

Management's discussion and analysis

November 7, 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.

On October 1, 2024, TC Energy successfully completed the spinoff of its Liquids Pipelines business into a separate, publicly traded entity named South Bow Corporation (South Bow). Common shareholders of TC Energy retained their interest in TC Energy and received 0.2 of a South Bow common share for each TC Energy common share held. South Bow's common shares commenced regular way trading on the Toronto Stock Exchange on October 2, 2024 and on the New York Stock Exchange on October 8, 2024, under the ticker symbol SOBO.

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 nine months ended September 30, 2024 and should be read with the accompanying unaudited financial statements of South Bow and unaudited Condensed consolidated and combined carve-out financial statements of the Liquids Pipelines business for the three and nine months ended September 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 consolidated and 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 consolidated and 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

South Bow became an independent, public corporation on October 1, 2024.

Throughout this MD&A, the terms we, us and our mean the Liquids Pipelines business. All information is as of November 7, 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
- 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
- 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
- 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
- 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, 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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Income				
Revenues	728	715	2,220	1,972
Net income	82	121	353	455
Comparable EBITDA ¹	357	397	1,088	1,073
Comparable earnings ¹	118	170	371	557
Cash flows				
Net cash provided by operations ¹	475	391	766	739
Comparable funds generated from operations	286	300	695	926
Capital spending ²	83	11	127	35
Proceeds from sales of assets, net of transaction costs	(1)	5	30	68

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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Earnings				
Interest expense	(158)	(100)	(414)	(156)
Interest income and other	36	3	54	34
Income before income taxes	121	156	469	580
Income tax expense	(39)	(35)	(116)	(125)
Net income	82	121	353	455

Net income decreased by \$39 million and \$102 million for the three and nine months ended September 30, 2024 compared to the same periods in 2023. The following specific items were recognized in Net income and were excluded from comparable earnings:

2024 results

- an after-tax charge of \$31 million and \$42 million for the three and nine months ended September 30, 2024 incurred due to separation costs related to the spinoff Transaction. Refer to the Recent developments – Liquids Pipelines section for additional information
- an after-tax expense of \$16 million for the three and nine months ended September 30, 2024 related to Keystone XL asset disposition and termination activities
- an after-tax charge of \$12 million for the three and nine months ended September 30, 2024 as a result of the FERC Administrative Law Judge decision on Keystone in respect of a tolling-related complaint pertaining to amounts recognized in prior periods.

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 in prior periods, 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 \$10 million for the three and nine months ended September 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 to comparable earnings is shown in the following table.

RECONCILIATION OF NET INCOME TO COMPARABLE EARNINGS

(millions of \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Net income	82	121	353	455
Specific items (net of tax):				
Liquids Pipelines business separation costs	31	—	42	—
Keystone XL asset impairment charge and other	16	—	16	—
Keystone regulatory decisions	12	—	12	49
Keystone XL preservation and other	—	3	—	10
Focus Project costs	—	—	—	1
Risk management activities	(23)	46	(52)	42
Comparable earnings	118	170	371	557

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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Comparable EBITDA	357	397	1,088	1,073
Depreciation and amortization	(83)	(82)	(250)	(246)
Interest expense included in comparable earnings	(116)	(100)	(372)	(150)
Interest income and other included in comparable earnings	8	3	26	34
Income tax (expense) recovery included in comparable earnings	(48)	(48)	(121)	(154)
Comparable earnings	118	170	371	557

Comparable earnings – 2024 versus 2023

Comparable earnings decreased by \$52 million and \$186 million for the three and nine months ended September 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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Keystone Pipeline System	344	382	1,046	1,028
Intra-Alberta pipelines ¹	18	18	53	53
Other	(5)	(3)	(11)	(8)
Comparable EBITDA	357	397	1,088	1,073
Depreciation and amortization	(83)	(82)	(250)	(246)
Comparable EBIT	274	315	838	827
Specific items:				
Liquids Pipelines business separation costs	(26)	—	(40)	—
Keystone XL asset impairment charge and other	(21)	—	(21)	—
Keystone regulatory decisions	(15)	—	(15)	(57)
Keystone XL preservation and other	—	(3)	—	(13)
Focus Project costs	—	—	—	(1)
Risk management activities	31	(59)	67	(54)
Earnings	243	253	829	702
Comparable EBITDA denominated as follows:				
Canadian dollars	97	95	292	277
U.S. dollars	190	227	585	593
Foreign exchange impact	70	75	211	203
Comparable EBITDA	357	397	1,088	1,073

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

Earnings decreased by \$10 million and increased by \$127 million for the three and nine months ended September 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 nine months ended September 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 \$40 million and increased by \$15 million for the three and nine months ended September 30, 2024, respectively, compared to the same periods in 2023 primarily due to the net effect of:

- lower margins from liquids marketing activities due to the commencement of incremental WCSB egress capacity
- lower uncontracted volumes on the Keystone Pipeline System in third quarter 2024 compared to the same period in 2023
- higher uncontracted volumes for the nine months ended September 30, 2024 compared to the same period in 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 nine months ended September 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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Comparable EBITDA	190	227	585	593
Depreciation and amortization	(49)	(48)	(146)	(145)
Interest expense on long-term debt to affiliates	(58)	(55)	(187)	(91)
	83	124	252	357
Average exchange rate – U.S. to Canadian dollars	1.36	1.34	1.36	1.35

