

2025 ANNUAL REPORT



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MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis

Basis of Presentation

The following management's discussion and analysis ("MD&A") was prepared as of March 13, 2026 and is a review of the results of operations and the liquidity and capital resources of South Bow Corporation and its subsidiaries (collectively, "South Bow" or the "Company"). The MD&A should be read in conjunction with the accompanying annual audited consolidated financial statements and notes thereto ("accompanying financial statements") of South Bow as at and for the year ended December 31, 2025, as well as South Bow's annual information form for the year ended December 31, 2025 ("AIF"), each of which are available on South Bow's website at www.southbow.com, under South Bow's electronic profile on SEDAR+ at www.sedarplus.ca, and with the U.S. Securities and Exchange Commission ("SEC") at www.sec.gov.

Unless otherwise noted, all financial figures in this MD&A are in United States ("U.S.") dollars.

On October 1, 2024, the Company completed the spinoff from TC Energy Corporation ("Former Parent" or "TC Energy") to form a new publicly traded company (the "Spinoff"). For the comparative periods prior to the Spinoff date, the accompanying financial statements are the combined carve-out financial statements of TC Energy's Liquids Pipelines business, and present the historical results of operations, comprehensive income, cash flows, changes in shareholders' equity, and the financial position as if the Company had always existed and operated as a standalone reporting entity.

This MD&A contains non-GAAP financial measures and forward-looking statements. Refer to the *Specified Financial Measures* and *Forward-looking Information* sections of this MD&A for additional details. Refer to the *Glossary* section for abbreviations and capitalized terms commonly used in this MD&A.

Corporate Profile

South Bow Overview

South Bow is an energy infrastructure company that owns and operates critical liquids pipelines and facilities extending across Canada and the U.S., safely and reliably connecting robust crude oil supplies to key refining and demand markets in the U.S. Midwest and U.S. Gulf Coast. South Bow seeks to optimize its assets, invest strategically to sustainably grow its cash flows, and pay a meaningful dividend, if, as, and when declared by South Bow's board of directors (the "Board"). The majority of South Bow's revenues are generated through long-term committed transportation arrangements, whereby customers receive access to capacity in exchange for a committed monthly payment.

South Bow takes a disciplined approach to capital allocation to preserve optionality and maximize total shareholder returns over the long term. The Company's capital allocation priorities are built on a foundation of financial strength and are supported by South Bow's stable, predictable cash flows. South Bow's capital allocation priorities include: paying a sustainable base dividend; strengthening the Company's investment-grade financial position; and leveraging existing infrastructure within South Bow's strategic corridor to offer customers competitive connections, enhanced optionality and value chain extensions.

South Bow has three reporting segments: Keystone Pipeline System, Marketing, and Intra-Alberta & Other.

Financial Highlights

U.S.\$ millions, except per share amounts, ratios, and where noted	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
Financial Results				
Revenue	503	488	1,986	2,120
Income from equity investments	14	12	52	49
Income before income taxes	153	72	497	418
Normalized EBITDA ¹	252	290	1,022	1,091
Distributable cash flow ¹	149	155	709	621
Capital expenditures ²	60	28	178	122
Net income	156	55	433	316
Weighted average common shares outstanding - diluted (millions)	208.8	208.4	208.8	208.2
Net income per share - diluted	0.75	0.26	2.07	1.52
Normalized net income ¹	127	112	411	383
Normalized net income per share - diluted ¹	0.61	0.54	1.97	1.84
Dividends declared	104	104	416	104
Dividends per share	0.50	0.50	2.00	0.50
Total long-term debt ³	5,768	5,716	5,768	5,716
Net debt ¹	4,806	4,901	4,806	4,901
Net debt-to-normalized EBITDA (ratio) ¹	4.7	4.5	4.7	4.5
Operational Results				
Keystone Pipeline System Operating Factor ("SOF") (%) ⁴	94	96	94	95
Keystone Pipeline throughput (Mbbbl/d)	594	621	584	626
U.S. Gulf Coast segment of Keystone Pipeline System throughput (Mbbbl/d) ⁵	680	784	718	795
Marketlink throughput (Mbbbl/d)	531	615	563	614

1. Non-GAAP financial measure or ratio, which do not have standard meanings under generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other entities. Refer to the *Specified Financial Measures* section of this MD&A for additional details.

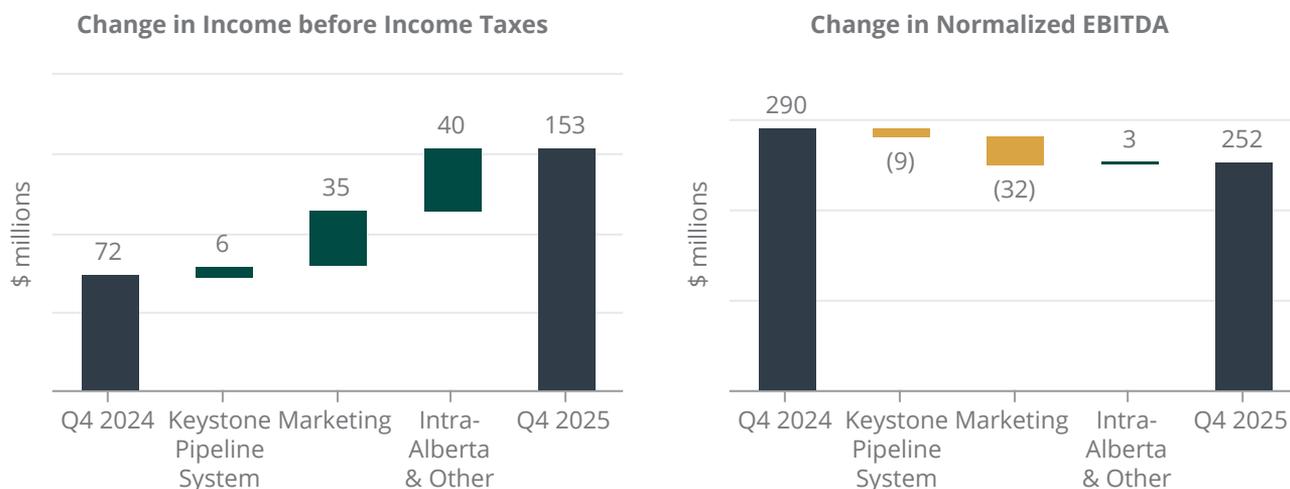
2. Capital expenditures per the investing activities of the consolidated cash flow statements in the accompanying financial statements.

3. Total long-term debt at December 31, 2025 includes the Company's senior unsecured notes ("Senior Notes") and junior subordinated notes ("Junior Notes") per the consolidated balance sheets of the accompanying financial statements. Refer to the *Long-term Debt, including Credit Facilities* section of this MD&A for additional details.

4. SOF measures South Bow's ability to deliver crude oil at the planned maximum rate of the Keystone Pipeline System.

5. Comprises throughput originating in Hardisty, Alberta transported on the Keystone Pipeline System, and throughput originating in Cushing, Oklahoma transported on Marketlink for destination in the U.S. Gulf Coast.

Change in Income before Income Taxes and Normalized EBITDA (Three Months Ended December 31, 2025)



Income before income taxes for the three months ended December 31, 2025 increased to \$153 million from \$72 million in the same period of 2024.

Income before income taxes in the Keystone Pipeline System segment increased during the three months ended December 31, 2025 compared to 2024, primarily due to higher estimated Keystone variable toll revenues, interest income on the final tolls approved by the Canada Energy Regulator ("CER") in the fourth quarter of 2025, and a reduction in provisions related to the long-term monitoring and close-out obligations of the historical Keystone XL project. These increases were partially offset by lower revenues generated, impacted by reduced throughput as a result of pressure restrictions from the Milepost 171 ("MP-171") incident that occurred in April 2025, uncommitted capacity contributions impacted by tighter pricing differentials, and a \$10 million non-recurring reduction to revenue under the indemnification terms with the Company's Former Parent. Refer to the *Recent Developments* section of this MD&A for additional details on the CER approval of final tolls.

Higher income before income taxes in the Marketing segment in the fourth quarter of 2025 relative to 2024 was primarily driven by lower costs associated with commodity purchases and transportation fees driven by reduced throughput volumes, partially offset by lower revenues generated from physical contracts and risk management activities.

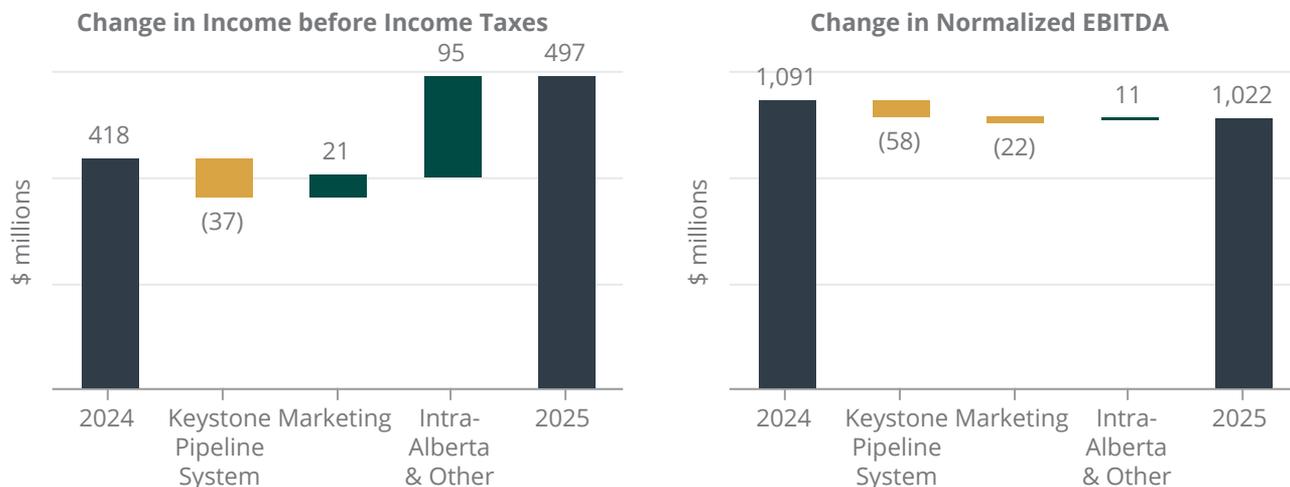
Income before income taxes in the Intra-Alberta & Other segment increased in the fourth quarter of 2025 compared to 2024, primarily attributable to higher interest income generated in 2025 and higher one-time costs relating to the Spinoff in 2024. During the fourth quarter of 2024, the Company recorded a \$26 million charge in interest income and other relating to penalty for early repayment of long-term debt to the Company's Former Parent.

South Bow's normalized EBITDA for the three months ended December 31, 2025 decreased to \$252 million from \$290 million in the same period of 2024, primarily driven by lower normalized EBITDA in the Keystone Pipeline System and Marketing segments.

The Keystone Pipeline System segment's normalized EBITDA decreased by \$9 million in the fourth quarter of 2025 compared to the same period in 2024, primarily attributable to tighter pricing differentials impacting contributions from uncommitted capacity on the Keystone Pipeline System. Refer to the *Segment Results* and *Specified Financial Measures* sections of this MD&A for additional details.

Normalized EBITDA for the Marketing segment decreased in the fourth quarter of 2025 relative to the fourth quarter of 2024, driven by reduced revenues as a result of lower volumes sold and tighter pricing differentials, in addition to lower realized gains recognized on financial contracts in 2025 compared to 2024. As a result of lower volumes, the segment incurred lower operating costs to fulfill its transportation contracts.

Change in Income before Income Taxes and Normalized EBITDA (Year Ended December 31, 2025)



Income before income taxes for the year ended December 31, 2025 increased to \$497 million from \$418 million for the year ended December 31, 2024, due to increases in the Marketing and Intra-Alberta & Other segments, offset by decreases in income before income taxes for the Keystone Pipeline System.

The decrease in the Keystone Pipeline System's income before income taxes during the year ended December 31, 2025 compared to 2024 was primarily driven by lower revenues driven by reduced throughput resulting from operational restrictions following the MP-171 incident, and tighter pricing differentials impacting contributions from uncommitted capacity. Full-year 2025 income before income taxes also reflected a \$43 million non-recurring charge against revenue, net of indemnification terms. These decreases to revenue were partially offset by higher estimated variable toll revenue for 2025 and \$20 million of non-recurring other income related to separation terms with the Former Parent. Refer to the *Recent Developments* section of this MD&A for additional details on the Withdrawal of Keystone Variable Toll Disputes, tolls approved by the CER, and the MP-171 incident.

The Marketing segment's income before income taxes increased during the year ended December 31, 2025 from the year ended December 31, 2024, driven by realized and unrealized gains on risk management instruments partially offset by lower revenue and costs to purchase and market crude oil in 2025.

The Company's Intra-Alberta & Other segment income before income taxes increased during the year ended December 31, 2025 due to higher interest income and lower interest expense recognized on South Bow's long-term debt in 2025 compared to the Company's long-term debt due to affiliates of its Former Parent held in 2024. The segment also incurred lower separation-related expenses in 2025 following the Spinoff.

Normalized EBITDA of \$1,022 million for the year ended December 31, 2025 decreased from normalized EBITDA of \$1,091 million for the year ended December 31, 2024, attributable to decreases in the Keystone Pipeline System and Marketing segments, partially offset by higher normalized EBITDA for the Intra-Alberta & Other segment.

The decrease in the Keystone Pipeline System segment's normalized EBITDA was a result of lower revenues primarily attributable to lower throughput and higher operating costs attributable to higher operational programs within the segment during the year ended December 31, 2025 compared to 2024. The lower revenues associated with lower throughput were partially offset by higher estimated Keystone variable toll revenue during 2025 compared to 2024.

The decrease in normalized EBITDA for the Marketing segment was driven by reduced physical volumes sold at lower prices, partially offset by a realized gain position on risk management instruments in the 2025 period compared to realized losses in the 2024 period.

Revenue and Income from Equity Investments

U.S.\$ millions, except where noted	Three Months Ended December 31,			Year Ended December 31,		
	2025	2024	Change	2025	2024	Change
Revenues	503	488	3 %	1,986	2,120	(6)%
Income from equity investments	14	12	17 %	52	49	6 %

South Bow generated revenue of \$503 million during the three months ended December 31, 2025 compared to \$488 million in the same period of 2024, with higher revenues generated by the Keystone Pipeline System and Marketing segments.

Higher Keystone Pipeline System revenues in the fourth quarter of 2025 compared to the fourth quarter of 2024 were primarily driven by increased revenue recognized on the Keystone estimated variable toll. These increases were partially offset by lower Marketlink revenues due to reduced throughput volumes and tighter pricing differentials in 2025, and a non-recurring charge of \$10 million related to the indemnification of the final CER-approved tolls for 2020 to 2024, previously held in abeyance. Refer to the *Recent Developments* section of this MD&A for additional details on the final CER approved tolls.

Higher Marketing revenues during the three months ended December 31, 2025 were primarily attributable to unrealized gains on risk management instruments at December 31, 2025 compared to unrealized losses at December 31, 2024. This increase was partially offset by lower revenues resulting from reduced physical volumes transported and lower sales prices due to tighter pricing differentials, as well as lower realized gains recognized on risk management activities in the 2025 period compared to 2024.

