The allocated corporate expenses and direct operating costs as well as interest expense on Long-term debt due to affiliates and interest income with affiliates were as follows:

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Allocated Corporate Expenses				
Plant operating costs and other	45	56	81	110
Plant, property and equipment	2	1	3	2
Equity investments ¹	1	6	2	12
	48	63	86	124
Direct Operating Costs				
Plant operating costs and other	39	34	85	64
Plant, property and equipment	1	1	3	2
Equity investments ²	—	2	1	4
	40	37	89	70
Interest Income with Affiliates	—	14	—	29
Interest Expense on Long-Term Debt Due to Affiliates	126	25	250	50

1 For the three and six months ended June 30, 2024, \$1 million and \$2 million, respectively (2023 – \$5 million and \$10 million, respectively) impacted Income from equity investments.

2 For the three and six months ended June 30, 2024, nil and \$1 million, respectively (2023 – \$2 million and \$4 million, respectively) impacted Income from equity investments.

The outstanding balances with affiliates at June 30, 2024 and December 31, 2023 were as follows:

(millions of \$)	June 30, 2024	December 31, 2023	Affected line item on the Condensed combined carve-out balance sheet
Due to affiliates	109	137	Payable to affiliates
Due from affiliates	49	4	Accounts receivable
Long-term debt to affiliates	8,083	7,879	Long-term debt to affiliates

At June 30, 2024, we had \$250 million and US\$500 million (December 31, 2023 – \$100 million and nil, respectively) of revolving credit facilities with an affiliate. At June 30, 2024, no amounts were drawn against the facilities.

Refer to our Condensed combined carve-out financial statements, Note 6, Keystone environmental provision, for discussion of insurance recoveries from TC Energy's wholly-owned captive insurance subsidiary.

FINANCIAL INSTRUMENTS

With the exception of Long-term debt to affiliates, our derivative and non-derivative financial instruments are recorded on the Condensed combined carve-out balance sheet at fair value or amounts that approximate fair value. In addition, fair value accounting is not required for other financial instruments that qualify for certain accounting exemptions.

Derivative instruments

We use derivative instruments to reduce volatility associated with fluctuations in commodity prices. Derivative instruments are recorded at fair value.

The majority of derivative instruments have been entered into as economic hedges to manage our exposure to market risk and are classified as held-for-trading. Changes in the fair value of held-for-trading derivative instruments are recorded in net income in the period of change. This may expose us to increased variability in reported operating results since the fair value of the held-for-trading derivative instruments can fluctuate significantly from period to period.

Balance sheet presentation of derivative instruments

The balance sheet presentation of the fair value of derivative instruments were as follows:

(millions of \$)	June 30, 2024	December 31, 2023
Other current assets	502	696
Other long-term assets	33	—
Accounts payable and other	(497)	(728)
Other long-term liabilities	(35)	—
	3	(32)

Unrealized and realized gains (losses) on commodity derivative instruments

(millions of \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Derivative Instruments Held for Trading¹				
Unrealized gains (losses) in the period	35	4	36	8
Realized gains (losses) in the period	147	161	287	273

1 Realized and unrealized gains and losses on held-for-trading derivative instruments used to purchase and sell liquids are included on a net basis in Revenues.

For further details on our non-derivative and derivative financial instruments, including classification assumptions made in the calculation of fair value and additional discussion of exposure to risks and mitigation activities, refer to Note 7, Risk management and financial instruments, of our Condensed combined carve-out financial statements.

Other information

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY CHANGES

When we prepare financial statements that conform with U.S. GAAP, we are required to make estimates and assumptions that affect the timing and amounts we record for our assets, liabilities, revenues and expenses because these items may be affected by future events.

We base the estimates and assumptions on the most current information available, using our best judgment. We also regularly assess the assets and liabilities themselves. Refer to 2023 MD&A for critical accounting estimates information.

Accounting changes

Our significant accounting policies have remained unchanged since December 31, 2023 other than as described in Note 2, Accounting changes, of our Condensed combined carve-out financial statements. A summary of our significant accounting policies is included in the audited Combined carve-out financial statements for the year ended December 31, 2023.

Quarterly results

SELECTED QUARTERLY FINANCIAL DATA

(millions of \$)	2024			2023			2022		
	Second	First	Fourth	Third	Second	First	Fourth	Third	
Revenues	758	734	733	715	702	555	624	710	
Net income (loss)	121	150	140	121	204	130	238	198	
Comparable earnings	98	155	129	170	208	179	206	183	

FACTORS AFFECTING QUARTERLY FINANCIAL INFORMATION

Quarter-over-quarter revenues and earnings are affected by:

- regulatory decisions
- newly constructed assets being placed in service
- acquisitions and divestitures
- demand for uncontracted transportation services
- marketing activities and commodity prices
- developments outside of the normal course of operations
- certain fair value adjustments
- foreign exchange rates.

FACTORS AFFECTING FINANCIAL INFORMATION BY QUARTER

We calculate comparable measures by adjusting certain GAAP measures for specific items we believe are significant but not reflective of our underlying operations in the period. Except as otherwise described herein, these comparable measures are calculated on a consistent basis from period to period and are adjusted for specific items in each period, as applicable.