OTHER INCOME STATEMENT ITEMS

Interest Expense

(millions of \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Interest expense on long-term debt to affiliates				
Canadian dollar-denominated	(38)	(26)	(113)	(26)
U.S. dollar-denominated	(58)	(55)	(187)	(91)
Foreign exchange impact	(22)	(19)	(68)	(32)
	(118)	(100)	(368)	(149)
Other interest and amortization expense	2	—	(4)	(1)
Interest expense included in comparable earnings	(116)	(100)	(372)	(150)
Specific item:				
Liquids Pipelines business separation costs	(42)	—	(42)	—
Keystone regulatory decisions	—	—	—	(6)
Interest expense	(158)	(100)	(414)	(156)

Interest expense increased by \$58 million and \$258 million for the three and nine months ended September 30, 2024 compared to the same periods in 2023 and included the following specific items, which have been excluded from our calculation of comparable EBITDA and comparable EBIT:

- pre-tax Liquids Pipelines business separation costs of \$42 million for the three and nine months ended September 30, 2024 related to interest expense from the South Bow debt issuance on August 28, 2024
- 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 in prior periods. These carrying charges have been removed from our calculation of Interest expense included in comparable earnings.

Interest expense included in comparable earnings increased by \$16 million and \$222 million for the three and nine months ended September 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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Interest income and other included in comparable earnings	8	3	26	34
Specific item:				
Liquids Pipelines business separation interest income	28	—	28	—
Interest income and other	36	3	54	34

Interest income and other increased by \$33 million and \$20 million for the three and nine months ended September 30, 2024 compared to the same periods in 2023. The following specific item has been removed from our calculation of Interest income and other included in comparable earnings:

- pre-tax interest income of \$28 million for the three and nine months ended September 30, 2024 on proceeds from the South Bow debt issuance on August 28, 2024, which were held in escrow.

Interest income and other included in comparable earnings increased by \$5 million and decreased by \$8 million for the three and nine months ended September 30, 2024, respectively, 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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Income tax (expense) recovery included in comparable earnings	(48)	(48)	(121)	(154)
Specific items:				
Liquids Pipelines business separation costs	9	—	12	—
Keystone regulatory decisions	3	—	3	14
Keystone XL preservation and other	—	—	—	3
Keystone XL asset impairment charge and other	5	—	5	—
Risk management activities	(8)	13	(15)	12
Income tax (expense) recovery	(39)	(35)	(116)	(125)

Income tax expense increased by \$4 million and decreased by \$9 million for the three and nine months ended September 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 did not change for the three months ended September 30, 2024 and decreased by \$33 million for the nine months ended September 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 nine months ended September 30, 2024, approximately \$64 million of maintenance capital expenditures and \$58 million of Blackrod Connection project costs 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 September 30, 2024
Blackrod Connection Project	2026	250	58
Recoverable maintenance capital expenditures	2024-2026	207	64
Non-recoverable maintenance capital expenditures	2024-2026	2	1
Total secured projects		459	123

Recent developments

Spinoff of Liquids Pipelines Business

On October 1, 2024, TC Energy completed the spinoff of its Liquids Pipelines business into a separate, publicly traded entity, South Bow. Common shareholders of TC Energy retained their interest in TC Energy and received 0.2 of a South Bow common share for each TC Energy common share held. South Bow's common shares commenced regular way trading on the Toronto Stock Exchange on October 2, 2024, and on the New York Stock Exchange on October 8, 2024, under the ticker symbol SOBO. Refer to Note 3, Spinoff of Liquids Pipelines business, of our Condensed consolidated and combined carve-out financial statements for additional information.

We have incurred pre-tax Liquids Pipelines business separation costs related to the spinoff Transaction of \$40 million (\$31 million after tax) and \$54 million (\$42 million after tax) for the three and nine months ended September 30, 2024, respectively, of which \$26 million and \$40 million, respectively, of internal costs related to separation activities were included in our results. For the three and nine months ended September 30, 2024, \$42 million of interest expense and \$28 million of interest income were included in our results related to senior unsecured notes and junior subordinated notes issued on August 28, 2024 to establish South Bow's debt capital structure, the net proceeds of which were placed in escrow pending the completion of the spinoff Transaction. These costs have been excluded from comparable measures.

TC Energy and South Bow entered into a Separation Agreement setting forth the terms of the separation of the Liquids Pipelines business from the business of TC Energy, including the transfer of certain assets related to the Liquids Pipelines business from TC Energy to South Bow and the allocation of certain liabilities and obligations related to the Liquids Pipelines business between TC Energy and South Bow. The Separation Agreement provides, among other things that TC Energy indemnify South Bow for 86 per cent 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 disputes with respect to the variable toll after October 1, 2024) subject to a maximum liability to South Bow of \$30 million, in aggregate, for those two matters. Any amounts that may ultimately be payable in respect of these net liabilities and costs above the current accrued amount are indeterminable at this time. As part of the Separation Agreement, any insurance recoveries related to the Milepost 14 incident will remain with TC Energy.

FERC Order on Initial 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 recognized in prior periods. 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. At September 30, 2024, we reduced the estimated liability by \$10 million and recognized a \$15 million pre-tax charge for the nine months ended September 30, 2024 (2023 - nil and \$57 million, respectively) with respect to the decision, which has been excluded from comparable EBITDA and EBIT. On October 8, 2024, South Bow submitted a compliance filing, which is subject to final FERC approval. Subsequent rulings, if any, will be subject to the indemnity provisions as outlined in the Separation Agreement.