During the year ended December 31, 2025, South Bow generated revenue of \$1,986 million compared to \$2,120 million in the same period of 2024, primarily driven lower revenues generated by the Keystone Pipeline System and Marketing segments.

Lower revenues generated by the Keystone Pipeline System segment during the year ended December 31, 2025 were primarily due to the impact of tight pricing differentials on uncommitted capacity contributions, in addition to pressure restrictions on the Keystone Pipeline as a result of the MP-171 incident. The Company additionally recorded non-recurring charges against revenue of \$43 million during the third quarter of 2025 relating to the Withdrawal of Keystone Variable Toll Disputes and \$10 million associated with the indemnification of the final CER-approved tolls in the fourth quarter of 2025. These decreases were partially offset by increased revenue recognized on the Keystone estimated variable toll for higher operating costs incurred. Refer to the *Recent Developments* section of this MD&A for additional details on the MP-171 incident, Withdrawal of Keystone Variable Toll Disputes, and the CER Order.

The Marketing segment generated lower revenues during the year ended December 31, 2025 compared to 2024 due to lower physical volumes sold and lower sales prices, partially offset by an unrealized gain position on risk management instruments at December 31, 2025 compared to an unrealized loss position at December 31, 2024, as well as realized gains on risk management activities in 2025 compared to realized losses in 2024.

Income from equity investments was relatively unchanged during the year ended December 31, 2025 relative to comparable periods in 2024 due to the long-term committed contracts associated with the Company's equity investments.

Operating and Other Expenses

U.S.\$ millions, except where noted	Three Months Ended December 31,			Year Ended December 31,		
	2025	2024	Change	2025	2024	Change
Plant operating costs and other	184	161	14 %	719	738	(3)%
Commodity purchases resold	70	93	(25)%	313	376	(17)%
Depreciation and amortization	58	62	(6)%	247	246	— %
Other	(13)	—	— %	(8)	15	(153)%
Total	299	316	(5)%	1,271	1,375	(8)%

Plant operating costs and other increased during the three months ended December 31, 2025 compared to the 2024 period, driven primarily by an increase in Keystone Pipeline System operational programs and remedial actions relating to the MP-171 incident. During the three months ended December 31, 2024, the Company recognized \$13 million on gains on sale of assets which reduced plant operating costs in the prior period.

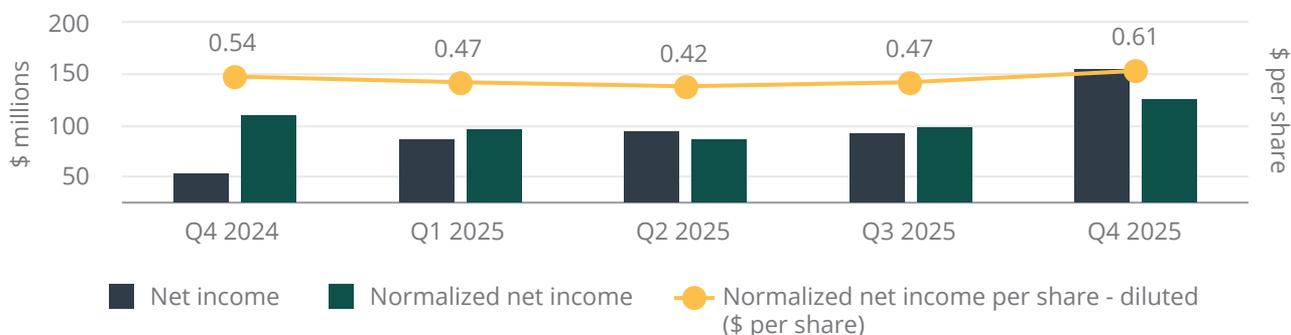
Plant operating costs and other decreased during the year ended December 31, 2025 compared to 2024, primarily attributable to lower corporate costs associated with the Spinoff, offset partially by higher operational program spending within the Keystone Pipeline System segment.

Commodity purchases resold decreased during the three months and year ended December 31, 2025 due to lower commodity prices and lower quantities purchased relative to the comparative periods in 2024.

Depreciation and amortization was relatively consistent year over year as the Company did not place into service or retire any major assets in 2024 or 2025.

During the three months ended December 31, 2025, the Company recognized a \$13 million decrease in other expenses attributable to gains recognized on provision adjustments related to its long-term monitoring and close-out obligations for the historical Keystone XL project. During the year ended December 31, 2025, the Company additionally recorded a net \$5 million charge related to the collection of its Keystone XL contractual recoveries. Refer to the *Recent Developments* section for additional details.

Net Income and Normalized Net Income



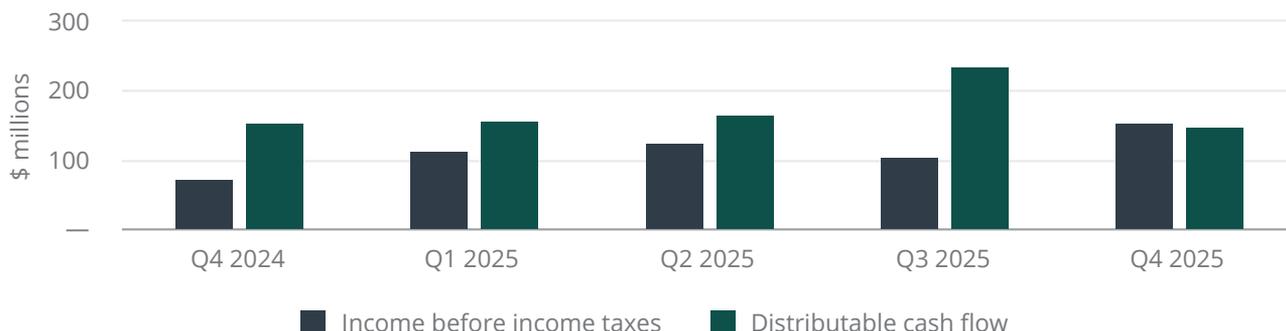
South Bow recognized net income and normalized net income of \$156 million and \$127 million, respectively, during the fourth quarter of 2025 compared to net income and normalized net income of \$55 million and \$112 million, respectively, during the fourth quarter of 2024. Normalized net income was \$0.61 per share (diluted) in the fourth quarter of 2025 compared to \$0.54 per share (diluted) in the fourth quarter of 2024.

The increase in net income during the three months ended December 31, 2025 compared to the same period in 2024 was primarily attributable to increases in income before income taxes discussed earlier in this MD&A in addition to an income tax recovery position in the fourth quarter of 2025 compared to income tax expense position in 2024.

The increase in normalized net income in the fourth quarter of 2025 compared to the same period in 2024 was primarily attributable to lower income taxes in 2025 compared to 2024.

During the year ended December 31, 2025, the Company recognized net income and normalized net income of \$433 million and \$411 million, respectively, compared to \$316 million and \$383 million, respectively, during the same period in 2024. The increase in net income was a result of higher income before income taxes discussed earlier in this MD&A in addition to income tax recoveries in 2025 compared to income tax expense in 2024. The recovery of income tax expense in 2025 was driven by the deduction of certain debt settlement costs and the realization of certain state tax apportionment adjustments from the Spinoff. Normalized net income increased in 2025 relative to 2024 driven by the changes in income tax mentioned above.

Distributable Cash Flow



Distributable cash flow for the three months ended December 31, 2025 decreased to \$149 million from \$155 million for three months ended December 31, 2024 driven by higher current income tax expenses in the 2025 period attributable primarily to increased earnings.

Distributable cash flow increased to \$709 million during the year ended December 31, 2025 from \$621 million during the year ended December 31, 2024 primarily attributable to increases in income before income taxes discussed earlier in this MD&A and reduced current income taxes. The current income tax recovery position in 2025 compared to expense position in 2024 was due to the deduction of certain debt settlement costs mentioned above, changes in U.S. tax legislation, the realization of certain state tax apportionment adjustments, and accelerated deduction of previously incurred capital costs.

Total Long-term Debt and Net Debt



1. Total long-term debt at December 31, 2025 and December 31, 2024 includes the Company's Senior Notes and Junior Notes. Refer to the *Long-term Debt, including Credit Facilities* section of this MD&A for additional details.
2. Net debt at December 31, 2025 and December 31, 2024 includes 50 per cent equity treatment of the Company's Junior Notes. Refer to the *Specified Financial Measures* section of this MD&A for additional details on composition of net debt.

The Company's total long-term debt of \$5.8 billion was relatively unchanged at December 31, 2025 from December 31, 2024, with no issuances or repayments occurring during 2025. The Company's first debt maturity is in September 2027. Net debt at December 31, 2025 was \$4.8 billion, a slight decrease from December 31, 2024 driven by higher cash balances at December 31, 2025 relative to 2024. Refer to the *Liquidity, Capital Resources, and Share Capital* section of this MD&A for additional details on the Company's debt, capital structure, and credit ratings.

As expected, the Company's net debt-to-normalized EBITDA ratio increased modestly to 4.7 times at December 31, 2025 compared to 4.5 times at December 31, 2024, primarily attributable to lower normalized EBITDA for the trailing four quarters at December 31, 2025 compared to December 31, 2024.

Segment Results

Keystone Pipeline System

U.S.\$ millions, except where noted	Year Ended December 31,		
	2025	2024	Change
Revenue	1,565	1,643	(5)%
Income before income taxes	741	778	(5)%
Normalized EBITDA	970	1,028	(6)%
Total capital expenditures ¹	36	35	3 %
Keystone Pipeline throughput (Mbbbl/d)	584	626	(7)%
U.S. Gulf Coast segment of Keystone Pipeline System throughput (Mbbbl/d)	718	795	(10)%
Marketlink throughput (Mbbbl/d)	563	614	(8)%
Keystone SOF (%)	94	95	(1)%

1. Refer to capital program section of this MD&A for additional details.

Keystone Pipeline System revenues decreased during the year ended December 31, 2025 compared to the year ended December 31, 2024, primarily due to tight pricing differentials impacting contributions from uncommitted capacity, and operational restrictions from the MP-171 incident, partially offset by an increase in the 2025 estimated variable toll. During the year ended December 31, 2025, the Company recorded decreases to revenue for non-recurring charges of \$43 million, net of indemnification terms, related to the Withdrawal of Keystone Variable Toll Disputes and \$10 million associated with the indemnification of the Final CER Order. Refer to the *Recent Developments and Specified Financial Measures* sections of this MD&A for additional details.

Income before income taxes decreased during the year ended December 31, 2025 from the year ended December 31, 2024, due to lower revenues, as discussed above, partially offset by the recognition of \$20 million of non-recurring other income from South Bow's Former Parent related to the terms of the Separation Agreement.

Normalized EBITDA for the year ended December 31, 2025 decreased from 2024, driven by tight pricing differentials impacting contributions from uncommitted capacity on the Keystone Pipeline and the U.S. Gulf Coast segment of the Keystone Pipeline System.

Total capital expenditures invested for the Keystone Pipeline System segment were consistent year over year. Refer to the *Outlook and Guidance* section of this MD&A for details on South Bow's outlook for capital expenditures for 2026.

Throughput on the Keystone Pipeline System assets were lower for the year ended December 31, 2025, compared to the comparative periods in 2024, primarily driven by tight pricing differentials and operational restrictions from the MP-171 incident.

The Keystone Pipeline System SOF in the year ended December 31, 2025 was 94 per cent, slightly lower from the comparative period in 2024 primarily due to an increase in in-line inspection tool runs and maintenance activities as part of South Bow's remedial actions following the MP-171 incident.

Marketing

U.S.\$ millions	Year Ended December 31,		
	2025	2024	Change
Revenue	403	453	(11)%
Income before income taxes	27	6	350 %
Normalized EBITDA	(10)	12	(183)%

Revenue for the Marketing segment decreased during the year ended December 31, 2025 compared to the same period of 2024, primarily due to lower physical volumes sold at lower prices, owing to tighter pricing differentials. This decrease in physical revenues was partially offset by realized and unrealized gains on risk management contracts during 2025 compared to realized and unrealized losses during 2024.

The increase in the Marketing segment's income before income taxes during the year ended December 31, 2025, compared to the same period of 2024, was primarily driven by lower costs to purchase and market crude oil, partially offset by the lower revenues discussed above.

Normalized EBITDA for the Marketing segment decreased by \$22 million for the year ended December 31, 2025, reflecting the Company's risk reduction strategy. The decrease was driven by reduced physical volumes sold at lower prices, partially offset by a realized gain position on risk management instruments in the 2025 period compared to realized losses in the 2024 period.

Intra-Alberta & Other

U.S.\$ millions	Year Ended December 31,		
	2025	2024	Change
Revenue	18	24	(25)%
Income from equity investments	42	39	8 %
Interest expense	(331)	(386)	(14)%
Loss before income taxes	(271)	(366)	(26)%
Normalized EBITDA	62	51	22 %
Total capital expenditures ¹	152	106	43 %

1. Refer to capital program section of this MD&A for additional details.

Intra-Alberta & Other income from equity investments remained relatively consistent year over year.

The Company recognized a lower loss before income taxes during the year ended December 31, 2025 compared to the same periods in 2024, primarily as a result of lower interest expense incurred in the 2025 periods on the Company's long-term debt compared to the long-term debt to affiliates of its Former Parent held in the same period in 2024, as well as a \$26 million charge in interest income and other relating to a penalty for early repayment of long-term debt to the Company's Former Parent in 2024. South Bow also incurred fewer separation-related costs in 2025 than 2024.

Normalized EBITDA for the Intra-Alberta & Other segment increased during the year ended December 31, 2025 and 2024 as a result of lower corporate operating expenses and higher income from equity investments.

During the year ended December 31, 2025, South Bow invested \$103 million in the development of the Blackrod Connection Project, and additional capital expenditures primarily relating to information systems and leasehold improvements relating to the establishment of South Bow as an independent company. Refer to the *Outlook and Guidance* section of this MD&A for information on the Company's 2026 outlook and for additional information regarding the Blackrod Connection Project.

Recent Developments

Withdrawal of Keystone Variable Toll Disputes

Effective September 30, 2025, the Company and associated parties agreed to withdraw all complaints and protests associated with the variable toll disputes previously filed with the CER, FERC, Court of King's Bench of Alberta, and D.C. Circuit Court (collectively, the "Withdrawal of Keystone Variable Toll Disputes"). This agreement effectively resolved the Company's outstanding Keystone variable toll disputes discussed further below. Pursuant to an associated partial release of indemnification agreement and the Separation Agreement, the Former Parent was obligated to indemnify South Bow for certain amounts agreed to under the Withdrawal of Keystone Variable Toll Disputes.

Pursuant to these agreements, the Company recorded gross liabilities of \$226 million, with partially offsetting receivables from its Former Parent under the indemnification terms of \$189 million at September 30, 2025. The Company recorded liabilities not subject to the indemnification terms of \$33 million, discounted at the Company's credit-adjusted rate, to be paid over the next six years, beginning in the fourth quarter of 2025 and due in the third quarter of subsequent years. The amounts payable under the Withdrawal of the Keystone Variable Toll Disputes are primarily recorded in accounts payable and other on the consolidated balance sheets, with amounts expected to be recovered pursuant to the indemnification terms recorded in other current assets.