We exclude from comparable measures the unrealized gains and losses from changes in the fair value of derivatives related to commodity price risk management activities. These derivatives generally provide effective economic hedges but do not meet the criteria for hedge accounting.

In second quarter 2024, comparable earning also exclude:

- a \$7 million after-tax charge incurred due to Liquids Pipelines business separation costs related to the spinoff Transaction.

In first quarter 2024, comparable earning also exclude:

- a \$4 million after-tax charge incurred due to Liquids Pipelines business separation costs related to the spinoff Transaction.

In fourth quarter 2023, comparable earnings also excluded:

- preservation and other costs for Keystone XL pipeline project assets of \$4 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge
- a \$4 million after-tax gain on the sale of Keystone XL project assets and adjustment to the estimate for contractual and legal obligations related to termination activities
- a \$3 million after-tax charge for accrued carrying charges related to the FERC Administrative Law Judge initial decision on Keystone
- a \$2 million after-tax charge for separation costs incurred related to the spinoff Transaction.

In third quarter 2023, comparable earnings also excluded:

- preservation and other costs for Keystone XL pipeline project assets of \$3 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge.

In second quarter 2023, comparable earnings also excluded:

- preservation and other costs for Keystone XL pipeline project assets of \$3 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge
- a \$1 million after-tax charge related to Focus Project costs.

In first quarter 2023, comparable earnings also excluded:

- a \$49 million after-tax charge as a result of the FERC Administrative Law Judge initial decision issued in February 2023 in respect of a tolling-related complaint pertaining to amounts recognized from 2018 to 2022
- preservation and other costs for Keystone XL pipeline project assets of \$4 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge.

In fourth quarter 2022, comparable earnings also excluded:

- a \$20 million after-tax charge due to the CER decision on Keystone issued in December 2022 in respect of a tolling-related complaint pertaining to amounts reflected in 2021 and 2020
- preservation and other costs for Keystone XL pipeline project assets of \$8 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge
- a \$90 million after-tax gain on the sale of Keystone XL project assets and reduction to the estimate for contractual and legal obligations related to termination activities.

In third quarter 2022, comparable earnings also excluded:

- preservation and other costs for Keystone XL pipeline project assets of \$3 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge.

Glossary

General terms and terms related to our operations

WCSB Western Canadian Sedimentary basin

Accounting terms

U.S. GAAP / GAAP U.S. generally accepted accounting principles

Government and regulatory bodies terms

CER Canada Energy Regulator
FERC Federal Energy Regulatory Commission (U.S.)

Condensed combined carve-out statement of income and comprehensive income

(unaudited - millions of Canadian \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Revenues	758	702	1,492	1,257
Income (Loss) from Equity Investments	16	18	33	32
Operating and Other Expenses				
Plant operating costs and other	249	215	464	393
Commodity purchases resold	144	122	252	223
Property taxes	26	29	56	60
Depreciation and amortization	84	82	167	164
	503	448	939	840
Financial Charges				
Interest expense	128	26	256	56
Interest income and other	(8)	(14)	(18)	(31)
	120	12	238	25
Income (Loss) before Income Taxes	151	260	348	424
Income Tax Expense (Recovery)				
Current	63	23	103	30
Deferred	(33)	33	(26)	60
	30	56	77	90
Net Income (Loss)	121	204	271	334
Foreign currency translation adjustments	5	(150)	119	(148)
Comprehensive Income (Loss)	126	54	390	186

See accompanying Notes to the Condensed combined carve-out financial statements.

Condensed combined carve-out statement of cash flows

(unaudited - millions of Canadian \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Cash Generated from Operations				
Net income (loss)	121	204	271	334
Depreciation and amortization	84	82	167	164
Deferred income taxes	(33)	33	(26)	60
(Income) loss from equity investments	(16)	(18)	(33)	(32)
Distributions received from operating activities of equity investments	17	14	44	45
Unrealized (gains) losses on financial instruments	(35)	(4)	(36)	(8)
Other	11	4	10	7
(Increase) decrease in operating working capital	(18)	(260)	(106)	(222)
Net cash provided by operations	131	55	291	348
Investing Activities				
Capital expenditures	(27)	(11)	(44)	(24)
Proceeds from sales of assets, net of transaction costs	18	—	31	63
Keystone XL contractual recoveries	3	3	5	5
Deferred amounts and other	2	5	2	2
Net cash (used in) provided by investing activities	(4)	(3)	(6)	46
Financing Activities				
Distributions on Class C Interests	(1)	(1)	(2)	(42)
Parent's net investment contributions (distributions), net	(364)	(51)	(168)	(357)
Net cash (used in) provided by financing activities	(365)	(52)	(170)	(399)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	5	—	12	—
Increase (Decrease) in Cash and Cash Equivalents	(233)	—	127	(5)
Cash and Cash Equivalents - Beginning of period	707	—	347	5
Cash and Cash Equivalents - End of period	474	—	474	—

See accompanying Notes to the Condensed combined carve-out financial statements.