Blackrod Connection Project

Supported by long-term committed contracts, South Bow is developing the Blackrod Connection project, which will consist of a 25 km (16 mile) crude oil pipeline and a 25 km (16 mile) natural gas lateral; and associated facilities to provide crude oil transportation from International Petroleum Corporation's Blackrod project to the Grand Rapids Pipeline System. The expected total capital cost of the project is approximately \$250 million with a targeted in-service date of early 2026.

NAFTA Claim Request for Arbitration

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. After assessing the decision and available options to challenge it, TC Energy concluded that, while we continue to believe in the validity of the claim and believe the arbitral Tribunal's decision to be incorrect, there is no viable path forward for the claim within the rules of the investor/state dispute resolution process under USMCA. Accordingly, no further action will be taken. This decision effectively ends TC Energy's claim.

Financial condition

Historically, our business has generated positive cash flows from operations. Following the spinoff Transaction on October 1, 2024, our capital structure and sources of liquidity has changed from our historical practices. 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 our new 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 incurred in connection with the spinoff Transaction to refinance our long-term debt to affiliates and to fund capital expenditures.

At September 30, 2024, our current assets totaled \$10.0 billion and current liabilities amounted to \$9.3 billion, providing us with a working capital surplus of \$0.7 billion compared to \$0.8 billion at December 31, 2023. On August 28, 2024, South Bow Canadian Infrastructure Holdings Ltd. and 6297782 LLC completed an offering of approximately \$7.9 billion Canadian-dollar equivalent of senior unsecured notes and junior subordinated notes, of which approximately \$6.2 billion was placed in escrow pending the completion of the spinoff Transaction. Refer to Note 3, Spinoff of Liquids Pipelines business, of our Condensed consolidated and combined carve-out financial statements for additional information. Excluding the proceeds in escrow and the current portion of debt to affiliates, we consider these working capital levels to be normal for our business.

CASH PROVIDED BY OPERATING ACTIVITIES

(millions of \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Net cash provided by operations	475	391	766	739
Increase (decrease) in operating working capital	(231)	(94)	(125)	128
Funds generated from operations	244	297	641	867
Specific items:				
Liquids Pipelines business separation costs, net of current income tax	22	—	33	—
Keystone regulatory decisions, net of current income tax	12	—	12	49
Keystone XL preservation and other, net of current income tax	—	3	—	10
Current income tax expense on risk management activities	8	—	9	—
Comparable funds generated from operations	286	300	695	926

Net cash provided by operations

Net cash provided by operations increased by \$84 million and \$27 million for the three and nine months ended September 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 \$14 million and \$231 million for the three and nine months ended September 30, 2024 compared to the same periods in 2023 primarily due to changes in comparable EBITDA and higher interest expense.

CASH USED IN BY INVESTING ACTIVITIES

(millions of \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Capital expenditures	(83)	(11)	(127)	(35)
Proceeds from sale of assets, net of transaction costs	(1)	5	30	68
Keystone XL contractual recoveries	2	2	7	7
Deferred amounts and other	(1)	2	1	4
Net cash used in investing activities	(83)	(2)	(89)	44

Net cash (used in) provided by investing activities decreased by \$81 million for the three months ended September 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 \$133 million for the nine months ended September 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 PROVIDED BY FINANCING ACTIVITIES

(millions of \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Long-term debt issued, net of issue costs	4,652	821	4,652	821
Junior subordinated notes issued, net of issue costs	1,472	—	1,472	—
Long-term debt repaid to affiliates	—	(761)	—	(761)
Distributions on Class C interests	—	—	(2)	(42)
Parent's net investment contributions (distributions), net	29	134	(139)	(223)
Net cash provided by financing activities	6,153	194	5,983	(205)

Net cash provided by financing activities increased by \$5,959 million and \$6,188 million for the three and nine months ended September 30, 2024 compared to the same periods in 2023 due to the issuance of long-term debt and junior subordinated notes.

Long-term debt issued

The following table outlines long-term debt issuances in the nine months ended September 30, 2024:

(millions of Canadian \$, unless otherwise noted)					
Company	Issue date	Type	Maturity date	Amount	Interest rate
South Bow Canadian Infrastructure Holdings Ltd.					
	August 2024	Senior Unsecured Notes	February 2030	450	4.32%
	August 2024	Senior Unsecured Notes	February 2032	500	4.62%
	August 2024	Senior Unsecured Notes	February 2035	500	4.93%
	August 2024	Junior Subordinated Notes	March 2055	US 450	7.63%
	August 2024	Junior Subordinated Notes	March 2055	US 650	7.50%
6297782 LLC					
	August 2024	Senior Unsecured Notes	September 2027	US 700	4.91%
	August 2024	Senior Unsecured Notes	October 2029	US 1,000	5.03%
	August 2024	Senior Unsecured Notes ¹	October 2034	US 1,250	5.58%
	August 2024	Senior Unsecured Notes	October 2054	US 700	6.18%

¹ Non-cash issuance

On August 28, 2024, South Bow Canadian Infrastructure Holdings Ltd. and 6297782 LLC completed an offering of approximately \$7.9 billion Canadian-dollar equivalent of senior unsecured notes and junior subordinated notes. Approximately \$6.2 billion Canadian-dollar equivalent of the net proceeds was placed in escrow pending the completion of the spinoff Transaction on October 1, 2024 and US\$1.25 billion of senior unsecured notes were used to repay a TransCanada PipeLines Limited term loan. Upon completion of the spinoff Transaction, the escrowed funds were released to South Bow and used, along with available cash, to repay indebtedness owed by South Bow and its subsidiaries to TC Energy and its subsidiaries. Interest on these notes are paid semi-annually starting in 2025. Refer to Note 3, Spinoff of Liquids Pipelines business, of our Condensed consolidated and combined carve-out financial statements, for additional information.