As a result of the Withdrawal of Keystone Variable Toll Disputes and the Milepost 14 ("MP-14") costs previously recorded under indemnification terms, South Bow recorded net liabilities up to its maximum indemnity liability of \$22 million (C\$30 million) at September 30, 2025. Any incremental costs incurred related to the items subject to indemnification are no longer the obligation of the Company. The net impact of recording the terms of the Withdrawal of Keystone Variable Toll Disputes, related indemnification asset, and the reduction of the previously accrued balances (see FERC Variable Toll Disputes below) resulted in a net reduction of revenue in the consolidated statement of income of \$43 million during the year ended December 31, 2025. Under the partial release of indemnification agreement, the Company additionally recorded \$20 million in other income related to separation terms with its Former Parent in September 2025.

In November 2025, the Company made gross payments of \$99 million and has remaining outstanding gross liabilities of \$127 million, with \$91 million of partially offsetting receivables from its Former Parent relating to the Withdrawal of Keystone Variable Toll Disputes outstanding at December 31, 2025.

FERC Variable Toll Disputes

At September 30, 2025, the Company revised its provision relating to estimated payments for historical variable toll disputes with the FERC to nil in conjunction with the Withdrawal of Keystone Variable Toll Disputes (December 31, 2024 - \$51 million gross liability).

CER Ruling

In March 2025, the CER issued its Reasons for Decision and Order in respect of the complaint ("CER Order"), finding the Company's proposed drag-reducing agent cost allocation methodology will result in just and reasonable tolls for 2020 and 2021. In June 2025, pursuant to the CER Order, the Company filed its application for approval of the final variable toll adjustments for 2020 and 2021, and in October 2025, the CER approved South Bow's application. In November 2025, the Company filed its application for collection of the final adjusted variable tolls for the 2022 to 2024 periods, and in December 2025, the CER approved the application. As a result of the approval of the final tolls, the Company is no longer subject to interim tolling and has commenced its collection of final adjusted variable tolls for the 2020 to 2024 periods, including associated interest, from its Keystone Canada customers.

During the year ended December 31, 2025, the Company recorded a reduction in revenue of \$10 million under indemnification terms with its Former Parent and \$15 million in interest income and other, net of indemnification terms, relating to the CER Order. As at December 31, 2025, the Company has a \$45 million receivable, net of indemnification terms, relating to the CER approved final tolls and associated interest recorded in accounts receivable on the consolidated balance sheets (December 31, 2024 - \$16 million). The Company has excluded the adjustment from its normalized measures within Keystone Variable Toll Disputes. Refer to the *Specified Financial Measures* section of this MD&A for additional details.

Milepost 171 Incident

On April 8, 2025, the Company responded to an oil release of approximately 3,500 barrels at MP-171, near Fort Ransom, North Dakota. On April 11, 2025, the Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued a Corrective Action Order ("CAO"), requiring South Bow to undertake certain corrective actions in response to the MP-171 incident, including the completion of an independent third-party root cause analysis ("RCA") along with mechanical and metallurgical testing. On April 15, 2025, South Bow safely restarted the Keystone Pipeline under certain operating pressure restrictions after receiving regulatory approval from PHMSA. In early June 2025, South Bow completed the cleanup and reclamation of the incident site.

During the year ended December 31, 2025, the Company incurred \$53 million in costs related to the incident and sustaining pipeline integrity program on a prospective basis. These costs are largely expected to be recovered through the Company's insurance policies. The Company received \$42 million from insurance policies during the year ended December 31, 2025.

Findings and recommendations from the independent third-party RCA were released by PHMSA on February 11, 2026 and will be incorporated into South Bow's remedial work plan. The Company continues to advance remedial actions, completing seven in-line inspection runs and 51 integrity digs to date as of March 5, 2026. The Company continues to be able to meet all contractual transportation services while operating under the CAO.

Keystone XL Contractual Recoveries

During the year ended December 31, 2025, the Company recorded a charge of \$5 million, net of indemnification terms, relating to its Keystone XL contractual recoveries. As at December 31, 2025, the Company has nil Keystone XL contractual recoveries balance outstanding (December 30, 2024 - \$8 million net receivable). The Company has excluded the charges from its normalized measures within Keystone XL costs and other. Refer to the *Specified Financial Measures* section of this MD&A for additional details.

Spinoff Transaction Transition Services Agreement Costs

Beginning on October 1, 2024, pursuant to the Transition Services Agreement ("TSA") with its Former Parent, South Bow was billed \$5 million in costs associated with the TSA for the three months ended December 31, 2024 and \$10 million during the year ended December 31, 2025. These costs relate to, but are not limited to, fees for services received and information system costs. Effective April 1, 2025, the Company transitioned to its own ERP system, marking a significant milestone in fully establishing South Bow as an independent company. During the fourth quarter of 2025, the Company completed the transition to its new supervisory control and data acquisition ("SCADA") system, the final significant item in exiting the TSA.

Milepost 14 Incident

In December 2022, the MP-14 incident occurred on the Keystone Pipeline in Washington County, Kansas. As a result of the incident, the Company was subject to an Amended Corrective Action Order ("ACAO") issued by PHMSA. By June 2023, the recovery of all released volumes was completed, and by October 2023, creek restoration was finished, returning natural flows to Mill Creek. In January 2025, the Company received PHMSA's approval of its remedial work plan. This approval culminated the completion of 2,145 miles of in-line inspections across the Keystone Pipeline System and 68 investigative digs over a two-year period. In March 2025, South Bow received approval from PHMSA to lift the pressure restriction on the affected segment to 72 per cent of the specified minimum yield strength of the pipeline.

In the fourth quarter of 2024, South Bow recognized an additional provision for \$30 million for its best estimate of incremental costs relating to the MP-14 incident. South Bow also recognized a receivable for 86 per cent of this amount (\$26 million), representing its Former Parent's share of the anticipated incremental cost pursuant to the indemnity clauses in the Separation Agreement. At December 31, 2025, there have been no changes to this estimate.

During the year ended December 31, 2025, the Company incurred \$2 million relating to ongoing environmental remediation activities (2024 - \$68 million), adjusted the cost estimate down by \$1 million (2024 - \$18 million), and during 2025, nil was received (2024 - \$89 million) from the insurance policies of its Former Parent related to the costs for environmental remediation.

The remaining balance reflected in accounts payable and other and other long-term liabilities on the consolidated balance sheets was \$3 million and \$7 million, respectively, at December 31, 2025 (December 31, 2024 – \$4 million and \$10 million, respectively).

The expected recovery of the remaining estimated environmental remediation costs recorded in environmental provision recovery was \$10 million at December 31, 2025 (December 31, 2024 – \$31 million).

Outlook and Guidance

Market Outlook

Western Canadian Sedimentary Basin (“WCSB”) crude oil supply is expected to grow modestly throughout 2026 and remain below available pipeline egress capacity, resulting in continued tight pricing differentials which may impact contributions from uncommitted capacity on the Keystone Pipeline. Recent geopolitical events are not expected to materially impact South Bow's business or the long-term demand for Canadian crude oil. Pricing differentials impacting the rates South Bow can charge for capacity on the U.S. Gulf Coast segment of its Keystone Pipeline System are expected to remain tight throughout 2026.

Guidance

2025 Guidance and Actuals

South Bow delivered solid financial results in 2025 despite geopolitical and market uncertainty and operational restrictions from the MP-171 incident, demonstrating the Company's highly contracted cash flows and strong commercial framework. This business resiliency and cash flow stability enabled the Company to deliver normalized EBITDA of \$1,022 million, slightly above guidance of \$1,010 million.

South Bow generated \$709 million of distributable cash flow in 2025, in line with revised guidance of \$700 million, with the Company's outlook improving significantly throughout the year due to tax optimization efforts and lower expected current taxes resulting from changes in U.S. tax legislation. South Bow also recognized a one-time tax deduction, resulting in a lower effective tax rate in 2025.

Owing to its disciplined capital allocation and stronger-than-expected distributable cash flow in 2025, South Bow exited the year with a net debt-to-normalized EBITDA ratio of 4.7 times, slightly ahead of the Company's original guidance of 4.8 times.

All other 2025 financial results were generally in line with guidance.

South Bow's 2025 annual guidance compared to 2025 actuals is outlined below:

<i>\$ millions, except percentages</i>	2025 Guidance ¹	2025 Actuals	% Variance from Guidance
Normalized EBITDA ^{2,3}	1,010 +1% / -2%	1,022	— %
Interest expense	325 +/- 2%	331	— %
Effective tax rate (%)	20% - 21%	13%	(7)%
Distributable cash flow ³	700 +/- 2%	709	— %
Capital expenditures			— %
Growth	110 +/- 3%	113	— %
Maintenance ⁴	55 +/- 3%	51	(4)%

1. Assumes average foreign exchange rate of C\$/U.S.\$1.43.

2. Previously disclosed in the Company's MD&A for the three months ended September 30, 2025.

3. Normalized EBITDA and distributable cash flow for the year ended December 31, 2024 were \$1,091 million and \$621 million, respectively.

4. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

2026 Guidance

South Bow's guidance aims to inform readers about Management's expectations for 2026 financial and operational results. Readers are cautioned that these estimates may not be suitable for any other purpose. Refer to the *Forward-Looking Information* section of this MD&A for additional information regarding the material factors or assumptions used to develop South Bow's guidance and the material factors that could cause actual events and results to be significantly different from those expected.

South Bow is reaffirming its 2026 guidance, with the Company's financial outlook underpinned by highly contracted cash flows and strong structural demand for services. Normalized EBITDA is projected to be approximately \$1,030 million, within a range of two per cent, with approximately 90 per cent secured through committed arrangements, which carry minimal commodity price or volumetric risk.

Normalized EBITDA for the Keystone Pipeline System segment is expected to be approximately \$15 million lower in 2026 compared to 2025, reflecting lower normalized EBITDA associated with planned maintenance capital expenditures following an active maintenance and integrity program in 2025, as well as tight pricing differentials expected to continue placing pressure on the Company's U.S. Gulf Coast segment of its Keystone Pipeline System.

Normalized EBITDA for the Marketing segment is expected to be approximately \$15 million higher in 2026 compared to 2025, reflecting a recovery from the losses realized in 2025.

Normalized EBITDA for the Intra-Alberta & Other segment is expected to increase by approximately \$10 million in 2026 relative to 2025, with Blackrod Connection Project cash flows increasing throughout the second half of 2026 and into 2027.

Normalized EBITDA for the first quarter of 2026 is expected to be relatively unchanged from fourth-quarter 2025 normalized EBITDA of \$252 million.

South Bow has placed the Blackrod Connection Project into commercial service and will update its outlook for growth capital expenditures once it sanctions its next development project. The Company continues to expect its net debt-to-normalized EBITDA ratio to decrease modestly through 2026.

South Bow's 2026 annual guidance is outlined below:

<i>\$ millions, except percentages</i>	2026 Guidance ¹
Normalized EBITDA	1,030 +/- 2%
Financial charges ²	315 +/- 2%
Effective tax rate (%)	22% - 23%
Distributable cash flow	655 +/- 2%
Capital expenditures	
Growth ^{3,4}	10
Maintenance ^{3,5}	25 +/- 10

1. Assumes average foreign exchange rate of C\$/U.S.\$1.39.

2. Comprised of interest expense and interest income and other.

3. Supplementary financial measure. See Specified Financial Measures of this MD&A for additional details.

4. South Bow will update its outlook for growth capital expenditures once it sanctions its next development project.

5. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

Liquidity, Capital Resources, and Share Capital

Liquidity

The following table summarizes the Company's sources and uses of cash for the years ended December 31, 2025 and 2024:

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Cash from (Used in):		
Operating activities	717	529
Investing activities	(175)	(80)
Financing activities	(411)	(307)
Effect of foreign exchange rate changes on cash and cash equivalents	21	(7)
Net Increase in Cash and Cash Equivalents	152	135

At December 31, 2025, cash and cash equivalents were \$549 million (December 31, 2024 - \$397 million).

Operating Activities

Cash from operating activities is primarily impacted by changes in operations, fluctuations in demand for uncommitted capacity, commodity prices, changes in cost environment, and timing of cash receipts and payments made. The increase in cash from operating activities for the year ended December 31, 2025 compared to the same periods in 2024 was primarily attributable to higher net income.

Investing Activities

Cash used in investing activities is primarily related to maintenance and growth capital expenditures. Cash used in investing activities during the year ended December 31, 2025 was attributable to the Company's cash capital expenditures of \$178 million, as the Company invested in its Blackrod Connection Project and other maintenance capital expenditures, compared to capital expenditures of \$122 million in the comparative period of 2024. During the year ended December 31, 2024, South Bow recognized \$38 million, in proceeds from sales of Keystone XL pipe which was held for sale during 2024.

Financing Activities

Cash used in financing activities primarily relates to the issuance and repayment of long-term debt balances, dividends paid, and share capital transactions. During the year ended December 31, 2025 the Company used \$411 million in cash to pay \$416 million in dividends. This was partially offset by \$5 million in cash received from option exercises compared to \$121 million in distributions paid to its Former Parent in the 2024 comparative period.

Capital Management

<i>U.S.\$ millions, except where noted</i>	December 31, 2025	December 31, 2024
Cash and cash equivalents	549	397
Senior Notes	4,682	4,629
Junior Notes	1,086	1,087
Net debt	4,806	4,901
Income before income taxes	497	418
Normalized EBITDA	1,022	1,091
Net Debt-to-normalized EBITDA Ratio ¹	4.7	4.5

1. Normalized EBITDA is calculated using the trailing four quarters of normalized EBITDA from the applicable period end.

A significant portion of South Bow's revenues are from long-term committed contracts. The Company has no material restrictions on its cash and cash equivalents and has significant unutilized capacity under its credit facilities, with its first long-term debt maturity in 2027. South Bow believes that it is positioned to meet its operating obligations, including quarterly dividend payments, if, as, and when declared, by utilizing its cash flow from operating activities and available borrowing capacity if, and as, required.

Maintaining a strong balance sheet and financial flexibility is fundamental to South Bow's strategy. At December 31, 2025, the Company's net debt-to-normalized EBITDA ratio was 4.7 times. The Company is committed to prudently managing leverage and expects to enhance its financial resilience, reduce debt service charges, and create additional capacity to fund future growth initiatives and potentially grow shareholder returns.

Long-term Debt, including Credit Facilities

Long-term Debt

South Bow completed its initial debt offerings on August 28, 2024, comprised of U.S. and Canadian dollar-denominated Senior Notes and U.S. dollar-denominated Junior Notes. Interest rates are fixed on the Senior Notes and Junior Notes, and interest is paid semi-annually beginning in 2025. Refer to *Note 17, Long-term Debt* of the accompanying financial statements for additional information.