Condensed combined carve-out balance sheet

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	474	347
Accounts receivable	2,097	1,775
Inventories	255	211
Environmental provision recovery	133	186
Contractual recoveries	86	83
Other current assets	591	851
	3,636	3,453
Plant, Property and Equipment	net of accumulated depreciation of \$3.719 and \$3.478. respectively	11,128
Equity Investments	1,068	1,073
Other Long-Term Assets	303	234
	16,364	15,888
LIABILITIES		
Current Liabilities		
Accounts payable and other	2,553	2,602
Payable to affiliates	109	137
	2,662	2,739
Other Long-Term Liabilities	196	146
Long-Term Debt to Affiliates	8,083	7,879
Deferred Income Tax Liabilities	1,421	1,373
	12,362	12,137
PARENT'S NET INVESTMENT		
Parent's net investment	3,191	3,059
Accumulated other comprehensive income (loss)	811	692
	4,002	3,751
	16,364	15,888

Commitments, Contingencies and Guarantees (Note 8)

Variable Interest Entities (Note 9)

Subsequent Event (Note 11)

See accompanying Notes to the Condensed combined carve-out financial statements.

Condensed combined carve-out statement of changes in parent's net investment

(unaudited - millions of Canadian \$)	three months ended		six months ended	
	June 30		June 30	
	2024	2023	2024	2023
Parent's Net Investment				
Balance at beginning of period	3,361	9,156	3,059	9,336
Net income (loss)	121	204	271	334
Contributions (distributions), net	(291)	(55)	(139)	(365)
Balance at end of period	3,191	9,305	3,191	9,305
Accumulated Other Comprehensive Income (Loss)				
Balance at beginning of period	806	847	692	845
Foreign currency translation adjustments	5	(150)	119	(148)
Balance at end of period	811	697	811	697
Total Parent's Net Investment	4,002	10,002	4,002	10,002

See accompanying Notes to the Condensed combined carve-out financial statements.

Notes to Condensed combined carve-out financial statements

(unaudited)

1. BACKGROUND AND BASIS OF PRESENTATION

On July 27, 2023, TC Energy Corporation (TC Energy or the Parent) announced plans to separate into two independent, investment-grade, publicly listed companies through the proposed spinoff of its Liquids Pipelines business (the spinoff Transaction) and on November 8, 2023, TC Energy communicated that the name of the new Liquids Pipelines business will be South Bow Corporation (South Bow). Under the spinoff Transaction, common shareholders of TC Energy as of the record date to be established for the spinoff Transaction will receive, in exchange for each TC Energy share, one new TC Energy share and 0.2 of a South Bow common share. The Canadian and U.S. tax rulings as well as shareholders' approval have been received and subject to receipt of the remaining approvals and conditions of the spinoff Transaction, TC Energy expects that the effective date will occur in early-fourth quarter 2024.

These Condensed combined carve-out financial statements primarily represent the group of liquids pipeline assets, which has been operated as a part of TC Energy and reflect the Condensed combined carve-out balance sheets, Condensed combined carve-out statements of income and comprehensive income, Condensed combined carve-out statements of cash flows and Condensed combined carve-out statements of changes in parent's net investment in the Liquids Pipelines business (the Company).

The Company has historically operated as part of TC Energy and not as a separate entity. The Condensed combined carve-out financial statements have been prepared for the proposed spinoff of the Company and have been derived from the consolidated financial statements and accounting records of TC Energy, including the historical cost basis of assets and liabilities comprising the Company, as well as the historical revenues, direct costs and allocations of indirect costs attributable to the operations of the Company using the historical accounting policies applied by TC Energy.

These Condensed combined carve-out financial statements of the Company have been prepared by management in accordance with U.S. GAAP. The accounting policies applied are consistent with those outlined in the Company's annual audited Combined carve-out financial statements for the year ended December 31, 2023. Capitalized and abbreviated terms that are used but not otherwise defined herein are identified in the audited Combined carve-out financial statements for the year ended December 31, 2023.

These Condensed combined carve-out financial statements reflect adjustments, all of which are normal recurring adjustments that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Condensed combined carve-out financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the audited Combined carve-out financial statements for the year ended December 31, 2023.

Earnings for interim periods may not be indicative of results for the fiscal year primarily due to fluctuations in throughput volumes on the Keystone Pipeline System and marketing activities.

In addition to the factors mentioned above, revenues and earnings are impacted by fluctuations in foreign exchange rates, mainly related to the Company's U.S. dollar-denominated operations.

On May 1, 2024, in preparation for the spinoff Transaction, the Parent completed an internal restructuring where the Company's marketing business was transferred by the Parent to the Company's new marketing companies. The total consideration for this transfer was \$140 million. As the marketing business was already included in the combined carve-out financial statements, the consideration resulted in a reduction in Parent's net investment in second quarter 2024.

Use of Estimates and Judgments

In preparing these Condensed combined carve-out financial statements, the Company 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. In the opinion of management, these Condensed combined carve-out financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies included in the audited Combined carve-out financial statements for the year ended December 31, 2023.