At September 30, 2024, restricted cash was \$6.2 billion which was comprised primarily of the proceeds of the South Bow debt offering held in escrow.

Subsequent affiliate debt repayments

On October 1, 2024, long-term debt to affiliates was fully repaid by South Bow as follows:

(millions of Canadian \$, unless otherwise noted)		
Company	Amount	Interest Rate
South Bow USA Infrastructure Holdings LLC (formerly 6297782 LLC)		
US \$2,000	2,703	6.63%
South Bow Canadian Infrastructure Holdings Ltd. (formerly 15142121 Canada Ltd.)		
Canadian	2,300	6.50%
South Bow (USA) LLC (formerly TransCanada Keystone Pipeline, LLC)		
US \$750	1,014	4.83%
South Bow Infrastructure Inc. (formerly TransCanada Oil Pipelines Inc.)		
US \$50	68	6.97%
US \$175	236	6.93%

CREDIT FACILITIES

At September 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 affiliate of TC Energy and had drawn \$160 million and nil against the facilities, respectively (December 31, 2023 – nil). The amount drawn at September 30, 2024 was fully repaid on October 1, 2024.

During the third quarter of 2024, we entered into new committed revolving credit facilities with third parties providing availability of \$2 billion. No amounts were drawn as at September 30, 2024.

CONTRACTUAL OBLIGATIONS

Capital expenditure commitments at September 30, 2024 have increased by approximately \$136 million from those reported at December 31, 2023 reflecting commitments for development of the Blackrod project and other contractual commitments.

In February 2024, we entered into a 13-year lease contract for our 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 third 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 both short- and long-term debt to finance our operations which exposes us to interest rate risk. We pay fixed rates of interest on our long-term debt and floating rates on short-term debt which includes amounts drawn on our credit facilities. We do not have any interest rate hedges in place at September 30, 2024.

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. We do not have any foreign exchange hedges in place at September 30, 2024.

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 September 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.

FINANCIAL INSTRUMENTS

With the exception of Long-term debt to affiliates, our derivative and non-derivative financial instruments are recorded on the Condensed consolidated and 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 \$)	September 30, 2024	December 31, 2023
Other current assets	918	696
Other long-term assets	133	—
Accounts payable and other	(882)	(728)
Other long-term liabilities	(134)	—
	35	(32)

Unrealized and realized gains (losses) on commodity derivative instruments

(millions of \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Derivative Instruments Held for Trading¹				
Unrealized gains (losses) in the period	31	(65)	67	(57)
Realized gains in the period	152	223	439	496

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 8, Risk management and financial instruments, of our Condensed consolidated and combined carve-out financial statements.

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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Allocated Corporate Expenses				
Plant operating costs and other	39	44	120	154
Plant, property and equipment	1	1	4	3
Equity investments ¹	1	3	3	15
	41	48	127	172
Direct Operating Costs				
Plant operating costs and other	25	49	110	113
Plant, property and equipment	2	2	5	4
Equity investments ²	1	2	2	6
	28	53	117	123
Interest Income with Affiliates	—	—	—	29
Interest Expense on Long-Term Debt Due to Affiliates	118	99	368	149

1 For the three and nine months ended September 30, 2024, \$1 million and \$3 million, respectively (2023 – \$3 million and \$13 million, respectively) impacted Income from equity investments.

2 For the three and nine months ended September 30, 2024, \$1 million and \$2 million, respectively (2023 – \$2 million and \$6 million, respectively) impacted Income from equity investments.

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

(millions of \$)	September 30, 2024	December 31, 2023	Affected line item on the Condensed consolidated and combined carve-out balance sheet
Due to affiliates	440	137	Payable to affiliates
Due from affiliates	4	4	Accounts receivable
Current portion of long-term debt to affiliates	6,321	—	Current portion of long-term debt to affiliates
Long-term debt to affiliates	—	7,879	Long-term debt to affiliates

At September 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, and had drawn \$160 million and nil against the facilities, respectively (December 31, 2023 – nil).

Refer to our Condensed consolidated and combined carve-out financial statements, Note 7, Keystone environmental provision, for discussion of insurance recoveries from TC Energy's wholly-owned captive insurance subsidiary.

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 and consolidated and 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
	Third	Second	First	Fourth	Third	Second	First	Fourth
Revenues	728	758	734	733	715	702	555	624
Net income	82	121	150	140	121	204	130	238
Comparable earnings	118	98	155	129	170	208	179	206

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 third quarter 2024, comparable earnings also exclude:

- an \$31 million after-tax charge incurred due to Liquids Pipelines separation costs related to the spinoff Transaction.
- an \$16 million after-tax expense related to sale of Keystone XL project assets and adjustments to the estimate for contractual and legal obligations related to termination activities.
- an \$12 million after-tax charge as a result of the FERC Administrative Law Judge decision on Keystone in respect of a tolling-related complaint pertaining to amounts recognized in prior periods

In second quarter 2024, comparable earnings 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 earnings 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 in prior periods
- 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.