The table below summarizes the Senior Notes and Junior Notes issued and outstanding as at December 31, 2025:

Debt Instrument	Total	Principal Repayments ¹					After 2030
		2026	2027	2028	2029	2030	
<i>U.S.\$ millions, except where noted</i>							
Senior Unsecured Notes							
U.S. Dollar-denominated Debt							
Due September 2027 (\$700 million, 4.91%)	700	—	700	—	—	—	—
Due October 2029 (\$1,000 million, 5.03%)	1,000	—	—	—	1,000	—	—
Due October 2034 (\$1,250 million, 5.58%)	1,250	—	—	—	—	—	1,250
Due October 2054 (\$700 million, 6.18%)	700	—	—	—	—	—	700
	3,650	—	700	—	1,000	—	1,950
Canadian Dollar-denominated Debt							
Due February 2030 (C\$450 million, 4.32%)	328	—	—	—	—	328	—
Due February 2032 (C\$500 million, 4.62%)	365	—	—	—	—	—	365
Due February 2035 (C\$500 million, 4.93%)	365	—	—	—	—	—	365
	1,058	—	—	—	—	328	730
Less: Unamortized Debt Issue Costs	(26)						
Total Senior Unsecured Notes	4,682	—	700	—	1,000	328	2,680
Junior Subordinated Notes							
U.S. Dollar-denominated Debt							
Due March 2055 (\$450 million, 7.63%) ²	450	—	—	—	—	—	450
Due March 2055 (\$650 million, 7.50%) ³	650	—	—	—	—	—	650
Junior Subordinated Notes	1,100	—	—	—	—	—	1,100
Less: Unamortized Debt Issue Costs	(14)						
Total Junior Subordinated Notes	1,086	—	—	—	—	—	1,100
Total Long-term Debt	5,768	—	700	—	1,000	328	3,780

1. Represents principal amount to be repaid on maturity.

2. Subject to first rate reset on March 1, 2030 and every fifth year after 2030.

3. Subject to first rate reset on March 1, 2035 and every fifth year after 2035.

Long-term Debt Repaid

Prior to the Spinoff, the Company had certain U.S. and Canadian dollar-denominated long-term debt due to affiliates of its Former Parent. On August 28, 2024, concurrent with the issuance of the Company's Senior Notes, the Company repaid a \$1.25 billion term loan to an affiliate of its Former Parent. On October 1, 2024, the Company repaid the remaining outstanding long-term debt to affiliates of the Former Parent of \$4.7 billion.

Credit Facilities

During the third quarter of 2024, the Company entered into a new four-year senior unsecured revolving credit facility for C\$2.0 billion, maturing in October 2028 (the "Facility"). The Company, as authorized to construct and operate a pipeline under the CER Act, is required to maintain adequate financial resources for the Canadian portion of Keystone, of which \$347 million (C\$0.5 billion) of the Facility is reserved for this purpose.

On October 3, 2025, the Company renewed its revolving credit facility, extending maturity to October 1, 2029. The commitment remains at C\$2.0 billion with no change to financial covenants. At December 31, 2025, \$1.5 billion (C\$2.0 billion) was available and nil was drawn on the Facility.

U.S.\$ millions	As at December 31, 2025		
	Drawn	Available	Total
Unsecured revolving credit facility ¹	—	1,458	1,458
Credit facilities supporting standby letters of credit ¹	20	89	109

1. Canadian capacity available and funds drawn converted to U.S. dollars at the December 31, 2025 foreign exchange rate of 0.72913.

Interest Expense

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Interest on long-term debt to affiliates of Former Parent	—	270
Interest on Senior Notes	246	85
Interest on Junior Notes	83	28
Amortization and other financial charges ¹	10	7
Capitalized interest	(8)	(2)
	331	388

1. Includes amortization of debt issuance, premium, and discount costs associated with the Senior Notes and Junior Notes. Other financial charges include bank service charges and carrying charges.

During the year ended December 31, 2025, the Company recorded \$331 million of interest expense compared to \$388 million in 2024. The decrease in 2025 was primarily attributable to lower interest on the Company's Senior Notes and Junior Notes compared to higher interest incurred in 2024 on the Company's long-term debt to affiliates of its Former Parent.

Interest Income and Other

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Interest income	40	41
Penalty on early repayment of long-term debt to Former Parent	—	(26)
Foreign exchange gain (loss)	1	(3)
	41	12

Pursuant to the Spinoff on October 1, 2024, the Company paid a \$26 million penalty for early repayment of long-term debt to affiliates of its Former Parent.

Financial Covenants

South Bow is subject to certain financial covenants on its Facility as described in the following table. As at December 31, 2025, the Company was in compliance with the covenants on its Facilities in all material respects.

Financial Covenant	Covenant ¹	As at December 31, 2025
Consolidated net debt-to-capitalization ²	Not to exceed 65%	52 %
Interest coverage ratio ³	Not less than 2.50:1:00	4.06

1. Covenant terms defined within respective debt agreements.

2. Per the covenant, consolidated net debt is consolidated total debt less unrestricted cash and cash equivalents of the restricted parties. Total debt is defined as consolidated indebtedness of the Company excluding letters of credit and junior debt securities.

3. Interest coverage ratio is consolidated EBITDA to consolidated interest expense, for the trailing four quarters. Consolidated EBITDA is consolidated net income plus interest expense, income taxes, depreciation and amortization, and other non-cash items. Consolidated interest expense includes all interest paid excluding interest related to Junior Notes and upfront fees associated with the Facilities.

Share Capital

The Company is authorized to issue an unlimited number of common shares and first and second preferred shares, up to 20 per cent of the issued common shares outstanding. As at the date of this MD&A, no first or second preferred shares have been issued.

The following table summarizes South Bow's share capital at December 31, 2025:

<i>U.S.\$ millions, except where noted</i>	Common Shares	Common Shares (\$)
Balance at December 31, 2023	—	—
Issued on October 1, 2024	207,570,409	2,187
Issued on exercise of stock options	470,700	9
Balance at December 31, 2024	208,041,109	2,196
Issued on exercise of stock options	209,403	5
Balance at December 31, 2025	208,250,512	2,201

As of the date of this MD&A, the Company has 208,559,099 common shares outstanding and 263,260 stock options outstanding. All outstanding stock options are fully vested and exercisable for one common share.

Dividends

Dividends become payable, if, as, and when declared by the Board. Dividends are declared at the discretion of the Board and subject to various factors, including but not limited to, the Company's distributable cash flow and overall financial performance.

On November 13, 2025, the Board approved a quarterly dividend of \$0.50 per share, paid on January 15, 2026, to shareholders of record on December 31, 2025.

On March 5, 2026, the Board approved a quarterly dividend of \$0.50 per share, payable on April 15, 2026 to shareholders of record at the close of business on March 31, 2026. The dividends will be designated as eligible dividends for Canadian income tax purposes.

Capital Program

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Growth capital expenditures ¹	113	73
Maintenance capital expenditures ^{1,2}	51	61
Separation capital expenditures ¹	24	7
Total Capital Expenditures¹	188	141

1. Supplementary financial measure to assist the reader in understanding the Company's capital investments and capital allocation decisions. Refer to the *Supplementary Financial Measures* section of this MD&A for additional details.

2. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

Total capital expenditures were \$188 million for the year ended December 31, 2025 compared to \$141 million in the respective 2024 period.

The Company's 2025 growth capital expenditures included \$103 million invested in the development of the Blackrod Connection Project. Maintenance capital expenditures included investments made to support the Company's operations as well as spending for key infrastructure used by the Company. Higher maintenance capital spend in the comparative 2024 period was primarily attributable to investments made in preparation for the Spinoff partially offset by higher maintenance capital investments on the Keystone Pipeline System in 2025 compared to 2024.

Separation capital expenditures during the year ended December 31, 2025 related to one-time capital investments to support the Spinoff transition, including information system infrastructure.

Blackrod Connection Project

Supported by long-term committed contracts, South Bow's first major growth initiative, the Blackrod Connection Project, consists of a 25-km (16-mi) crude oil pipeline and a 25-km (16-mi) natural gas lateral, as well as associated facilities, providing crude oil transportation from International Petroleum Corporation's Blackrod Project to the Grand Rapids Pipeline in Intra-Alberta.

In the third quarter of 2025, the Company placed the natural gas pipeline of the project into service, and achieved mechanical completion for the project early in the fourth quarter of 2025. The project was designated in-service on March 1, 2026. The project was completed on time and on budget, with zero safety incidents. Associated cash flows from the project are expected to increase throughout the second half of 2026 and into 2027.

Contractual Obligations and Off-balance Sheet Arrangements

Contractual Obligations

South Bow's contractual obligations include operating leases, purchase obligations, and other liabilities incurred within the business.

U.S.\$ millions	Total	2026	2027	2028	2029	2030	Thereafter
Operating commitments ¹	130	29	8	24	14	15	40
Transportation by other parties ²	3	3	—	—	—	—	—
Capital expenditures ³	16	16	—	—	—	—	—
Total	149	48	8	24	14	15	40

1. Includes commitments for in-line inspection runs and power.

2. Contractual obligations are based on volumes contracted through capacity arrangements and exclude any variable charges that may be incurred when volumes flow.

3. Capital expenditures relate to the remaining Blackrod Connection Project expenditures, in addition to other capital commitments by the Company. Amounts are estimates and subject to variability based on timing of construction and project requirements. Expenditures include obligations for growth projects and are presented based on projects proceeding as currently planned. Any changes to projects, including timing or possible cancellation, could change these estimates.

Guarantees

The Company has guaranteed the Senior Notes and Junior Notes issued by certain subsidiaries. Refer to the *Parental Guarantees of Debt* section of this MD&A for additional details.

South Bow and its partners in certain jointly-owned entities have guaranteed the financial performance of these entities to a maximum term to 2043. At December 31, 2025, the Company's share of maximum potential exposure under the guarantees is C\$56 million (December 31, 2024 - C\$56 million). Under these guarantees, if the Company makes a payment that exceeds its share of ownership interest, the additional amount must be reimbursed by the partners of such jointly-owned entities.

Off-balance Sheet Arrangements

Except for the guarantees discussed above, as at December 31, 2025, South Bow does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial performance or financial condition.

Specified Financial Measures

Non-GAAP Financial Measures

Throughout this MD&A, South Bow references certain non-GAAP financial measures and non-GAAP ratios which do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. These non-GAAP financial measures and non-GAAP ratios include adjustments to the composition of the most directly comparable GAAP measures. Management considers these non-GAAP financial measures and non-GAAP ratios to be important in evaluating and understanding the operating performance and liquidity of South Bow. These non-GAAP financial measures should not be considered in isolation or as a substitute for financial information or measures of performance presented in accordance with GAAP.

South Bow's non-GAAP financial measures used in this MD&A include normalized EBITDA, segment normalized EBITDA, normalized net income, distributable cash flow, and net debt. Non-GAAP ratios include normalized net income per share and net debt-to-normalized EBITDA. These non-GAAP financial measures and non-GAAP ratios are further described with a reconciliation to their most directly comparable GAAP measure below.

Normalizing Items

Normalized measures are (or include) non-GAAP financial measures and include normalized EBITDA, segment normalized EBITDA, normalized net income, normalized net income per share, distributable cash flow, and net debt-to-normalized EBITDA. Management uses these normalized measures as a way to assess the financial performance of South Bow's operations and compare period over period. During certain reporting periods, the Company may incur costs which are not indicative of core operations or results. These normalized measures represent income (loss) adjusted for specific normalizing items that are believed to be significant; however, not reflective of South Bow's underlying operations in the period.

These specific normalizing items include gains or losses on sales of assets or assets held for sale, unrealized fair value adjustments related to risk management activities, tariff charges, separation, acquisition, integration, and restructuring costs, and other charges, including but not limited to, impairment, contractual costs, and settlements.

South Bow excludes the unrealized fair value adjustments related to risk management activities as these represent the changes in the fair value of derivatives, but do not accurately reflect the gains and losses that will be realized at settlement and impact income. Therefore, the Company does not consider these items reflective of its underlying operations, despite providing effective economic hedges. Realized gains and losses on grade financial contracts are adjusted to improve comparability as they settle in a subsequent period to the underlying transaction they are hedged against.

South Bow excludes tariff charges as they are not reflective of ongoing business conducted by the Company and are subject to uncertainty.

Separation costs relate to internal costs and external fees incurred specific to the Spinoff. These items have been excluded from normalized measures as Management does not consider them reflective of ongoing operations and they are non-recurring in nature.

Normalized EBITDA and Segment Normalized EBITDA

Normalized EBITDA is a measure indicative of core operations. Management uses this measure to monitor and evaluate the financial performance of the Company's operations and to identify and evaluate trends. This measure is useful for investors as Management believes it allows for more comparable performance of the Company across periods for ongoing operations. Normalized EBITDA represents income before income taxes adjusted for the normalizing items, in addition to excluding charges for depreciation and amortization, interest expense, interest income and other, and other income.

Normalized EBITDA guidance is a forward-looking non-GAAP financial measure. South Bow does not provide a reconciliation of such forward-looking measure to the most directly comparable financial measure calculated and presented in accordance with GAAP due to unknown variables and the uncertainty related to future results. These unknown variables may be inherently difficult to determine without unreasonable efforts. Guidance for normalized EBITDA is calculated in the same manner as described above for historical normalized EBITDA, as applicable.

The following table reconciles income (loss) before income taxes to normalized EBITDA for the three months and year ended December 31, 2025 and 2024:

U.S.\$ millions	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
Income before income taxes ¹	153	72	497	418
Adjusted for specific items:				
Depreciation and amortization ¹	58	62	247	246
Interest expense ¹	83	84	331	388
Interest income and other ¹	(18)	28	(41)	(12)
Other income ¹	—	—	(20)	—
Risk management instruments ²	(11)	57	(36)	8
Keystone variable toll disputes ³	5	(3)	48	8
MP-14 costs	—	4	—	4
Separation costs ⁴	1	(1)	9	29
Tariff charges ⁵	—	—	1	—
Keystone XL costs and other ⁶	(19)	(13)	(14)	2
Normalized EBITDA	252	290	1,022	1,091

1. Per the consolidated statements of income.

2. Unrealized (gains) losses on risk management instruments incurred by the Marketing segment.

3. Adjustments recorded to revenue in the consolidated statements of income in relation to disputes on historical variable tolls. Refer to the *Recent Developments* section of this MD&A for additional details.

4. Expenses recorded within plant operating costs and other in the consolidated statements of income in relation to non-recurring separation-related activities incurred to establish South Bow as an independent company.

5. Tariff charges incurred on the Company's Marketing activities recorded within plant operating costs and other in the consolidated statements of income.

6. Adjustments and charges recorded in other expenses in the consolidated statements of income relating to Keystone XL termination activities.