2. ACCOUNTING CHANGES

Future Accounting Changes

Income Taxes

In December 2023, the FASB issued new guidance to enhance the transparency and decision usefulness of income tax disclosures through improvements to the rate reconciliation and income taxes paid information. The guidance also includes certain other amendments to improve the effectiveness of income tax disclosures. This new guidance is effective for the annual period beginning January 1, 2025. The guidance is applied prospectively with retrospective application permitted. Early adoption is permitted for annual financial statements not yet issued. The Company does not expect this guidance to have a material impact on the Company's combined carve-out financial statements.

Segment Reporting

In November 2023, the FASB issued new guidance to improve disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. The guidance is effective for annual periods beginning January 1, 2024 and interim periods beginning January 1, 2025. Early adoption is permitted and the guidance is applied retrospectively. The Company does not expect this guidance to have a material impact on the Company's combined carve-out financial statements.

3. SEGMENTED INFORMATION

three months ended June 30, 2024 (unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	752	6	758
Income (loss) from equity investments	3	13	16
Plant operating costs and other	(247)	(2)	(249)
Commodity purchases resold	(144)	—	(144)
Property taxes	(26)	—	(26)
Depreciation and amortization	(82)	(2)	(84)
Earnings (Losses)	256	15	271
Interest expense			(128)
Interest income and other			8
Income (Loss) before Income Taxes			151
Income tax (expense) recovery			(30)
Net Income (Loss)			121
Capital Spending¹			
Capital expenditures	22	5	27

1 Included in Investing activities in the Condensed combined carve-out statement of cash flows.

three months ended June 30, 2023 (unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	696	6	702
Income (loss) from equity investments	4	14	18
Plant operating costs and other	(214)	(1)	(215)
Commodity purchases resold	(122)	—	(122)
Property taxes	(29)	—	(29)
Depreciation and amortization	(81)	(1)	(82)
Earnings (Losses)	254	18	272
Interest expense			(26)
Interest income and other			14
Income (Loss) before Income Taxes			260
Income tax (expense) recovery			(56)
Net Income (Loss)			204
Capital Spending¹			
Capital expenditures	10	1	11

1 Included in Investing activities in the Condensed combined carve-out statement of cash flows.

six months ended June 30, 2024 (unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	1,480	12	1,492
Income (loss) from equity investments	7	26	33
Plant operating costs and other	(458)	(6)	(464)
Commodity purchases resold	(252)	—	(252)
Property taxes	(56)	—	(56)
Depreciation and amortization	(164)	(3)	(167)
Earnings (Losses)	557	29	586
Interest expense			(256)
Interest income and other			18
Income (Loss) before Income Taxes			348
Income tax (expense) recovery			(77)
Net Income (Loss)			271
Capital Spending¹			
Capital expenditures	34	10	44

1 Included in Investing activities in the Condensed combined carve-out statement of cash flows.

six months ended June 30, 2023 (unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	1,246	11	1,257
Income (loss) from equity investments	5	27	32
Plant operating costs and other	(389)	(4)	(393)
Commodity purchases resold	(223)	—	(223)
Property taxes	(60)	—	(60)
Depreciation and amortization	(162)	(2)	(164)
Earnings (Losses)	417	32	449
Interest expense			(56)
Interest income and other			31
Income (Loss) before Income Taxes			424
Income tax (expense) recovery			(90)
Net Income (Loss)			334
Capital Spending¹			
Capital expenditures	23	1	24

1 Included in Investing activities in the Condensed combined carve-out statement of cash flows.

Total Assets by Segment

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023
Keystone Pipeline System	14,641	14,340
All other segments	1,723	1,548
	16,364	15,888

4. REVENUES

Disaggregation of Revenues

The following tables summarizes total Revenues for the three and six months ended June 30, 2024 and 2023:

three months ended June 30 (unaudited - millions of Canadian \$)	2024			2023		
	Keystone Pipeline System	All other segments	Total	Keystone Pipeline System	All other segments	Total
Revenues from contracts with customers						
Capacity arrangements and transportation	568	6	574	530	6	536
Other revenues ¹	184	—	184	166	—	166
	752	6	758	696	6	702

1 Other revenues primarily relate to the Company's marketing activities and financial instruments. These arrangements are not in the scope of the revenue from contracts with customer guidance. Refer to Note 7, Risk management and financial instruments, for additional information on financial instruments.

For the three months ended June 30, 2024, three major customers accounted for \$211 million, \$113 million and \$62 million in revenues, each representing more than 10 per cent of total revenues from contracts with customers (2023 – four customers, \$218 million, \$104 million, \$59 million and \$59 million, respectively).

six months ended June 30 (unaudited - millions of Canadian \$)	2024			2023		
	Keystone Pipeline System	All other segments	Total	Keystone Pipeline System	All other segments	Total
Revenues from contracts with customers						
Capacity arrangements and transportation	1,154	12	1,166	963	11	974
Other	3	—	3	1	—	1
	1,157	12	1,169	964	11	975
Other revenues ¹	323	—	323	282	—	282
	1,480	12	1,492	1,246	11	1,257

1 Other revenues primarily relate to the Company's marketing activities and financial instruments. These arrangements are not in the scope of the revenue from contracts with customer guidance. Refer to Note 7, Risk management and financial instruments, for additional information on financial instruments.