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 consolidated and combined carve-out statement of income and comprehensive income

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Revenues	728	715	2,220	1,972
Income from Equity Investments	18	18	51	50
Operating and Other Expenses				
Plant operating costs and other	236	224	700	617
Commodity purchases resold	135	145	387	368
Property taxes	28	29	84	89
Depreciation and amortization	83	82	250	246
Asset impairment charge and other	21	—	21	—
	503	480	1,442	1,320
Financial Charges				
Interest expense	158	100	414	156
Interest income and other	(36)	(3)	(54)	(34)
	122	97	360	122
Income before Income Taxes	121	156	469	580
Income Tax Expense (Recovery)				
Current	(51)	21	52	51
Deferred	90	14	64	74
	39	35	116	125
Net Income	82	121	353	455
Foreign currency translation adjustments	(70)	109	49	(39)
Comprehensive (Loss) Income	12	230	402	416

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

Condensed consolidated and combined carve-out statement of cash flows

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Cash Generated from Operations				
Net income	82	121	353	455
Depreciation and amortization	83	82	250	246
Asset impairment charge	10	—	10	—
Deferred income taxes	90	14	64	74
Income from equity investments	(18)	(18)	(51)	(50)
Distributions received from operating activities of equity investments	24	30	68	75
Unrealized (gains) losses on financial instruments	(31)	65	(67)	57
Other	4	3	14	10
Decrease (increase) in operating working capital	231	94	125	(128)
Net cash provided by operations	475	391	766	739
Investing Activities				
Capital expenditures	(83)	(11)	(127)	(35)
Proceeds from sales of assets, net of transaction costs	(1)	5	30	68
Keystone XL contractual recoveries	2	2	7	7
Deferred amounts and other	(1)	2	1	4
Net cash (used in) provided by investing activities	(83)	(2)	(89)	44
Financing Activities				
Long-term debt issued, net of issue costs	4,652	821	4,652	821
Junior subordinated notes issued, net of issue costs	1,472	—	1,472	—
Repayment of long-term debt to affiliates	—	(761)	—	(761)
Distributions on Class C Interests	—	—	(2)	(42)
Parent's net investment (distributions) contributions, net	29	134	(139)	(223)
Net cash provided by (used in) financing activities	6,153	194	5,983	(205)
Effect of Foreign Exchange Rate Changes on Restricted Cash, Cash and Cash Equivalents	(9)	3	3	3
Increase in Restricted Cash, Cash and Cash Equivalents	6,536	586	6,663	581
Restricted Cash, Cash and Cash Equivalents - Beginning of period	474	—	347	5
Restricted Cash, Cash and Cash Equivalents - End of period	7,010	586	7,010	586

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

Condensed consolidated and combined carve-out balance sheet

(unaudited - millions of Canadian \$)	September 30, 2024	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	841	347
Restricted Cash	6,169	—
Accounts receivable	1,605	1,775
Inventories	283	211
Environmental provision recovery	32	186
Contractual recoveries	85	83
Other current assets	1,030	851
	10,045	3,453
Plant, Property and Equipment	net of accumulated depreciation of \$3,768 and \$3,478, respectively	11,128
Equity Investments	1,059	1,073
Other Long-Term Assets	365	234
	22,709	15,888
LIABILITIES		
Current Liabilities		
Accounts payable and other	2,506	2,602
Payable to affiliates	440	137
Accrued interest	42	—
Current portion of long-term debt to affiliates	6,321	—
	9,309	2,739
Other Long-Term Liabilities	314	146
Long-Term Debt to Affiliates	—	7,879
Long-Term Debt	6,334	—
Junior Subordinated Notes	1,472	—
Deferred Income Tax Liabilities	1,464	1,373
	18,893	12,137
PARENT'S NET INVESTMENT		
Parent's net investment	3,075	3,059
Accumulated other comprehensive income	741	692
	3,816	3,751
	22,709	15,888

Commitments, Contingencies and Guarantees (Note 10)

Variable Interest Entities (Note 11)

Subsequent Event (Note 13)

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

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

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Parent's Net Investment				
Balance at beginning of period	3,191	9,305	3,059	9,336
Net income	82	121	353	455
Distributions, net	(198)	(6,502)	(337)	(6,867)
Balance at end of period	3,075	2,924	3,075	2,924
Accumulated Other Comprehensive Income				
Balance at beginning of period	811	697	692	845
Foreign currency translation adjustments	(70)	109	49	(39)
Balance at end of period	741	806	741	806
Total Parent's Net Investment	3,816	3,730	3,816	3,730

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

Notes to Condensed consolidated and 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). The Canadian and U.S. tax rulings as well as shareholders' approval have been received and the spinoff occurred on October 1, 2024. Refer to Note 3, Spinoff of Liquids Pipelines business, for additional information related to the successful closing of the spinoff Transaction.

These Condensed consolidated and 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 consolidated and combined carve-out balance sheets, Condensed consolidated and combined carve-out statements of income and comprehensive income, Condensed consolidated and combined carve-out statements of cash flows and Condensed consolidated and 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 consolidated and combined carve-out financial statements have been prepared for the 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.

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. As a result, the consolidated carve-out and combined carve-out financial information of the Company post and pre internal restructuring are included in these Condensed consolidated and combined carve-out financial statements.

These Condensed consolidated and 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 consolidated and 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 consolidated and 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.

Use of Estimates and Judgments

In preparing these Condensed consolidated and 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 consolidated and 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 consolidated and 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 consolidated and combined carve-out financial statements.

3. SPINOFF OF LIQUIDS PIPELINES BUSINESS

On October 1, 2024, TC Energy completed the spinoff of its Liquids Pipelines business into a separate, publicly traded entity, South Bow. To facilitate the separation, TC Energy common shareholders retained their interest in TC Energy and received 0.2 of a South Bow common share for each TC Energy common share held. South Bow's common shares commenced regular way trading on the Toronto Stock Exchange on October 2, 2024 and on the New York Stock Exchange on October 8, 2024, under the ticker symbol SOBO.