The following tables reconcile income (loss) before income tax to normalized EBITDA by operating segment for the three months and year ended December 31, 2025 and 2024:

Three Months Ended December 31, 2025				
<i>U.S.\$ millions</i>	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	211	3	(61)	153
Adjusted for specific items:				
Depreciation and amortization	58	—	—	58
Interest expense	(1)	—	84	83
Interest income and other	(13)	—	(5)	(18)
Other income	—	—	—	—
Risk management instruments	—	(11)	—	(11)
Keystone variable toll disputes	5	—	—	5
Separation costs	—	—	1	1
Keystone XL costs and other	(19)	—	—	(19)
Segment Normalized EBITDA	241	(8)	19	252

Three Months Ended December 31, 2024				
<i>U.S.\$ millions</i>	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	205	(32)	(101)	72
Adjusted for specific items:				
Depreciation and amortization	59	—	3	62
Interest expense	(1)	—	85	84
Interest income and other	(1)	(1)	30	28
Other income	—	—	—	—
Risk management instruments	—	57	—	57
Keystone variable toll disputes	(3)	—	—	(3)
MP-14 Costs	4	—	—	4
Separation costs	—	—	(1)	(1)
Keystone XL costs and other	(13)	—	—	(13)
Segment Normalized EBITDA	250	24	16	290

Year Ended December 31, 2025				
<i>U.S.\$ millions</i>	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	741	27	(271)	497
Adjusted for specific items:				
Depreciation and amortization	236	—	11	247
Interest expense	—	—	331	331
Interest income and other	(21)	(2)	(18)	(41)
Other income	(20)	—	—	(20)
Risk management instruments	—	(36)	—	(36)
Keystone variable toll disputes	48	—	—	48
Separation costs	—	—	9	9
Tariff charges	—	1	—	1
Keystone XL costs and other	(14)	—	—	(14)
Segment Normalized EBITDA	970	(10)	62	1,022

Year Ended December 31, 2024				
<i>U.S.\$ millions</i>	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	778	6	(366)	418
Adjusted for specific items:				
Depreciation and amortization	238	—	8	246
Interest expense	1	1	386	388
Interest income and other	(3)	(3)	(6)	(12)
Risk management instruments	—	8	—	8
Keystone variable toll disputes	8	—	—	8
MP-14 costs	4	—	—	4
Separation costs	—	—	29	29
Keystone XL costs and other	2	—	—	2
Segment Normalized EBITDA	1,028	12	51	1,091

Normalized Net Income and Normalized Net Income per Share

Normalized net income represents net income adjusted for the normalizing items described above and is used by Management to assess the earnings that it believes are representative of South Bow's operations. By adjusting for non-recurring items and other factors that do not reflect the Company's ongoing performance, the Company believes that normalized net income provides a clearer picture of its continuing operations. This measure is particularly useful for investors as it allows for a more accurate comparison of financial performance and trends across different periods. On a per share basis, normalized net income is derived by dividing the normalized net income by the weighted average common shares outstanding at the end of the period. This per share measure is valuable for investors as it provides insight into the Company's profitability on a per share basis, making it easier to evaluate the Company's performance.

The following table reconciles net income to normalized net income for the three months and year ended December 31, 2025 and 2024:

U.S.\$ millions, except share and per share amounts	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
Net income	156	55	433	316
Adjusted for specific items:				
Other income ¹	—	—	(20)	—
Risk management instruments ²	(11)	57	(36)	8
Keystone variable toll disputes ³	(9)	(3)	31	8
MP-14 costs	—	4	—	4
Separation costs ⁴	1	27	9	67
Tariff charges ⁵	—	—	1	—
Keystone XL costs and other ⁶	(19)	(13)	(14)	2
Tax effect of above adjustments ⁷	9	(15)	7	(22)
Normalized Net Income	127	112	411	383
Weighted average common shares outstanding - diluted (millions)	208.8	208.4	208.8	208.2
Normalized Net Income per Share - Diluted	0.61	0.54	1.97	1.84

1. Relates to non-recurring other income from the Company's Former Parent under separation terms.
2. Unrealized (gains) losses on risk management instruments incurred by the Marketing segment. Recorded within revenue in the consolidated statements of income.
3. Adjustments recorded to revenue and interest income and other in the consolidated statements of income related to historical variable toll disputes and the Withdrawal of Keystone Variable Toll Disputes. Refer to the *Recent Developments* section of this MD&A for additional details.
4. Expenses recorded within plant operating costs and other as adjusted in normalized EBITDA, in addition to interest expense and interest income and other, and other income in the consolidated statements of income. Amounts relate to non-recurring separation-related costs incurred to establish South Bow as an independent company.
5. Tariff charges incurred on the Company's Marketing business activities recorded within plant operating costs and other in the consolidated statements of income.
6. Adjustments and charges recorded in other expenses in the consolidated statements of income relating to Keystone XL termination activities and other non-recurring charges.
7. Tax effect of the adjustments added to, and deducted from, net income.

Distributable Cash Flow

Distributable cash flow is used to assess the cash generated through business operations that can be used for South Bow's capital allocation decisions, helping investors understand the Company's cash-generating capabilities and its potential for returning value to shareholders. Distributable cash flow is based on income (loss) before income taxes, adjusted for depreciation and amortization, the normalizing items discussed above, and further adjusted for specific items, including income and distributions from the Company's equity investments, maintenance capital expenditures, which are capitalized and generally recoverable through South Bow's tolling arrangements, and current income taxes.

Distributable cash flow guidance is a forward-looking non-GAAP financial measure. South Bow does not provide a reconciliation of such forward-looking measure to the most directly comparable financial measure calculated and presented in accordance with GAAP due to unknown variables and the uncertainty related to future results. These unknown variables may be inherently difficult to determine without unreasonable efforts.

In the second quarter of 2025, South Bow modified the definition of distributable cash flow to no longer adjust income (loss) before income taxes for interest income and other. Management believes that this modified definition of distributable cash flow more accurately reflects the amount of cash generated through business operations that can be used for South Bow's capital allocation decisions. Comparative measures have been restated to reflect these changes.

The following table reconciles income before income taxes to distributable cash flow for the three months and year ended December 31, 2025 and 2024:

U.S.\$ millions, except where noted	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
Income before income taxes ¹	153	72	497	418
Adjusted for specific items:				
Depreciation and amortization ¹	58	62	247	246
Income from equity investments ²	(14)	(12)	(52)	(49)
Distributions from equity investments ²	23	20	74	70
Maintenance capital expenditures ³	(19)	(15)	(51)	(61)
Current income tax recovery (expense) ¹	(23)	(6)	16	(43)
Normalizing items, net of tax ⁴	(29)	34	(22)	40
Distributable Cash Flow	149	155	709	621

1. Per the consolidated statements of income.

2. Per the consolidated statements of cash flows.

3. Maintenance capital expenditures are generally recoverable from customers through South Bow's tolling arrangements and are capitalized for GAAP purposes. Refer to the *Capital Program* section of this MD&A for additional details on maintenance capital expenditures.

4. Refers to the adjustments made to normalized net income, net of tax, and include other income, risk management instruments, Keystone variable toll disputes, separation costs, tariff charges, and Keystone XL costs and other.

Net Debt and Net Debt-to-normalized EBITDA Ratio

Net debt is used as a key leverage measure to assess and monitor South Bow's financing structure. It provides an overview of the Company's long-term debt obligations, net of cash and cash equivalents. This measure is useful for investors as South Bow believes it offers insights into the Company's financial health and its ability to manage and service its debt obligations. Net debt is defined as the sum of total long-term debt and 50 per cent equity treatment of Junior Notes, operating lease liabilities, and dividends payable, less cash and cash equivalents per the Company's consolidated balance sheets.

Net debt-to-normalized EBITDA ratio is used to monitor the Company's leverage position relative to its normalized EBITDA for the trailing four quarters. This ratio provides investors with insight into the Company's ability to service its long-term debt obligations relative to its operational performance. A lower ratio indicates stronger financial health and greater capacity to meet its debt obligations.

The following table reconciles total long-term debt to net debt at December 31, 2025 and December 31, 2024:

<i>U.S.\$ millions, except where noted</i>	December 31, 2025	December 31, 2024
Senior Notes ¹	4,682	4,629
Junior Notes ¹	1,086	1,087
Total long-term debt	5,768	5,716
Adjusted for:		
Hybrid treatment for Junior Notes ²	(543)	(544)
Operating lease liabilities ³	26	22
Dividends payable ¹	104	104
Cash and cash equivalents ¹	(549)	(397)
Net Debt	4,806	4,901
Normalized EBITDA for trailing four quarters ⁴	1,022	1,091
Net Debt-to-normalized EBITDA Ratio	4.7	4.5

1. Per the consolidated balance sheets.

2. The Company's Junior Notes receive 50 per cent equity treatment from credit rating agencies. This treatment is captured in the Company's net debt calculation above.

3. Represents the current and long-term operating lease liabilities recorded on the consolidated balance sheets. Current operating lease liabilities are recorded within accounts payable and other and long-term lease liabilities are recorded in other long-term lease liabilities.

4. Calculated as the normalized EBITDA for the trailing four quarters from the current period end.

Supplementary Financial Measures

South Bow uses certain supplementary financial measures that are not defined under U.S. GAAP but are commonly used in the energy infrastructure industry to evaluate capital allocation and operational performance. These measures include growth capital expenditures, maintenance capital expenditures, separation capital expenditures and total capital expenditures.

Growth capital expenditures represent capital investments attributable to new projects or expansions that are intended to enhance the Company's capacity or service offerings. Maintenance capital expenditures refer to routine capital investments required to sustain the Company's existing operations and asset base and are generally recoverable through South Bow's tolling arrangements. Separation capital expenditures represent non-recurring capital investments incurred in connection with the Spinoff and are not expected to be recovered through the Company's tolling arrangements. Total capital expenditures represents the sum of the Company's growth capital expenditures, maintenance capital expenditures and separation capital expenditures.

Accounting Matters

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls and procedures which are designed to provide reasonable assurance that the material information relating to the Company is made known to the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") by others, particularly during the period in which annual and interim filings are prepared, and that information required to be disclosed by the Company in its annual, interim filings or other reports filed or submitted by the Company under Canadian and U.S. securities laws is recorded, processed, summarized and reported within the time periods specified under those laws and the related rules.

South Bow's Management, including the CEO and CFO, concluded, as a result of the general information technology ("IT") control deficiencies described below, that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act")), were not effective as at December 31, 2025 to ensure that information required to be disclosed by the Company in reports that are filed or submitted to Canadian and U.S. securities authorities is recorded, processed, summarized, and reported within the time periods specified in applicable Canadian and U.S. securities laws.

Management's Report on Internal Control over Financial Reporting

The Company's Management is also responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. South Bow's financial reporting process and associated internal controls, including operational controls and procedures for non-financial disclosures were all designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's accompanying financial statements for external reporting in accordance with GAAP. This design included certain compensating controls and procedures. Management, with the participation of the Company's CEO and CFO, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2025. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 Framework"). Based on this assessment, Management has concluded, based on the existence of the material weakness described below, that the Company did not maintain effective internal control over financial reporting.

In April 2025, the Company implemented a new ERP system and ancillary applications across the entire organization in conjunction with the termination of the use of its Former Parent's ERP system under the TSA. As a result, the Company modified a number of internal controls to accommodate related changes to its information systems and business processes. These changes introduced increased complexity and transition risks within the control environment, resulting in control deficiencies related to general IT controls. Management identified a material weakness related to the design and operating effectiveness of certain general IT controls that are relevant to the preparation of the Company's consolidated financial statements. The Company did not (i) maintain certain change management controls to ensure configuration changes affecting certain IT applications were appropriate; (ii) design and maintain certain program development controls to ensure the data migration, program testing and approval of a new software development is aligned with business and IT requirements; and (iii) maintain user access controls in all instances to ensure segregation of duties in the Company's financial applications. As a result of these control deficiencies, process level automated controls that are dependent on configuration in the affected IT environment and manual controls that rely on system-generated data or reports from the affected IT environments were ineffective because certain data derived from IT applications could have been adversely impacted.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Although Management has performed procedures to gain comfort that the consolidated financial statements are fairly stated in all material respects, the aggregation of these control deficiencies give rise to the possibility that a material misstatement could occur that may not be prevented or detected in a timely manner. Accordingly, these control deficiencies aggregate within the risk assessment, the control activities and the information and communication components of the 2013 Framework and constitute a material weakness. The material weakness did not result in any identified material misstatements to the accompanying financial statements, and no adjustments were made to previously issued consolidated financial statements. Management believes the accompanying financial statements for the year ended December 31, 2025 fairly present, in all material respects, the Company's financial position, results of operations, and cash flows.

Changes in Internal Control over Financial Reporting

Other than with respect to the material weakness and remediation efforts described herein, there were no other changes in the internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the year ended December 31, 2025, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management will continue to periodically evaluate the Company's disclosure controls and procedures and internal control over financial reporting and will make any modifications from time to time as deemed necessary.

The Company continues to monitor and maintain appropriate internal controls during the transition of the new ERP system implementation, including performance and modification of controls, verifications, and testing to ensure data integrity and completeness.

Based on their inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Remedial Measures

The Company's Management, under the oversight of the Audit Committee, is in the process of designing controls to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. Management has made meaningful progress in addressing these matters, with several deficiencies remediated prior to year-end, and the remaining items subject to a defined remediation plan expected to be continued and completed during 2026.

The Company has engaged third party advisors to assist with this process. The remediation actions are ongoing and include or are expected to include:

- Enhancing risk assessment and control identification procedures for application changes;
- Expanding controls and/or applying other appropriate procedures to address the design and operation of IT general controls on system implementations and application changes; and
- Enhancing our existing training program addressing IT general controls and policies, including educating control owners concerning the principles and requirements of each control, including evidence for the performance of the control. The focus will be on those areas related to user access, change management, and segregation of duties over IT systems impacting financial reporting.

The material weakness will not be considered remediated until the new and redesigned controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As the Company continues to evaluate and work to remediate the control deficiencies that gave rise to the material weakness, additional measures or time may be required to address the control deficiencies or otherwise modify the remediation measures described above. Management will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of our internal control over financial reporting.

Auditor's Report on Internal Control over Financial Reporting

The effectiveness of internal control over financial reporting as of December 31, 2025 has been audited by KPMG LLP, ("KPMG"), the Company's independent registered public accounting firm. KPMG has expressed an adverse opinion on the Company's internal control over financial reporting as of December 31, 2025.

Critical Accounting Estimates

In preparing the consolidated financial statements in accordance with U.S. GAAP, Management is required to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. These estimates and assumptions are based on the most current information available and, depending on facts and circumstances, can involve a significant degree of judgment. Changes in estimates are carefully monitored and any changes in estimates are recorded in the current period. Critical accounting estimates may significantly impact South Bow's financial position, changes in financial position, and financial performance. These estimates affect various financial statement line items and are essential in providing a clear and accurate representation of the Company's financial health. At December 31, 2025, the estimates recorded in the financial statements do not rise to the level of critical accounting estimates.

Changes in Accounting Policies

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-09 *Improvements to Income Tax Disclosures* 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 and the Company has applied changes to the disclosures for the periods presented in the consolidated financial statements. Refer to *Note 15, Income Taxes* of the accompanying financial statements for additional information.

New and Amended Standards Issued but Not Yet Adopted

Disaggregation of Income Statement Expenses

In November 2024, the FASB issued ASU 2024-03 *Disaggregation of Income Statement Expenses*, which requires additional disclosures about certain costs and expenses in the notes to the consolidated financial statements. This new guidance is effective for annual periods beginning after December 15, 2026, and interim periods within annual periods beginning after December 15, 2027, with early adoption permitted. The guidance is to be applied prospectively, with retrospective application permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures.

Related Party Transactions

Prior to the Spinoff, South Bow did not operate as a standalone entity and its Former Parent was responsible for providing the Company's administrative and operating services (referred to as "corporate expenses") necessary to operate the business. These allocated corporate expenses are capitalized or expensed based on the nature of underlying expenditure. In addition, the Company also incurs operating costs provided by subsidiaries of its Former Parent that are not allocated but are direct costs. These direct costs are capitalized or expensed based on the nature of underlying expenditure. These transactions were considered related party transactions up to September 30, 2024, the day prior to the Spinoff.