For the six months ended June 30, 2024, three major customers accounted for \$424 million, \$221 million and \$121 million in revenues, each representing more than 10 per cent of total revenues from contracts with customers (2023 – four customers, \$387 million, \$186 million, \$109 million and \$106 million, respectively).

Contract Balances

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023	Affected line item on the Condensed combined carve-out balance sheet
Receivables from contracts with customers	404	445	Accounts receivable
Short-term contract liabilities ¹	24	22	Accounts payable and other
Long-term contract liabilities	22	22	Other long-term liabilities

1 During the six months ended June 30, 2024, \$8 million (2023 – \$8 million) of revenues were recognized that were included in contract liabilities at the beginning of the period.

Contract liabilities represent unearned revenue for contracted services.

Future Revenues from Remaining Performance Obligations

As at June 30, 2024, future revenues from long-term pipeline capacity arrangements and transportation extending through 2044 are approximately \$9.0 billion, of which approximately \$0.6 billion is expected to be recognized during the remainder of 2024.

5. INCOME TAXES

Effective Tax Rates

The effective income tax rates were 22 per cent and 21 per cent for the six months ended June 30, 2024 and 2023, respectively. The increase in effective income tax rate was primarily due to favourable U.S. state tax rate adjustments in 2023.

6. KEYSTONE ENVIRONMENTAL PROVISION

In December 2022, a pipeline incident occurred in Washington County, Kansas on the Keystone Pipeline System. At December 31, 2023, the Company had accrued a life-to-date environmental liability of \$794 million, before expected insurance recoveries and not including potential fines and penalties which continue to be indeterminable. For the six months ended June 30, 2024, amounts paid for the environmental remediation liability were \$75 million (2023 – \$433 million). The remaining balance reflected in Accounts payable and other and Other long-term liabilities on the Company's Condensed combined carve-out balance sheet was \$50 million and \$10 million, respectively at June 30, 2024 (December 31, 2023 – \$122 million and \$9 million, respectively).

The expected recovery of the remaining estimated environmental remediation costs recorded in Environmental provision recovery was \$133 million, including \$7 million from TC Energy's wholly-owned captive insurance subsidiary, and \$35 million in Other long-term assets at June 30, 2024 (December 31, 2023 – \$186 million, including \$36 million from TC Energy's wholly-owned captive insurance subsidiary, and \$33 million, respectively). For the six months ended June 30, 2024, the Company received \$58 million including \$30 million from TC Energy's wholly-owned captive insurance subsidiary (2023 – \$201 million, including \$7 million from TC Energy's wholly-owned captive insurance subsidiary) from its insurance policies related to the costs for environmental remediation.

7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Risk Management Overview

The Company has exposure to various financial risks and has strategies, policies and limits in place to manage the impact of these risks on its earnings and cash flows.

Counterparty Credit Risk

The Company's exposure to counterparty credit risk includes its cash and cash equivalents, accounts receivable, environmental provision and certain contractual recoveries, available-for-sale assets and the fair value of derivative assets.

Market events causing disruptions in global energy demand and supply may contribute to economic uncertainties impacting a number of the Company's customers. While the majority of the Company's credit exposure is to large creditworthy entities, the Company maintains close monitoring and communication with those counterparties experiencing greater financial pressures. Refer to the audited Combined carve-out financial statements for the year ended December 31, 2023 for more information about the factors that mitigate the Company's counterparty credit risk exposure.

The Company reviews financial assets carried at amortized cost for impairment using the lifetime expected loss of the financial asset at initial recognition and throughout the life of the financial asset. The Company uses historical credit loss and recovery data, adjusted for management's judgment regarding current economic and credit conditions, along with reasonable and supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other.

At June 30, 2024, the Company had no significant credit losses, and there were no significant credit risk concentrations or amounts past due or impaired.

The Company has significant credit and performance exposure to financial institutions that hold cash. The Company's portfolio of financial sector exposure consists primarily of highly-rated investment grade, systemically important financial institutions.

Non-Derivative Financial Instruments

Fair value of non-derivative financial instruments

Available-for-sale assets are recorded at fair value which is calculated using quoted market prices where available. Certain non-derivative financial instruments included in Cash and cash equivalents, Accounts receivable, Environmental provision recovery, Contractual recoveries, Other current assets, Other long-term assets, Accounts payable and other, Payable to affiliates and Other long-term liabilities have carrying amounts that approximate their fair value due to the nature of the item or the short time to maturity and are classified in Level II of the fair value hierarchy.

Credit risk has been taken into consideration when calculating the fair value of non-derivative financial instruments.