TC Energy and South Bow have executed a series of agreements to outline the parameters and guidelines that govern their ongoing relationship and to specify the separation of assets and liabilities between the two corporations. A Transition Services Agreement has been established, the primary purpose of which is to specify certain services that TC Energy will provide to South Bow, for compensation, for a period of up to two years. These services primarily include access to and support of systems that South Bow will continue to use until it has fully implemented new systems to support its business processes as well as warehouse management services.

TC Energy and South Bow have entered into a Separation Agreement providing that TC Energy will indemnify South Bow for 86 per cent 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 disputes with respect to the variable toll after October 1, 2024) subject to a maximum liability to South Bow of \$30 million, in aggregate, for those two matters. As part of the Separation Agreement, any insurance recoveries will remain with TC Energy. The Company's Condensed consolidated and combined carve-out balance sheet is reflective of the amounts that TC Energy will indemnify South Bow. Any amounts that may ultimately be payable in respect of these net liabilities and costs above the current accrued amount are indeterminable at this time.

On August 28, 2024, South Bow Canadian Infrastructure Holdings Ltd. and 6297782 LLC completed an offering of approximately \$7.9 billion Canadian-dollar equivalent of senior unsecured notes and junior subordinated notes. Approximately \$6.2 billion Canadian-dollar equivalent of the net proceeds was placed in escrow pending the completion of the spinoff Transaction on October 1, 2024 and US\$1.25 billion of senior unsecured notes were used to repay a TransCanada PipeLines Limited term loan. Upon completion of the spinoff Transaction, the escrowed funds were released to South Bow and used to repay indebtedness owed by South Bow and its subsidiaries to TC Energy and its subsidiaries.

Prior to the spinoff, the Company incurred pre-tax business separation costs related to the spinoff Transaction of \$40 million (\$31 million after tax) and \$54 million (\$42 million after tax) for the three and nine months ended September 30, 2024, respectively, of which \$26 million and \$40 million, respectively, of internal costs related to separation activities were included in Plant operating costs and other. For the three and nine months ended September 30, 2024, \$42 million of interest expense and \$28 million of interest income were included in Interest expense and Interest income and other, respectively, related to senior unsecured notes and junior subordinated notes issued on August 28, 2024 to establish South Bow's debt capital structure, the net proceeds of which were placed in escrow pending the completion of the spinoff Transaction.

4. SEGMENTED INFORMATION

three months ended September 30, 2024 (unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	722	6	728
Income from equity investments	4	14	18
Plant operating costs and other	(232)	(4)	(236)
Commodity purchases resold	(135)	—	(135)
Property taxes	(28)	—	(28)
Depreciation and amortization	(82)	(1)	(83)
Asset impairment charge and other	(21)	—	(21)
Earnings	228	15	243
Interest expense			(158)
Interest income and other			36
Income before Income Taxes			121
Income tax expense			(39)
Net Income			82
Capital Spending¹			
Capital expenditures	45	38	83

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

three months ended September 30, 2023			
(unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	709	6	715
Income from equity investments	5	13	18
Plant operating costs and other	(222)	(2)	(224)
Commodity purchases resold	(145)	—	(145)
Property taxes	(29)	—	(29)
Depreciation and amortization	(81)	(1)	(82)
Earnings	237	16	253
Interest expense			(100)
Interest income and other			3
Income before Income Taxes			156
Income tax expense			(35)
Net Income			121
Capital Spending¹			
Capital expenditures	11	—	11

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

nine months ended September 30, 2024			
(unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	2,202	18	2,220
Income from equity investments	11	40	51
Plant operating costs and other	(690)	(10)	(700)
Commodity purchases resold	(387)	—	(387)
Property taxes	(84)	—	(84)
Depreciation and amortization	(246)	(4)	(250)
Asset impairment charge and other	(21)	—	(21)
Earnings	785	44	829
Interest expense			(414)
Interest income and other			54
Income before Income Taxes			469
Income tax expense			(116)
Net Income			353
Capital Spending¹			
Capital expenditures	79	48	127

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

nine months ended September 30, 2023			
(unaudited - millions of Canadian \$)	Keystone Pipeline System	All other segments	Total
Revenues	1,955	17	1,972
Income from equity investments	10	40	50
Plant operating costs and other	(611)	(6)	(617)
Commodity purchases resold	(368)	—	(368)
Property taxes	(89)	—	(89)
Depreciation and amortization	(243)	(3)	(246)
Earnings	654	48	702
Interest expense			(156)
Interest income and other			34
Income before Income Taxes			580
Income tax expense			(125)
Net Income			455
Capital Spending¹			
Capital expenditures	34	1	35

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

Total Assets by Segment

(unaudited - millions of Canadian \$)	September 30, 2024	December 31, 2023
Keystone Pipeline System	14,421	14,340
All other segments	8,288	1,548
	22,709	15,888

5. REVENUES

Disaggregation of Revenues

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

three months ended September 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	535	6	541	549	6	555
Other	1	—	1	1	—	1
	536	6	542	550	6	556
Other revenues ¹	186	—	186	159	—	159
	722	6	728	709	6	715

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 8, Risk management and financial instruments, for additional information on financial instruments.

For the three months ended September 30, 2024, three major customers accounted for \$214 million, \$107 million and \$58 million in revenues, each representing more than 10 per cent of total revenues from contracts with customers (2023 – four customers, \$227 million, \$109 million, \$63 million and \$53 million).

nine months ended September 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	1,689	18	1,707	1,512	17	1,529
Other	4	—	4	2	—	2
	1,693	18	1,711	1,514	17	1,531
Other revenues ¹	509	—	509	441	—	441
	2,202	18	2,220	1,955	17	1,972

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 8, Risk management and financial instruments, for additional information on financial instruments.