The allocated corporate expenses, direct operating costs, interest expense on long-term debt due to affiliates of South Bow's Former Parent, and interest income with affiliates of its Former Parent were as follows:

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Allocated Corporate Expenses		
Plant operating costs and other	—	89
Plant, property and equipment, net	—	3
Equity investments ¹	—	2
	—	94
Direct Operating Costs		
Plant operating costs and other	—	81
Plant, property and equipment, net	—	4
Equity investments ²	—	1
	—	86
Interest Expense on Long-term Debt to Affiliates of Former Parent	—	270
Return-of-capital payment³	—	24

1. For the year ended December 31, 2025, nil impacted income from equity investments (2024 - \$2 million).

2. For the year ended December 31, 2025, nil impacted income from equity investments (2024 - \$1 million).

3. On September 30, 2024, the Company declared a return-of-capital distribution and paid it on October 1, 2024.

Risk Factors

Financial Risks

South Bow is exposed to various financial risks and has strategies, policies, and limits in place to manage the impact of these risks on the Company's earnings and cash flows and, ultimately, shareholder value.

Risk management strategies, policies, and limits are designed to ensure the Company's risks and related exposures are in line with South Bow's business objectives and risk tolerance. The Company's risks are managed within limits that are established by the Board, implemented by senior Management and monitored by the risk management, internal audit, and business segment groups. South Bow's Audit Committee of the Board oversees how Management monitors compliance with risk management policies and procedures and oversees Management's review of the adequacy of the risk management framework.

Market Risk

The Company constructs and invests in crude oil pipeline systems, purchases and sells commodities, including amounts in foreign currencies, and invests in foreign operations. Certain of these activities expose the Company to market risk from changes in commodity prices, foreign exchange, and liquidity risk, all of which may impact the Company's earnings, cash flows, and the value of its financial assets and liabilities. The Company assesses contracts used to manage market risk to determine whether all, or a portion, meets the definition of a derivative.

Derivative contracts that the Company uses to assist in managing exposure to market risk may include the following:

- forwards and futures contracts – agreements to purchase or sell a specific financial instrument or liquid commodity at a specified price and date in the future; and
- options – agreements that convey the right, but not the obligation, of the purchaser to buy or sell a specific amount of a financial instrument or commodity at a fixed price, either at a fixed date or at any time within a specified period.

Commodity Price Risk

The Company's Marketing business enters into pipeline and storage terminal capacity contracts as well as crude oil purchase and sale agreements, fixing a portion of the exposure on these contracts by entering into financial instruments to manage price fluctuations that arise from physical commodity transactions.

Sustained lower crude oil prices could lead to reduced investment in upstream development, expansion, and production, which could negatively impact opportunities for the Company to expand its asset base and re-contract with customers as contractual agreements expire.

Liquidity Risk

Liquidity risk is the risk that South Bow will not be able to meet its financial obligations as they come due. The Company's ability to fund future capital projects and carry out its business plan is dependent on South Bow's ability to generate cash flows, raise capital in a timely manner and under favourable terms and conditions, and will be impacted by credit ratings and general capital markets condition. Changes in credit ratings may impact South Bow's ability to enter and maintain certain contracts. Management of liquidity risk requires the Company to maintain sufficient cash and cash equivalents, maintain adequate cash flows from operating activities, availability of credit facilities, and access to capital markets to meet obligations as they become due.

Foreign Exchange Risk

A portion of the Company's entities generate all or most of their earnings in Canadian dollars and, since the Company reports its financial results in U.S. dollars, changes in the value of the Canadian dollar against the U.S. dollar can impact its net income. If the Company's Canadian dollar-denominated operations continue to grow, this exposure increases.

The Company is exposed to foreign exchange risk in its Canadian-dollar functional currency entity which holds U.S. dollar-denominated debt. This foreign exchange risk is offset by the designation of \$1.1 billion of U.S. dollar-denominated Junior Notes as a net investment hedge in foreign operations at December 31, 2025 (2024 - \$1.1 billion). The net investment hedge is perfectly effective and foreign exchange gain or loss, as determined by the respective period end rate, is reported as cumulative translation adjustment within accumulated other comprehensive income ("AOCI").

U.S.\$ millions	As at December 31,	
	2025	2024
Notional amount of U.S. dollar-denominated Junior Notes	1,100	1,100
Fair value of U.S. dollar-denominated Junior Notes	1,165	1,135
Cumulative translation adjustment recognized in AOCI	(12)	(67)

Counterparty Credit Risk

South Bow'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.

At times, the Company's 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 the Company's 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 the Company's assets and the demand for the Company's services; and
- potential recovery of unpaid amounts through bankruptcy and similar proceedings.

South Bow 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 in the consolidated statements of income.

Entering into derivative instruments may result in exposure to credit risk from the possibility that a counterparty will default on its contractual obligations. In order to mitigate this risk, the Company enters into derivative transactions primarily with institutions that possess strong investment-grade credit ratings. Credit risk relating to derivative counterparties is mitigated through the maintenance and monitoring of credit exposure limits, contractual requirements, and netting arrangements. South Bow also reviews counterparty credit exposure using external credit rating services and other analytical tools to manage credit risk.

The Company had no significant credit losses and no significant amounts impaired at December 31, 2025 and 2024 within normal trade accounts receivable. At December 31, 2025 and 2024, there were no significant credit risk concentrations.

At December 31, 2025, the Company has nil Keystone XL contractual recoveries, and \$172 million of Keystone contractual recoveries from certain customers related to variable toll disputes with the CER, which were approved during the three months ended December 31, 2025 (at December 31, 2024 - \$56 million and \$114 million, respectively). These recoveries are part of the indemnity adjustments with the Company's Former Parent. Refer to the *Recent Developments* section of this MD&A for additional information.

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.

Legal Proceedings

The Company is subject to various legal proceedings, arbitration, and actions arising in the normal course of business. South Bow assesses all legal matters on an ongoing basis, including those relating to the Company's equity investments. With the potential exception of matters discussed in *Note 23, Commitments, Contingencies, and Guarantees* of the accompanying financial statements, 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 financial position or results of operations.

Financial Instruments

Non-derivative Financial Instruments

Fair Value of Non-derivative Financial Instruments

Available-for-sale assets are recorded at fair value, which is calculated using quoted market prices where available. Certain non-derivative financial instruments included in cash and cash equivalents, accounts receivable, environmental provision recovery, contractual recoveries, other current assets, other long-term assets, accounts payable and other, 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. Each of these instruments 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:

As at December 31, <i>U.S.\$ millions</i>	2025		2024	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Notes ¹	(4,682)	(4,745)	(4,629)	(4,598)
Junior Notes ¹	(1,086)	(1,165)	(1,087)	(1,135)

1. The carrying amount of the Senior Notes and Junior Notes include unamortized debt issuance costs of \$26 million and \$14 million, respectively (2024 - \$28 million and \$13 million, respectively).

Available-for-sale Assets Summary

The following tables summarize additional information about the Company's Land Matters Consultation Initiative ("LMCI") restricted investments that were classified as available-for-sale assets:

<i>U.S.\$ millions</i>	As at December 31,	
	2025	2024
Fair Value of Fixed Income Securities ^{1,2}		
Maturing after 10 years	88	80
	88	80

1. Available-for-sale assets are recorded at fair value and included in other long-term assets on the Company's consolidated balance sheets.

2. Classified in Level II of the fair value hierarchy.

<i>U.S.\$ millions</i>	Year Ended December 31,	
	2025	2024
Net unrealized gains (losses) ¹	(4)	(1)
Net realized losses ^{1,2}	(3)	(2)

1. Unrealized and realized 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 losses within other long-term assets and liabilities on the consolidated balance sheets.

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 binomial 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 or are not designated as a hedge, 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:

U.S.\$ millions	As at December 31,	
	2025	2024
Total Derivative Assets (other current assets)	34	188
Total Derivative Liabilities (accounts payable and other)	(29)	(219)
Total Derivatives ^{1, 2}	5	(31)

1. Fair value equals carrying value.

2. Includes purchases and sales of crude oil.

The majority of derivative instruments held for trading have been entered into for risk management purposes and all are subject to South Bow'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:

	Year Ended December 31,	
	2025	2024
Gross sales volumes (millions of barrels)	(33)	(130)
Gross purchases volumes (millions of barrels)	22	116
Net Purchases Volumes (millions of barrels)	(11)	(14)
Maturity dates (year)	2026	2025

Unrealized and Realized Gains (Losses) on Commodity Derivative Instruments

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Derivative Instruments Held for Trading ¹		
Unrealized gains (losses)	36	(6)
Realized gains	367	459
Gains on Derivatives	403	453

1. Realized and unrealized gains (losses) on derivative instruments held for trading used to purchase and sell crude oil are included on a net basis in revenues on the consolidated statements of income.

Offsetting of Derivative Instruments

South Bow 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 consolidated balance sheets.

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:

As at December 31, 2025	Gross Derivative Instruments	Amounts Available for Offset¹	Net Amounts
<i>U.S.\$ millions</i>			
Derivative instrument assets	34	(28)	6
Derivative instrument liabilities	(29)	28	(1)

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

As at December 31, 2024	Gross Derivative Instruments	Amounts Available for Offset¹	Net Amounts
<i>U.S.\$ millions</i>			
Derivative instrument assets	188	(187)	1
Derivative instrument liabilities	(219)	187	(32)

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 \$26 million and letters of credit of \$11 million at December 31, 2025 (at December 31, 2024 – \$66 million and \$16 million, respectively) to its counterparties. At December 31, 2025, the Company held nil cash collateral and \$70 million in letters of credit (at December 31, 2024 – nil and \$70 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 South Bow'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. The Company has provided collateral for the derivative instruments with credit risk-related contingent features, recorded within other current assets on the consolidated balance sheets. At December 31, 2025 and December 31, 2024, there were no other derivative instruments that had credit risk-related features for which collateral was not provided.

Risk Management

South Bow is subject to various risks which could have a potential material impact on the Company's financial results and operations. These risks include, but are not limited to, financial risks, market risk, commodity price risk, liquidity risk, foreign exchange risk, and counterparty credit risk.

For details on the risk factors impacting South Bow, refer to the Company's AIF for the year ended December 31, 2025, which is available on South Bow's website at www.southbow.com, under South Bow's SEDAR+ profile at www.sedarplus.ca, and in South Bow's filings with the SEC at www.sec.gov.

Net Investment Hedge

A portion of the Company's entities generate all or most of their earnings in Canadian dollars and, since the Company reports its financial results in U.S. dollars, changes in the value of the Canadian dollar against the U.S. dollar can impact its comprehensive income. If the Company's Canadian dollar-denominated operations continue to grow, this exposure increases.

The Company is exposed to foreign exchange risk in its Canadian dollar functional currency entity which holds U.S. dollar-denominated debt. This foreign exchange risk is offset by the designation of its U.S. dollar-denominated Junior Notes as a net investment hedge in foreign operations. The net investment hedge is perfectly effective and any foreign exchange gain or loss, as determined by the respective period-end rate, is reported as cumulative translation adjustment within AOCI.

<i>U.S.\$ millions</i>	As at December 31,	
	2025	2024
Notional amount of U.S. dollar-denominated Junior Notes	1,100	1,100
Fair value of U.S. dollar-denominated Junior Notes	1,165	1,135
Cumulative translation adjustment recognized in AOCI	(12)	(67)

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:

<i>U.S.\$ millions</i>	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II) ¹	Significant Unobservable Inputs (Level III) ¹	Total
Derivative instrument assets	30	4	—	34
Derivative instrument liabilities	(28)	(1)	—	(29)
As at December 31, 2025	2	3	—	5
Derivative instrument assets	184	4	—	188
Derivative instrument liabilities	(203)	(16)	—	(219)
As at December 31, 2024	(19)	(12)	—	(31)

1. There were no transfers from Level II to Level III for the periods presented.

Select Quarterly Financial & Operational Information

The following table presents select quarterly financial and operational information over the last eight quarters:

U.S.\$ millions, except per share, ratios, and operational data, and where noted	2025				2024 ¹			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	503	461	524	498	488	534	554	544
Income from equity investments	14	12	13	13	12	12	13	12
Income before income taxes	153	104	126	114	72	90	110	146
Normalized EBITDA ²	252	254	250	266	290	262	241	298
Distributable cash flow ^{2,3}	149	236	167	157	155	190	90	186
Capital expenditures ⁴	60	52	34	32	28	62	20	12
Net income	156	93	96	88	55	61	88	112
Weighted average common shares outstanding - diluted (millions) ⁵	208.8	208.8	208.8	208.7	208.4	207.6	207.6	207.6
Net income per share - diluted ⁵	0.75	0.45	0.46	0.42	0.26	0.29	0.42	0.54
Normalized net income ²	127	99	87	98	112	86	71	114
Normalized net income per share - diluted ^{2,5}	0.61	0.47	0.42	0.47	0.54	0.41	0.34	0.55
Dividends declared	104	104	104	104	104			
Dividends declared per share ⁵	0.50	0.50	0.50	0.50	0.50			
Total long-term debt ⁶	5,768	5,751	5,774	5,719	5,716	10,452	5,905	5,924
Net debt ²	4,806	4,836	4,903	4,910	4,901	4,827	5,578	5,421
Net debt-to-normalized EBITDA ratio ²	4.7	4.6	4.6	4.6	4.5	4.5	5.0	4.8
Operational Information								
Keystone Pipeline SOF (%) ⁷	94	92	93	98	96	95	94	96
Keystone Pipeline throughput (Mbbbl/d)	594	584	544	613	621	616	623	643
U.S. Gulf Coast segment of Keystone Pipeline System throughput (Mbbbl/d) ⁸	680	703	760	726	784	815	802	779
Marketlink throughput (Mbbbl/d)	531	547	625	549	615	636	622	582

1. Figures presented prior to October 1, 2024 are based on the Company's carve-out financial statements prepared prior to the Spinoff and have been presented based on information from the carve-out financial statements. Figures not presented were not included within the carve-out financial statements. Figures prior to the Spinoff were previously disclosed in Canadian dollars.

2. Non-GAAP financial measure or ratio that does not have a standard meaning under GAAP. Refer to the *Specified Financial Measures* section of this MD&A for additional details.

3. Distributable cash flow and net debt are non-GAAP financial measures used by the Company beginning on October 1, 2024 and therefore no figures have been presented for periods prior to October 1, 2024 in the above table.

4. Capital expenditures within investing activities in the consolidated statements of cash flows of the accompanying financial statements.

5. Effective October 1, 2024, the Company completed the Spinoff into an independent, publicly traded entity. Per-share figures for comparative periods have been calculated using the outstanding shares at October 1, 2024.

6. Total long-term debt subsequent to October 1, 2024 includes the Company's Senior Notes and Junior Notes per the consolidated balance sheets of the accompanying financial statements. For periods prior to October 1, 2024, the Company had long-term debt to affiliates of its Former Parent.

7. SOF measures South Bow's ability to deliver crude oil at the planned maximum rate of the Keystone Pipeline System.

8. Comprises throughput originating in Hardisty, Alberta transported on the Keystone Pipeline System, and throughput originating in Cushing, Oklahoma transported on Marketlink for destination in the U.S. Gulf Coast.

Fluctuations in quarterly revenues and earnings are and can be impacted by regulatory decisions, timing of newly constructed assets being placed into service, acquisitions and divestitures, demand for uncommitted transportation services, marketing activities and commodity prices, developments outside of the normal course of operations, certain fair value adjustments, and foreign exchange rates. Over the last eight quarters, the Company's results have been impacted primarily by the following:

- Charges as a result of the Withdrawal of the Keystone Variable Toll Disputes with the CER and FERC that were recorded in the third quarter of 2025. Refer to the *Recent Developments* section of this MD&A for additional details.
- Charges as a result of the FERC Initial Decision and FERC Order on Initial Decision. Refer to the *Recent Developments* of this MD&A for additional details.
- Separation expenses related to the planning, execution, and completion of the Spinoff. The associated costs were primarily recorded beginning in 2024.
- Changes in market demand and opportunity for shipping uncommitted volumes, which can impact revenue recorded between quarters. During the first quarter of 2024, the Company shipped high uncommitted volumes at high rates due to high market demand.
- Impacts on throughput volumes and revenues associated with the MP-171 incident, which occurred early in the second quarter of 2025. Refer to the *Recent Developments* section of this MD&A for additional details.