Balance sheet presentation of non-derivative financial instruments

The following table details the fair value of non-derivative financial instruments, excluding those where carrying amounts approximate fair value, and would be classified in Level II of the fair value hierarchy:

(unaudited - millions of Canadian \$)	June 30, 2024		December 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt to affiliates	(8,083)	(8,126)	(7,879)	(8,138)

Available-for-sale assets summary

The following tables summarize additional information about the Company's LMCI restricted investments that were classified as available-for-sale assets:

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023
Fair values of fixed income securities ^{1,2}		
Maturing within 1 year	—	1
Maturing within 1-5 years	—	—
Maturing within 5-10 years	—	—
Maturing after 10 years	104	102
	104	103

1 Available-for-sale assets are recorded at fair value and included in Other long-term assets on the Company's Condensed combined carve-out balance sheet.

2 Classified in Level II of the fair value hierarchy.

(unaudited - millions of Canadian \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Net unrealized gains (losses) ¹	—	(1)	(5)	5
Net realized gains (losses) ^{1,2}	—	(1)	(1)	(3)

1 Unrealized and realized gains (losses) arising from changes in the fair value of LMCI restricted investments impact the subsequent amounts to be collected through tolls to cover future pipeline abandonment costs. As a result, the Company records these gains and losses within Other long-term assets and liabilities.

2 Realized gains (losses) on the sale of LMCI restricted investments are determined using the average cost basis.

Derivative Instruments

Fair value of derivative instruments

The fair value of commodity derivatives has been calculated using quoted market prices where available. In the absence of quoted market prices, third-party broker quotes or other valuation techniques have been used. The fair value of options has been calculated using the Black-Scholes pricing model. Credit risk has been taken into consideration when calculating the fair value of derivative instruments. Unrealized gains and losses on derivative instruments are not necessarily representative of the amounts that will be realized on settlement.

Even though the derivatives are considered to be effective economic hedges, they do not meet the specific criteria for hedge accounting treatment and are accounted for at fair value with changes in fair value recorded in net income in the period of change. This may expose the Company to increased variability in reported earnings because the fair value of the derivative instruments can fluctuate significantly from period to period.

Balance sheet presentation of derivative instruments

The balance sheet classification of the fair value of held-for-trading, commodity derivative instruments was as follows:

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023
Derivatives Assets		
Other current assets	502	696
Other long-term assets	33	—
	535	696
Derivative Liabilities		
Accounts payable and other	(497)	(728)
Other long-term liabilities	(35)	—
	(532)	(728)
Total Derivatives^{1,2}	3	(32)

1 Fair value equals carrying value.

2 Includes purchases and sales.

The majority of derivative instruments held for trading have been entered into for risk management purposes and all are subject to TC Energy's risk management strategies, policies and limits. These include derivatives that have not been designated as hedges or do not qualify for hedge accounting treatment but have been entered into as economic hedges to manage the Company's exposures to market risk.

Notional and maturity summary

The maturity and notional amount or quantity outstanding related to the Company's liquids commodity derivative instruments was as follows:

(unaudited)	June 30, 2024	December 31, 2023
Net purchases ¹	(28)	(7)
Maturity dates	2024-2025	2024

1 Volumes are in MMBbls.

Unrealized and Realized Gains (Losses) on Commodity Derivative Instruments

(unaudited - millions of Canadian \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Derivative Instruments Held for Trading¹				
Unrealized gains (losses) in the period	35	4	36	8
Realized gains (losses) in the period	147	161	287	273

1 Realized and unrealized gains and losses on held-for-trading derivative instruments used to purchase and sell liquids are included on a net basis in Revenues.

Offsetting of derivative instruments

The Company enters into commodity derivative contracts with the right to offset in the normal course of business as well as in the event of default. The Company has no master netting agreements; however, similar contracts are entered into containing rights to offset. The Company has elected to present the fair value of derivative instruments with the right to offset on a gross basis on the Condensed combined carve-out balance sheet. The following tables show the impact on the presentation of the fair value of derivative instrument assets and liabilities had the Company elected to present these contracts on a net basis:

at June 30, 2024 (unaudited - millions of Canadian \$)	Gross derivative instruments	Amounts available for offset ¹	Net amounts
Derivative instrument assets	535	(517)	18
Derivative instrument liabilities	(532)	517	(15)

1 Amounts available for offset do not include cash collateral pledged or received.

at December 31, 2023 (unaudited - millions of Canadian \$)	Gross Derivative Instruments	Amounts Available for Offset ¹	Net Amounts
Derivative instrument assets	696	(681)	15
Derivative instrument liabilities	(728)	681	(47)

1 Amounts available for offset do not include cash collateral pledged or received.

With respect to the derivative instruments presented above, the Company provided cash collateral of \$51 million and no letters of credit at June 30, 2024 (December 31, 2023 – \$92 million and nil, respectively) to its counterparties. At June 30, 2024, the Company held no cash collateral and less than \$1 million in letters of credit (December 31, 2023 – nil and \$4 million, respectively) from counterparties on asset exposures.