For the nine months ended September 30, 2024, three major customers accounted for \$638 million, \$328 million and \$179 million in revenues, each representing more than 10 per cent of total revenues from contracts with customers (2023 – four customers, \$614 million, \$295 million, \$169 million and \$162 million).

Contract Balances

(unaudited - millions of Canadian \$)	September 30, 2024	December 31, 2023	Affected line item on the Condensed consolidated and combined carve-out balance sheet
Receivables from contracts with customers	407	445	Accounts receivable
Short-term contract liabilities ¹	26	22	Accounts payable and other
Long-term contract liabilities	22	22	Other long-term liabilities

1 During the nine months ended September 30, 2024, \$13 million (2023 – \$13 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 September 30, 2024, future revenues from long-term pipeline capacity arrangements and transportation extending through 2044 are approximately \$8.6 billion, of which approximately \$0.3 billion is expected to be recognized during the remainder of 2024.

6. INCOME TAXES

Effective Tax Rates

The effective income tax rates were 25 per cent and 21 per cent for the nine months ended September 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.

7. KEYSTONE ENVIRONMENTAL PROVISION

In December 2022, a pipeline incident (Milepost 14) 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 nine months ended September 30, 2024, amounts paid for the environmental remediation liability were \$92 million (2023 – \$584 million). The remaining balance reflected in Accounts payable and other and Other long-term liabilities on the Company's Condensed consolidated and combined carve-out balance sheet was \$31 million and \$10 million, respectively at September 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 \$32 million, with nil remaining from TC Energy's wholly-owned captive insurance subsidiary, and \$34 million in Other long-term assets at September 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 nine months ended September 30, 2024, the Company received \$120 million including \$35 million from TC Energy's wholly-owned captive insurance subsidiary (2023 – \$403 million, including \$7 million from TC Energy's wholly-owned captive insurance subsidiary) from its insurance policies related to the costs for environmental remediation. As part of the Separation Agreement, any insurance recoveries related to the Milepost 14 incident will remain with TC Energy.

8. 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 September 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, Restricted Cash, 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 \$)	September 30, 2024		December 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt to affiliates, including current portion	(6,321)	(6,321)	(7,879)	(8,138)
Long-term debt	(6,334)	(6,508)	—	—
Junior subordinated notes	(1,472)	(1,618)	—	—

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 \$)	September 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	113	102
	113	103

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

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Net unrealized gains (losses) ¹	7	(12)	1	(6)
Net realized losses ^{1,2}	(1)	(1)	(2)	(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 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 \$)	September 30, 2024	December 31, 2023
Derivatives Assets		
Other current assets	918	696
Other long-term assets	133	—
	1,051	696
Derivative Liabilities		
Accounts payable and other	(882)	(728)
Other long-term liabilities	(134)	—
	(1,016)	(728)
Total Derivatives^{1,2}	35	(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)	September 30, 2024	December 31, 2023
Net purchases ¹	(26)	(7)
Maturity dates	2024-2025	2024

1 Volumes are in MMBbbls.

Unrealized and Realized Gains (Losses) on Commodity Derivative Instruments

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2024	2023	2024	2023
Derivative Instruments Held for Trading¹				
Unrealized gains (losses) in the period	31	(65)	67	(57)
Realized gains in the period	152	223	439	496

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 consolidated and 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 September 30, 2024 (unaudited - millions of Canadian \$)	Gross derivative instruments	Amounts available for offset¹	Net amounts
Derivative instrument assets	1,051	(1,012)	39
Derivative instrument liabilities	(1,016)	1,012	(4)

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 Offset¹	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 \$18 million and no letters of credit at September 30, 2024 (December 31, 2023 – \$92 million and nil, respectively) to its counterparties. At September 30, 2024, the Company held no cash collateral and no 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 September 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 in fair value.

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 September 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	1,032	19	—	1,051
Derivative instrument liabilities	(997)	(19)	—	(1,016)
	35	—	—	35

¹ There were no transfers from Level II to Level III for the nine months ended September 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.

9. LONG-TERM DEBT

Long-Term Debt Issued

Long-term debt issued by the Company in the nine months ended September 30, 2024 included the following:

(unaudited - millions of Canadian \$, unless otherwise noted)					
Company	Issue date	Type	Maturity date	Amount	Interest rate
South Bow Canadian Infrastructure Holdings Ltd.					
	August 2024	Senior Unsecured Notes	February 2030	450	4.32%
	August 2024	Senior Unsecured Notes	February 2032	500	4.62%
	August 2024	Senior Unsecured Notes	February 2035	500	4.93%
	August 2024	Junior Subordinated Notes	March 2055	US 450	7.63%
	August 2024	Junior Subordinated Notes	March 2055	US 650	7.50%
6297782 LLC					
	August 2024	Senior Unsecured Notes	September 2027	US 700	4.91%
	August 2024	Senior Unsecured Notes	October 2029	US 1,000	5.03%
	August 2024	Senior Unsecured Notes ¹	October 2034	US 1,250	5.58%
	August 2024	Senior Unsecured Notes	October 2054	US 700	6.18%

¹ Non-cash issuance

On August 28, 2024, South Bow Canadian Infrastructure Holdings Ltd. and 6297782 LLC completed an offering of approximately \$7.9 billion Canadian-dollar equivalent of senior unsecured notes and junior subordinated notes. Approximately \$6.2 billion Canadian-dollar equivalent of the net proceeds was placed in escrow pending the completion of the spinoff Transaction on October 1, 2024 and US\$1.25 billion of senior unsecured notes were used to repay a TransCanada PipeLines Limited term loan. Upon completion of the spinoff Transaction, the escrowed funds were released to South Bow and used, along with available cash, to repay indebtedness owed by South Bow and its subsidiaries to TC Energy and its subsidiaries. Interest on these notes are paid semi-annually starting in 2025. Refer to Note 3, Spinoff of Liquids Pipelines business, for additional information.