Fourth-quarter 2025 Review

The fourth quarter of 2025 was highlighted by the following events:

- Generated revenue of \$503 million and income from equity investments of \$14 million compared to revenues of \$461 million and income from equity investments of \$12 million during the third quarter of 2025. Lower revenue in the third quarter of 2025 was primarily attributable to a net \$43 million charge recorded against revenue relating to the Withdrawal of Keystone Variable Toll Disputes.
- Delivered normalized EBITDA of \$252 million, a decrease of \$2 million from the third quarter of 2025, primarily driven by lower costs and realized gains in the Marketing segment, and lower corporate costs in the Intra-Alberta & Other segment.
- South Bow declared its quarterly dividend of \$0.50 per share on November 13, 2025, paid on January 15, 2026 to shareholders of record on December 31, 2025.
- Total Keystone Pipeline System throughput was approximately 594,000 bbl/d, an increase of approximately 10,000 bbl/d from the third quarter of 2025.
- Exited the period with net debt of \$4,806 million and a net debt-to-normalized EBITDA ratio of 4.7 times compared to net debt of \$4,901 million and a net debt-to-normalized EBITDA ratio of 4.5 times at December 31, 2024.

Select Annual Financial Information

The following table presents selected annual information for the last three years:

<i>U.S.\$ millions, except where noted</i>	2025	2024	2023
Revenue	1,986	2,120	2,092
Net income	433	316	624
Net income per share - basic	2.08	1.52	3.01
Net income per share - diluted	2.07	1.52	3.00
Total assets	11,193	11,329	11,515
Total non-current liabilities	7,143	6,958	1,949
Dividends declared per share	2.00	0.50	—
Dividends payable	104	104	—

The Company's results are impacted by various factors including those noted in the *Select Quarterly Information* section.

Over the last three fiscal years, the Company's financial results have been impacted by various factors including, but not limited to, changes in market prices, fluctuations in foreign exchange, regulatory changes, new pipelines being placed into service, and weather and other environmental events. Revenues have fluctuated due to changes in contracted volumes, uncommitted volumes, the MP-14 pipeline incident which occurred in late 2022 and impacted volumes shipped, the MP-171 pipeline incident which occurred early in the second quarter of 2025 and impacted volumes shipped, and changes in commodity prices and pricing differentials. Net income has been impacted by changes in revenue as well as fluctuations in operating expenses, environmental cleanup efforts, litigation, asset impairments, gains and losses on asset sales, changes in long-term debt obligations, capital expenditures and capital projects, and costs incurred in anticipation and execution of the Spinoff.

Changes in non-current liabilities have primarily been impacted by fluctuations in foreign exchange rates on long-term debt balances and changes in deferred income tax liabilities.

Parental Guarantees of Debt

On August 28, 2024, the Company completed its initial debt offering which included U.S. and Canadian dollar-denominated Senior Notes and U.S. dollar-denominated Junior Notes issued by certain subsidiaries of South Bow Corporation. The guarantees are full and unconditional. The issuers and guarantors of the U.S. dollar-denominated Senior Notes and Junior Notes are summarized below:

Issuer and Guarantors ("Obligor Group")	
Senior Notes	
Due September 2027 (\$700 million, 4.91%)	Issued by South Bow USA Infrastructure Holdings LLC and guaranteed by South Bow Infrastructure Holdings Ltd., South Bow Canadian Infrastructure Holdings Ltd., and South Bow Corporation.
Due October 2029 (\$1,000 million, 5.03%)	
Due October 2034 (\$1,250 million, 5.58%)	
Due October 2054 (\$700 million, 6.18%)	
Due February 2030 (C\$450 million, 4.32%)	Issued by South Bow Canadian Infrastructure Holdings Ltd. and guaranteed by South Bow Infrastructure Holdings Ltd., South Bow USA Infrastructure Holdings LLC, and South Bow Corporation.
Due February 2032 (C\$500 million, 4.62%)	
Due February 2035 (C\$500 million, 4.93%)	
Junior Notes	
Due March 2055 (\$450 million, 7.63%)	Issued by South Bow Canadian Infrastructure Holdings Ltd. and guaranteed by South Bow Infrastructure Holdings Ltd., South Bow USA Infrastructure Holdings LLC, and South Bow Corporation.
Due March 2055 (\$650 million, 7.50%)	

The Senior Notes guarantees rank above all subordinated debts, including the Junior Notes, and are equal in payment priority with other non-subordinated debts. They are subordinated to secured debts to the extent of the value of the securing assets. Additionally, they are structurally subordinated to the debts and liabilities of subsidiaries that do not guarantee the Senior Notes. The indentures governing the Senior Notes limit South Bow's ability to: create liens without equally and ratably securing the notes; and engage in certain sale and leaseback transactions. Such indentures also limit South Bow's ability to consolidate, merge, or transfer all or substantially all its assets.

The Junior Notes guarantees are unsecured and rank below all senior debts, including the Senior Notes. They are equal in payment priority with other specified unsecured subordinated debts and are structurally subordinated to the debts of subsidiaries that do not guarantee the Junior Notes. In the event of bankruptcy or insolvency, they rank above common and preferred shares in asset distribution.

The guarantees on the Senior Notes and Junior Notes do not limit the amount of senior indebtedness that South Bow may incur or the amount of other indebtedness or liabilities that South Bow or its subsidiaries may incur, and do not contain any financial or other similar restrictive covenants.

Summarized Financial Information of the Obligor Group

In accordance with Rule 3-10 of the SEC's Regulation S-X, South Bow has provided the following summarized information and disclosures in lieu of filing separate financial statements for each of the guarantors of the securities. The summarized financial information of the Obligor Group is presented on a combined basis and has eliminated intercompany balances and transactions between the entities in the Obligor Group. The summarized financial information excludes information of any subsidiaries who are not issuers or guarantors as well as income from equity method investments. South Bow's credit ratings are based on the accompanying financial statements and therefore the accompanying financial statements provide a more appropriate view of the Company's financial position. The summarized financial information of the Obligor Group is below:

U.S.\$ millions	As at December 31,	
	2025	2024
Select Asset Information:		
Current assets	586	426
Receivables from non-obligor subsidiaries	—	6
Non-current assets	262	207
Non-current receivables from non-obligor subsidiaries	2,137	2,137
Select Liability Information:		
Current liabilities	206	226
Payables to non-obligor subsidiaries	2,493	1,023
Non-current liabilities, including guaranteed debt	5,818	5,768
Non-current liabilities to non-obligor subsidiaries	4,137	4,137

U.S.\$ millions	Year Ended December 31, 2025	
Revenues - external	—	—
Revenues from non-obligor subsidiaries	—	—
Operating loss of Obligor Group		(539)
Net loss of Obligor Group		(509)

Forward-looking Information

To help the reader understand Management's assessment of South Bow's future plans and financial outlook and future prospects overall, this MD&A includes certain statements and information which constitute forward-looking statements or forward-looking information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "could", "would", "believe", "plan", "intend", "design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential", "outlook", "aim", "purpose", "goal", and similar expressions suggesting future events or future performance.

In particular, forward-looking statements in this MD&A include information and certain financial outlooks, about the following, among other things:

- the Company's financial and operational performance;
- expectations about strategies and goals for optimization, growth, and expansion and the methods South Bow expects to employ to implement such strategies;
- South Bow's capital allocation priorities;
- the expectation that liabilities associated with the Withdrawal of the Keystone Variable Toll Disputes will be paid over the next six years, beginning in the fourth quarter of 2025 and due in the third quarter of the subsequent years;
- expected costs related to the MP-14 and MP-171 incidents;

- the expectation that costs associated with the MP-171 incident will be recovered through the Company's insurance policies by early 2026;
- expected impacts of the findings of the RCA regarding the MP-171 incident to South Bow's remedial work plan;
- the expectation that the Company will continue to be able to meet all contractual transportation services while operating under the CAO;
- the estimated amount of the Former Parent's share of the anticipated incremental costs associated with the MP-14 incident pursuant to the Separation Agreement;
- the expected recovery of the remaining estimated environmental remediation costs associated with the MP-14 incident;
- expectations that WCSB crude oil supply will grow modestly throughout 2026 and remain below available pipeline egress capacity and the results and impacts thereof;
- South Bow's expectation that recent geopolitical events will not materially impact South Bow's business or the long-term demand for Canadian crude oil;
- expectations that pricing differentials on the Company's U.S. Gulf Coast operations will remain tight throughout 2026 and the impacts thereof;
- that South Bow's financial outlook is underpinned by highly contracted cash flows and strong structural demand for services;
- South Bow's financial outlook and annual guidance for 2026, including normalized EBITDA, financial charges, expected effective tax rate, distributable cash flow, and capital expenditures;
- South Bow's forecast of normalized EBITDA for each of its segments;
- expected normalized EBITDA in the first quarter of 2026;
- expectations that South Bow's net debt-to-normalized EBITDA ratio will decrease modestly through 2026;
- South Bow's plans with respect to growth capital expenditures in 2026 and its intention to update its outlook for growth capital expenditures once it sanctions its next development project;
- the expected timing of principal repayments and certain other terms of South Bow's Senior Notes and Junior Notes;
- that the Company has significant capacity on its Facility and the timing of its first long-term debt maturity;
- South Bow's belief that it is positioned to meet its operating obligations, including quarterly dividend payments, if, as, and when declared, and fund its ongoing development projects;
- the Company's continued commitment to prudently managing leverage and the expectation that it will enhance its financial resilience, reduce debt service charges and create additional capacity to fund future growth initiatives and potentially grow shareholder returns;
- expected costs in establishing the Company's capabilities;
- expected dividends and the designation thereof;
- expectations regarding cash flows associated with the Blackrod Connection Project in 2026 and 2027;
- South Bow's contractual obligations from 2025 through 2030 and thereafter and the categories thereof;
- the maximum term of South Bow's guarantees for certain jointly-owned entities and the potential exposure thereunder;
- that separation capital expenditures are not expected to be recovered through the Company's tolling arrangements;
- estimated contractual recoveries related to Keystone XL and Keystone;
- expected capital expenditures, contractual obligations, commitments, and contingent liabilities;
- expected regulatory processes and outcomes;
- expected outcomes with respect to legal proceedings, including arbitration and insurance claims;
- the expected impact of future legal and accounting changes;
- the remediation plan and the effectiveness of the actions taken pursuant to the remediation plan to remediate the identified material weakness in the Company's internal controls;
- the possibility that South Bow may need to provide collateral if a credit risk-related contingent event occurs or if the fair value of its derivative financial instruments exceeds pre-defined exposure limits; and
- expected industry, market, and economic conditions, including their impact on South Bow and on its customers and suppliers.

Forward-looking statements do not guarantee future performance. Actual events and results could be significantly different from those implied by forward-looking statements, including because of assumptions, risks, or uncertainties related to South Bow's business or events that happen after the date of this MD&A.

Forward-looking statements are based on a number of different assumptions, predictions, or projections and subject to a number of different risks, including but not limited to the following key assumptions and subject to the following risks and uncertainties:

Assumptions

- realization of expected benefits from acquisitions, divestitures, and the Spinoff;
- regulatory decisions and outcomes;
- planned and unplanned outages and the use of the Company's pipelines;
- integrity and reliability of the Company's 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 the Company and on its customers and suppliers;
- future operating costs being consistent with Management's current expectations;
- the Company's ability to maintain current credit ratings;
- the timely and effective implementation of the remediation plan to remediate the material weakness in the Company's internal controls;
- prevailing inflation rates, commodity, and labour prices;
- prevailing interest, tax, and foreign exchange rates;
- changes in U.S. tax legislation and its impacts on lowering current taxes; and
- nature and scope of hedging.

Risks and Uncertainties

- failure to realize the expected benefits from acquisitions, divestitures, and the Spinoff;
- the Company's ability to successfully implement its strategic priorities and whether they will yield the expected benefits;
- the Company's ability to implement a capital allocation strategy aligned with maximizing shareholder value;
- operating performance of the Company's pipelines and storage assets;
- amount of capacity sold and rates achieved in the Company's business;
- changing global trade policies, including tariffs and the impact on the Company's business, financial results, and operations;
- production levels within supply basins;
- construction and completion of capital projects;
- the implementation and effectiveness of the Company's new ERP and supervisory control and data acquisition systems;
- the remediation of the material weakness in the Company's internal controls and the timing thereof;
- identification of additional material weaknesses or deficiencies in the Company's internal controls;
- 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 the Company's counterparties;
- regulatory decisions and outcomes of legal proceedings, including arbitration and insurance claims;
- the Company's ability to effectively anticipate and assess changes to government policies and regulations, including those related to the environment;
- the Company's ability to realize the value of tangible assets and contractual recoveries;
- competition in the business in which the Company operates;
- unexpected or unusual weather;
- acts of civil disobedience;
- cyber security and technological developments;
- sustainability-related risks;
- impact of energy transition on the Company's 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 the Company's operations; and
- the other factors discussed under *Risk Management* herein and in the Company's annual information form for the year ended December 31, 2025, which is available at www.sedarplus.ca.

The foregoing lists should not be construed as exhaustive. As actual results could vary significantly from the results implied by forward-looking statements, readers should not put undue reliance on forward-looking statements and should not use future-oriented information or financial outlooks for anything other than their intended purpose. South Bow does not update its forward-looking statements due to new information or future events unless required to by law.

Management approved the financial outlooks contained in this MD&A, including 2026 normalized EBITDA, 2026 financial charges, 2026 distributable cash flow, 2026 effective tax rate, and 2026 capital expenditures (including growth and maintenance capital expenditures), which are based on, among other things, the various assumptions disclosed in this MD&A, including those under Forward-looking Information as of the date of this MD&A. The internal projections, expectations, or beliefs are based on the 2026 budget, as applicable, which are subject to change in light of ongoing results, prevailing economic conditions, commodity prices, and industry conditions and regulations. The purpose of these financial outlooks is to inform readers about Management's expectations for the Company's financial and operational results in 2026, and such information may not be appropriate for other purposes. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and may be material and adverse and, as such, undue reliance should not be placed on such financial outlooks.

South Bow's future shareholder distributions, including but not limited to the payment of dividends, if any, and the level thereof is uncertain. Any decision to pay dividends on South Bow's shares (including the actual amount, the declaration date, the record date and the payment date in connection therewith and any special dividends) will be subject to the discretion of the Board and may depend on a variety of factors, including, without limitation, South Bow's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on South Bow under applicable corporate law. Further, the actual amount, the declaration date, the record date and the payment date of any dividend are subject to the discretion of the Board. There can be no assurance that South Bow will pay dividends in the future.