Credit-risk-related contingent features of derivative instruments

Derivative contracts entered into to manage market risk often contain financial assurance provisions that allow parties to the contracts to manage credit risk. These provisions may require collateral to be provided if a credit-risk-related contingent event occurs, such as a downgrade in the Company's credit rating to non-investment grade. The Company may also need to provide collateral if the fair value of its derivative financial instruments exceeds pre-defined exposure limits.

Based on contracts in place and market prices at June 30, 2024, the Company had no derivative instruments with credit-risk-related contingent features in a net liability position for which no collateral was provided (December 31, 2023 – less than \$1 million). Should the fair value of derivative instruments exceed pre-defined contractual exposure limit thresholds, additional collateral may need to be provided. The Company has sufficient liquidity in the form of cash and TC Energy's support to meet these contingent obligations should they arise.

Fair Value Hierarchy

The Company's financial assets and liabilities recorded at fair value have been categorized into three categories based on a fair value hierarchy.

Levels	How Fair Value Has Been Determined
Level I	Quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. An active market is a market in which frequency and volume of transactions provides pricing information on an ongoing basis.
Level II	This category includes commodity derivatives where fair value is determined using the market approach. Inputs include yield curves and broker quotes from external data service providers.
Level III	This category includes long-dated transactions in certain markets where liquidity is low and the Company uses the most observable inputs available or alternatively long-term broker quotes or negotiated commodity prices that have been contracted for under similar terms in determining an appropriate estimate of these transactions. There is uncertainty caused by using unobservable market data which may not accurately reflect possible future changes

The fair value of the Company's derivative assets and liabilities measured on a recurring basis, including both current and non-current portions, were categorized as follows:

at June 30, 2024 (unaudited - millions of Canadian \$)	Quoted prices in active markets (Level I)	Significant other observable inputs (Level II) ¹	Significant unobservable inputs (Level III) ¹	Total
Derivative instrument assets	509	26	—	535
Derivative instrument liabilities	(497)	(35)	—	(532)
	12	(9)	—	3

¹ There were no transfers from Level II to Level III for the six months ended June 30, 2024.

at December 31, 2023 (unaudited - millions of Canadian \$)	Quoted prices in active markets (Level I)	Significant other observable inputs (Level II) ¹	Significant unobservable inputs (Level III) ¹	Total
Derivative instrument assets	668	28	—	696
Derivative instrument liabilities	(695)	(33)	—	(728)
	(27)	(5)	—	(32)

¹ There were no transfers from Level II to Level III for the year ended December 31, 2023.

8. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

The Company has long-term crude oil transportation agreements as well as other purchase obligations, all of which are transacted at market prices and in the normal course of business. Purchases under these contracts for the three and six months ended June 30, 2024 were \$18 million and \$32 million, respectively (2023 – \$16 million and \$29 million, respectively).

Capital expenditure commitments at June 30, 2024 increased by \$47 million from those reported at December 31, 2023 reflecting development of the Blackrod Connection project and new contractual commitments.

Contingencies

In 2021, TC Energy filed a Request for Arbitration to formally initiate a legacy North American Free Trade Agreement (NAFTA) claim to recover economic damages resulting from the revocation of the Presidential Permit for the Keystone XL pipeline project. The United States objected on the basis that the transition provisions under the United States-Mexico-Canada Agreement (USMCA) that protect investments made while NAFTA was in force apply only in connection with actions taken before July 1, 2020, when USMCA replaced NAFTA. The arbitral Tribunal adjudicating the claim issued a split decision on July 12, 2024 in which the majority of the panel agreed with the United States position and concluded that it did not have jurisdiction to hear TC Energy's claim. TC Energy is currently assessing the decision to determine whether there are grounds to change it.

At closing of the spinoff Transaction, TC Energy and South Bow will enter into a Separation Agreement providing that TC Energy expects to indemnify South Bow for 86% of total net liabilities and costs associated with the Milepost 14 incident and the existing variable toll disputes on the Keystone Pipeline System (excluding any future impacts to the variable toll) subject to a maximum liability to South Bow of \$30 million for those two matters. Any amounts that may ultimately be payable in respect of these liabilities and costs above the current accrued amount are indeterminable at this time.

The Company is aware of a potential dispute with customers regarding the Company's entitlement to contractual recoveries in an amount that may be material. At this time, formal legal proceedings have not commenced and the final outcome of this matter cannot be reasonably estimated.

In addition to the above potential dispute and the proceedings disclosed in the Variable Toll Disputes section in the audited Combined carve-out financial statements for the year ended December 31, 2023, the Company is subject to various other legal proceedings, arbitrations and actions arising in the normal course of business. The amounts involved in such other proceedings are not reasonably estimable as the final outcome of such legal proceedings cannot be predicted with certainty. It is the opinion of management that the ultimate resolution of such proceedings and actions will not have a material impact on the Company's combined financial position or results of operations.

Equity Investments Option Rights

The spinoff Transaction will trigger certain option rights to purchase the Company's ownership interest in the equity investments, which may or may not be exercised by the Company's respective partners or shareholders, as applicable. The option rights are triggered once TC Energy enters into certain spinoff agreements or upon closing of the spinoff Transaction.