At September 30, 2024, restricted cash was \$6.2 billion which was comprised primarily of the proceeds of the South Bow debt offering held in escrow.

During the third quarter of 2024, the Company entered into \$2 billion of new committed revolving credit facilities with third parties. No amounts were drawn as at September 30, 2024.

Subsequent Affiliate Debt Repayments

On October 1, 2024, Long-term debt to affiliates was fully repaid by South Bow as follows:

(unaudited - millions of Canadian \$, unless otherwise noted)		
Company	Amount	Interest Rate
South Bow USA Infrastructure Holdings LLC (formerly 6297782 LLC)		
US \$2,000	2,703	6.63%
South Bow Canadian Infrastructure Holdings Ltd. (formerly 15142121 Canada Ltd.)		
Canadian	2,300	6.50%
South Bow (USA) LLC (formerly TransCanada Keystone Pipeline, LLC)		
US \$750	1,014	4.83%
South Bow Infrastructure Inc. (formerly TransCanada Oil Pipelines Inc.)		
US \$50	68	6.97%
US \$175	236	6.93%

10. 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 nine months ended September 30, 2024 were \$17 million and \$49 million, respectively (2023 – \$15 million and \$44 million, respectively).

Capital expenditure commitments at September 30, 2024 increased by \$136 million from those reported at December 31, 2023 reflecting development of the Blackrod Connection project and new 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.

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. After assessing the decision and available options to challenge it, TC Energy concluded that, while it continues to believe in the validity of the claim and believe the arbitral Tribunal's decision to be incorrect, there is no viable path forward for the claim within the rules of the investor/state dispute resolution process under USMCA. Accordingly, no further action will be taken. This decision effectively ends TC Energy's claim.

On October 1, 2024, TC Energy and South Bow entered into a Separation Agreement providing that TC Energy indemnify South Bow for 86 percent 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 after October 1, 2024) subject to a maximum liability to South Bow of \$30 million, in aggregate, 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 has triggered 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.

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 September 30, 2024, no other triggering events had occurred. Refer to Note 13, Subsequent event, for additional information related to triggering events that occurred upon closing of the spinoff Transaction.

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 consolidated and combined carve-out balance sheet. Information regarding the Company's guarantees were as follows:

(unaudited - millions of Canadian \$)	Term	September 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.

11. 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 \$)	September 30, 2024	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	2	2
Accounts receivable	8	3
	10	5
Plant, Property and Equipment	232	172
	242	177
LIABILITIES		
Current Liabilities		
Accounts payable and other	59	43
	59	43
Other Long-Term Liabilities	10	10
	69	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 \$)	September 30, 2024	December 31, 2023
Balance Sheet Exposure		
Equity investments	933	949
Off-Balance Sheet Exposure		
Guarantees	56	56
Maximum Exposure to Loss	989	1,005

12. 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 September 30		nine months ended September 30	
	2024	2023	2024	2023
Allocated Corporate Expenses				
Plant operating costs and other	39	44	120	154
Plant, property and equipment	1	1	4	3
Equity investments ¹	1	3	3	15
	41	48	127	172
Direct Operating Costs				
Plant operating costs and other	25	49	110	113
Plant, property and equipment	2	2	5	4
Equity investments ²	1	2	2	6
	28	53	117	123
Interest Income with Affiliates	—	—	—	29
Interest Expense on Long-Term Debt Due to Affiliates	118	99	368	149

1 For the three and nine months ended September 30, 2024, \$1 million and \$3 million, respectively (2023 – \$3 million and \$13 million, respectively) impacted Income from equity investments.

2 For the three and nine months ended September 30, 2024, \$1 million and \$2 million, respectively (2023 – \$2 million and \$6 million, respectively) impacted Income from equity investments.

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

(unaudited - millions of Canadian \$)	September 30, 2024	December 31, 2023	Affected line item on the Condensed consolidated and combined carve-out balance sheet
Due to affiliates	440	137	Payable to affiliates
Due from affiliates	4	4	Accounts receivable
Current portion of long-term debt to affiliates	6,321	—	Current portion of long-term debt to affiliates
Long-term debt to affiliates	—	7,879	Long-term debt to affiliates

At September 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, and had drawn \$160 million and nil against the facilities, respectively (December 31, 2023 – nil).

Refer to Note 7, Keystone environmental provision, for discussion of insurance recoveries from TC Energy's wholly-owned captive insurance subsidiary.

13. SUBSEQUENT EVENT

On October 1, 2024, the spinoff Transaction has triggered certain option rights to purchase the Company's ownership interest in the equity investments of Grand Rapids Pipeline Limited Partnership, which may or may not be exercised by the Company's respective partner, PetroChina Canada Ltd. On October 2, 2024 South Bow sent a notice to PetroChina Canada Ltd. stating the purchase option has been triggered due to the spinoff Transaction and the process for both parties to select an evaluator for the valuation of the business will take place in the fourth quarter of 2024.