On April 10, 2024, the option rights for Port Neches Link LLC and HoustonLink Pipeline were triggered. The respective partners of Port Neches Link LLC and HoustonLink Pipeline Company, LLC either notified the Company that they did not elect to exercise the option right to acquire the offered ownership interest or, alternatively, did not exercise the option right to acquire the offered ownership interest within the time period provided in the applicable limited liability agreement. As at June 30, 2024, no other triggering events had occurred.

Guarantees

The Company and its partners in certain jointly-owned entities have either: i) jointly and severally; ii) jointly or iii) severally guaranteed the financial performance of these entities. Such agreements include guarantees which are primarily related to construction services and the payment of liabilities. For certain of these entities, any payments made by the Company under these guarantees in excess of its ownership interest are to be reimbursed by its partners.

The carrying value of these guarantees has been recorded in Other long-term liabilities on the Condensed combined carve-out balance sheet. Information regarding the Company's guarantees were as follows:

(unaudited - millions of Canadian \$)	Term	June 30, 2024		December 31, 2023	
		Potential exposure ¹	Carrying value	Potential exposure ¹	Carrying value
Grand Rapids	to 2043	56	2	56	2

1 The Company's share of the potential estimated current and contingent exposure.

9. VARIABLE INTEREST ENTITIES

Consolidated VIEs

A portion of the Company's assets are held through VIEs in which the Company holds a 100 per cent voting interest, the VIE meets the definition of a business and the VIE's assets can be used for general corporate purposes. The consolidated VIEs whose assets cannot be used for purposes other than for the settlement of the VIE's obligations, or are not considered a business, were as follows:

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	2	2
Accounts receivable	7	3
	9	5
Plant, Property and Equipment	182	172
	191	177
LIABILITIES		
Current Liabilities		
Accounts payable and other	47	43
	47	43
Other Long-Term Liabilities	10	10
	57	53

Non-Consolidated VIEs

The carrying value of these VIEs and the maximum exposure to loss as a result of the Company's involvement with these VIEs are as follows:

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023
Balance Sheet Exposure		
Equity investments	938	949
Off-Balance Sheet Exposure		
Guarantees	56	56
Maximum Exposure to Loss	994	1,005

10. RELATED PARTY TRANSACTIONS

TC Energy is responsible for providing the Company's administrative and operating services (corporate expenses) necessary to operate the Liquids Pipelines business. As such, TC Energy's determination and classification of allocated corporate expenses incurred by TC Energy to the Company are considered related party transactions. Allocated corporate expenses are capitalized or expensed based on the nature of underlying expenditure. The Company also incurs operating costs with TC Energy's subsidiaries for costs that are not allocated but are direct costs to the Company that are capitalized or expensed based on the nature of underlying expenditure. The allocated corporate expenses, direct operating costs, interest expense on Long-term debt due to affiliates and interest income with affiliates were as follows:

(unaudited - millions of Canadian \$)	three months ended June 30		six months ended June 30	
	2024	2023	2024	2023
Allocated Corporate Expenses				
Plant operating costs and other	45	56	81	110
Plant, property and equipment	2	1	3	2
Equity investments ¹	1	6	2	12
	48	63	86	124
Direct Operating Costs				
Plant operating costs and other	39	34	85	64
Plant, property and equipment	1	1	3	2
Equity investments ²	—	2	1	4
	40	37	89	70
Interest Income with Affiliates	—	14	—	29
Interest Expense on Long-Term Debt Due to Affiliates	126	25	250	50

- For the three and six months ended June 30, 2024, \$1 million and \$2 million, respectively (2023 – \$5 million and \$10 million, respectively) impacted Income from equity investments.
- For the three and six months ended June 30, 2024, nil and \$1 million, respectively (2023 – \$2 million and \$4 million, respectively) impacted Income from equity investments.

The outstanding balances with affiliates at June 30, 2024 and December 31, 2023 were as follows:

(unaudited - millions of Canadian \$)	June 30, 2024	December 31, 2023	Affected line item on the Condensed combined carve-out balance sheet
Due to affiliates	109	137	Payable to affiliates
Due from affiliates	49	4	Accounts receivable
Long-term debt to affiliates	8,083	7,879	Long-term debt to affiliates

At June 30, 2024, the Company had \$250 million and US\$500 million (December 31, 2023 – \$100 million and nil, respectively) of revolving credit facilities with an affiliate. At June 30, 2024, no amounts were drawn against the facilities.

Refer to Note 6, Keystone environmental provision, for discussion of insurance recoveries from TC Energy's wholly-owned captive insurance subsidiary.

11. SUBSEQUENT EVENT

In 2019 and 2020, three Keystone customers initiated complaints before FERC and the CER regarding certain costs within the variable toll calculation. In February 2023, FERC released its initial decision in respect of the complaint, which addressed previously charged tolls between 2018 and 2022. On July 25, 2024, FERC released its Order on Initial Decision (Order) in respect of the complaint and as a result, the Company recognized an additional estimated liability of \$25 million in second quarter 2024. The Company continues to assess the impact of this Order, with amounts to be finalized upon submission of a compliance filing in third quarter 2024.