Glossary

Below are common abbreviations used within this MD&A:

bbl	barrel
bbl/d	barrels per day
C\$ or CAD	Canadian dollar
CER	Canada Energy Regulator
EBITDA	earnings before interest, taxes, depreciation and amortization
ERP	enterprise resource planning
FERC	Federal Energy Regulatory Commission
LMCI	Land Matters Consultation Initiative
Mbbl	thousand barrels
Mbbl/d	thousand barrels per day
MP-14	Refers to the Milepost 14 pipeline incident in December 2022 involving the release of oil from the Keystone Pipeline System into a creek in Washington County, Kansas. Discussed in the <i>Recent Developments</i> section.
MP-171	Refers to the Milepost 171 pipeline incident in April 2025 involving the release of oil from the Keystone Pipeline System near Fort Ransom, North Dakota. Discussed in the <i>Recent Developments</i> section.
NYSE	New York Stock Exchange
PHMSA	Pipeline and Hazardous Materials Safety Administration
RCA	root cause analysis
TSX	Toronto Stock Exchange
U.S.\$ or USD	United States dollar
U.S. GAAP	United States Generally Accepted Accounting Principles
WCSB	Western Canadian Sedimentary Basin

CONSOLIDATED FINANCIAL STATEMENTS



Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of South Bow Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of South Bow Corporation (the Company) as of December 31, 2025 and 2024, the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the two-year period ended December 31, 2025, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2025, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2025, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2026 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for the Agreements associated with the Withdrawal of Keystone Variable Toll Disputes

As discussed in Notes 4 and 23 to the consolidated financial statements, pursuant to a settlement agreement effective September 30, 2025, the Company and associated parties agreed to withdraw all complaints and protests associated with the Keystone variable toll disputes previously filed with the Canada Energy Regulator, the Federal Energy Regulatory Commission, Court of King's Bench of Alberta, and D.C. Circuit Court (the Withdrawal of Keystone Variable Toll Disputes). The amounts payable pursuant to the terms of the settlement agreement are subject to the indemnification terms in an associated partial release of indemnification agreement and the separation agreement with TC Energy Corporation (Former Parent) (collectively, the Agreements). The net impact of recording the terms of the settlement agreement for the Withdrawal of Keystone Variable Toll Disputes, related indemnification asset, and the reduction of the amounts previously accrued for the Keystone Variable Toll Disputes resulted in a net reduction of revenue in the consolidated statement of income of \$43 million during the year ended December 31, 2025.

We identified the evaluation of the Company's accounting for the Agreements associated with the Withdrawal of Keystone Variable Toll Disputes as a critical audit matter. Evaluating the extent of management's judgment related to the identification of the applicable contractual terms of the Agreements in the Company's technical accounting analysis and the conclusions related to the classification and disclosure of this matter involved significant audit effort and required complex auditor judgments.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's accounting for the Agreements, including controls over the technical accounting analysis and related financial statement classification and disclosures. In addition, we performed the following:

- read the Agreements to understand the terms, obligations, and indemnifications to evaluate management's technical accounting analysis by considering the relevant terms in the Agreements
- tested the calculation of the amounts arising from the Agreements by comparing the inputs to the Agreements and recalculating the outputs
- evaluated the classification of the amounts arising from the Agreements and the related financial statement disclosures, including the description of the Withdrawal of Keystone Variable Toll Disputes, by comparing them to the Agreements and the underlying calculations.

/s/ KPMG LLP

Chartered Professional Accountants

We have served as the Company's auditor since 2023.

Calgary, Canada

March 13, 2026

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of South Bow Corporation

Opinion on Internal Control Over Financial Reporting

We have audited South Bow Corporation's (the Company) internal control over financial reporting as of December 31, 2025, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2025, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2025 and 2024 the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for each of the years in the two-year period ended December 31, 2025, and the related notes (collectively, the consolidated financial statements), and our report dated March 13, 2026 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness was identified and included in management's assessment. The material weakness related to the design and operating effectiveness of certain general information technology ("IT") controls that are relevant to the preparation of the Company's consolidated financial statements. The Company did not (i) maintain certain change management controls to ensure configuration changes affecting certain IT applications were appropriate; (ii) design and maintain certain program development controls to ensure the data migration, program testing and approval of a new software development is aligned with business and IT requirements; and (iii) maintain user access controls in all instances to ensure segregation of duties in the Company's financial applications. As a result of these control deficiencies, process level automated controls that are dependent on configuration in the affected IT environment and manual controls that rely on system-generated data or reports from the affected IT environments were ineffective because certain data derived from IT applications could have been adversely impacted. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2025 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the 'Management's Report on Internal Control Over Financial Reporting' section of the Company's Management's Discussion and Analysis for the year ended December 31, 2025. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 13, 2026

Consolidated Balance Sheets

U.S.\$ millions	Note	As at December 31,	
		2025	2024
ASSETS			
Current Assets			
Cash and cash equivalents		549	397
Accounts receivable		1,107	1,190
Inventories	8	100	207
Contractual recoveries		7	63
Other current assets	7	252	341
Total Current Assets		2,015	2,198
Plant, Property and Equipment, Net	9	8,210	8,206
Equity Investments	11	743	732
Deferred Tax Assets	15	23	16
Other Long-term Assets	12	202	177
TOTAL ASSETS		11,193	11,329
LIABILITIES			
Current Liabilities			
Accounts payable and other	13	1,135	1,544
Dividends payable	18	104	104
Accrued interest	17	102	113
Total Current Liabilities		1,341	1,761
Other Long-term Liabilities	14	179	140
Senior Unsecured Notes	17	4,682	4,629
Junior Subordinated Notes	17	1,086	1,087
Deferred Income Tax Liabilities	15	1,196	1,102
Total Liabilities		8,484	8,719
SHAREHOLDERS' EQUITY			
Common shares (2025 - 208 million shares, 2024 - 208 million shares)	18	2,201	2,196
Additional paid-in capital		661	661
Accumulated deficit		(32)	(49)
Accumulated other comprehensive loss		(121)	(198)
Total Shareholders' Equity		2,709	2,610
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		11,193	11,329

Commitments, Contingencies and Guarantees (Note 23)

Variable Interest Entities (Note 24)

See accompanying notes to the consolidated financial statements.

/s/ Hal Kvisle

Hal Kvisle, Board Chair and Director

/s/ Shannon Ryhorchuk

Shannon Ryhorchuk, Director and Audit Committee Chair

Consolidated Statements of Income

<i>U.S.\$ millions, except share and per share amounts</i>	Note	Year Ended December 31,	
		2025	2024
Revenues	6	1,986	2,120
Income from Equity Investments	11	52	49
Operating and Other Expenses			
Plant operating costs and other		719	738
Commodity purchases resold		313	376
Depreciation and amortization	9	247	246
Other		(8)	15
		1,271	1,375
Other Income	23	(20)	—
Financial Charges			
Interest expense	17	331	388
Interest income and other	17	(41)	(12)
		270	376
Income before Income Taxes		497	418
Income tax expense (recovery)			
Current	15	(16)	43
Deferred	15	80	59
		64	102
Net Income		433	316
Net Income per Common Share - Basic	19	2.08	1.52
Net Income per Common Share - Diluted	19	2.07	1.52
Weighted Average Number of Common Shares (millions) - Basic	19	208.2	207.6
Weighted Average Number of Common Shares (millions) - Diluted	19	208.8	208.2

Consolidated Statements of Comprehensive Income

<i>U.S.\$ millions</i>	Note	Year Ended December 31,	
		2025	2024
Net income		433	316
Foreign currency translation - net investment hedge		55	(67)
Foreign currency translation - other		17	(9)
Separation-related pension adjustment		—	3
Changes in pension estimate	20	5	3
Comprehensive Income		510	246

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

U.S.\$ millions	Note	Year Ended December 31,	
		2025	2024
Operating Activities			
Net income		433	316
Depreciation and amortization	9	247	246
Deferred income tax expense	15	80	59
Write-downs		—	7
Income from equity investments	11	(52)	(49)
Distributions received from operating activities of equity investments	11	74	70
Unrealized (gains) losses on financial instruments	21	(36)	6
Non-cash foreign exchange		(1)	(69)
Other		7	5
Increase in operating working capital	22	(35)	(62)
Net Cash Provided by Operating Activities		717	529
Investing Activities			
Capital expenditures		(178)	(122)
Keystone XL contractual recoveries		3	5
Proceeds from sales of assets, net of transaction costs		—	38
Deferred amounts and other		—	(1)
Net Cash Used in Investing Activities		(175)	(80)
Financing Activities			
Senior unsecured debt issued, net of issue costs	17	—	3,448
Junior subordinated debt issued, net of issue costs	17	—	1,087
Long-term debt repaid to affiliates of Former Parent	17	—	(4,722)
Exercised stock options	18	5	9
Dividends paid		(416)	—
Former Parent's net investment distributions, net		—	(121)
Other		—	(8)
Net Cash Used in Financing Activities		(411)	(307)
Effect of foreign exchange rate changes on cash and cash equivalents		21	(7)
Increase in Cash and Cash Equivalents		152	135
Cash and Cash Equivalents, Beginning of Year		397	262
Cash and Cash Equivalents, End of Year		549	397
Supplementary Cash Flow Information			
Cash income taxes paid		38	49
Cash interest paid		342	—
Capital expenditures non-cash accruals		29	19

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

<i>U.S.\$ millions</i>	Note	Former Parent's Net Investment	Share Capital	APIC ¹	Accumulated Deficit	AOCI ²	Total
December 31, 2023		2,968	—	—	—	(128)	2,840
Net income		261	—	—	55	—	316
Distributions by Former Parent		(3,229)	—	661	—	3	(2,565)
Issuance of common shares	18	—	2,187	—	—	—	2,187
Exercise of stock options	18	—	9	—	—	—	9
Dividends declared	18	—	—	—	(104)	—	(104)
Change in pension estimates ³	20	—	—	—	—	3	3
Foreign currency translation - net investment hedge		—	—	—	—	(67)	(67)
Foreign currency translation - other		—	—	—	—	(9)	(9)
December 31, 2024		—	2,196	661	(49)	(198)	2,610
December 31, 2024		—	2,196	661	(49)	(198)	2,610
Net income		—	—	—	433	—	433
Exercise of stock options	18	—	5	—	—	—	5
Dividends	18	—	—	—	(416)	—	(416)
Change in pension estimates ³	20	—	—	—	—	5	5
Foreign currency translation - net investment hedge		—	—	—	—	55	55
Foreign currency translation - other		—	—	—	—	17	17
December 31, 2025		—	2,201	661	(32)	(121)	2,709

1. Additional paid-in capital.

2. Accumulated other comprehensive income (loss).

3. Net of tax.

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



Notes to the Consolidated Financial Statements

1. Description of the Business

South Bow Corporation (South Bow or the Company) is a critical energy infrastructure company that owns and operates liquids pipelines and facilities extending across Canada and the United States (U.S.), connecting significant crude oil supply to key refining and demand markets in the U.S. Midwest and Gulf Coast. South Bow's operations are presented in three reportable segments: Keystone Pipeline System, Marketing, and Intra-Alberta & Other.

2. Basis of Presentation and Accounting Policies

On July 27, 2023, TC Energy Corporation (TC Energy or the Former Parent) announced plans to separate into two independent, investment-grade, publicly listed companies through the proposed spinoff of its Liquids Pipelines business (the Spinoff). On October 1, 2024, the Company completed the spinoff from its Former Parent and formed a new publicly traded company named South Bow Corporation. Under the Spinoff transaction, TC Energy shareholders as of the close of business on the record date of September 25, 2024, received 0.2 of a South Bow common share in exchange for every one share of TC Energy common share held, while retaining their interest in TC Energy. South Bow's common shares commenced regular-way trading on the Toronto Stock Exchange (TSX) on October 2, 2024, and on the New York Stock Exchange (NYSE) on October 8, 2024, under the ticker symbol "SOBO".

South Bow's reporting currency is the United States dollar (USD, U.S.\$, or U.S. dollars) as the majority of the Company operates within the U.S.

The financial information for the period from October 1, 2024 to December 31, 2024 and for the year ended December 31, 2025 is the consolidated financial information of the Company. For periods prior to the Spinoff date, the financial information is the consolidated and combined financial information of TC Energy's Liquids Pipelines business. The financial information for the period prior to the Spinoff date, the period from October 1, 2024 to December 31, 2024, and the financial statements for the year ended December 31, 2025, are collectively, the "consolidated financial statements". The consolidated financial statements present the historical results of operations, comprehensive income, cash flows, changes in shareholders' equity, and the financial position as if the Company had always existed and operated as a standalone reporting entity, and are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and presented in U.S. dollars. Refer to *Note 3, Accounting Policy Changes* for additional information.

South Bow operates certain investments that are jointly owned with third parties, and uses the equity method of accounting for joint ventures in which the Company is able to exercise joint control, and for investments in which the Company is able to exercise significant influence.

Spinoff from TC Energy

Prior to the Spinoff, South Bow operated as a business unit within TC Energy. The consolidated and combined financial statements of TC Energy's Liquids Pipelines business for the period prior to the Spinoff date were prepared using information 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. The aggregate net effect of transactions between the Company and the Former Parent that are not historically settled in cash have been reflected in the consolidated statements of changes in shareholders' equity as Former Parent's net investment.

The comparative figures in the consolidated financial statements include revenues and expenses that are specifically identifiable to the Company, as well as direct and indirect costs incurred by TC Energy that were attributable to the operations of the Company during the period prior to the Spinoff. Indirect costs were the costs of support functions that were provided on a centralized basis by TC Energy and its affiliates (corporate expenses), which include, but are not limited to, facilities, insurance, compliance, finance, human resources, benefits administration, supply chain, information technology, legal, corporate strategy, corporate governance, and other expenses that are either specifically identifiable or clearly applicable to the Company.

Corporate expenses have been allocated to the Company based on a specific identification basis or, when specific identification was not practicable, a proportional cost allocation method primarily based on fully burdened internal labour costs, the value of in-service gross plant, property and equipment, or other allocation methods that are considered to be a reasonable reflection of the utilization of services provided or benefit received by the Company during the periods presented, depending on the nature of the underlying expenditure. These allocations have been primarily done through the Former Parent's corporate cost allocation methodology. Management considers that such allocations have been made on a reasonable basis consistent with benefits received but may not necessarily be indicative of the costs that would have been incurred if the Company had been operating on a standalone basis for the periods presented, nor are they indicative of the Company's future expenses.

Effective October 1, 2024, the Spinoff was completed and South Bow began operating as an independent entity, resulting in a change in reporting entity.

Assets and liabilities transferred to South Bow through the Spinoff were recorded at their carrying amounts within the consolidated financial statements. Adjustments to assets and liabilities transferred on the Spinoff date, as applicable, were recorded against additional paid-in capital within shareholders' equity on the consolidated balance sheets.

Revenues and expenses before and after the Spinoff have been combined and recorded within the statements of income and comprehensive income for the year ended December 31, 2024.

Common shares represent the common shares issued by South Bow pursuant to the Spinoff, which do not have a par value. The Company has used an established stated value per share based upon the pro-rata share of its Former Parent's paid-up capital immediately prior to the Spinoff. As a result, common shares reflect the stated value of the shares with the residual amount credited to additional paid-in capital.

Transactions with the Former Parent and its affiliates were previously classified as related party transactions; however, this relationship ceased subsequent to the Spinoff date. Refer to *Note 25, Related Party Transactions* for details.

The Spinoff was executed under a separation agreement (the Separation Agreement) as well as additional other agreements which outline the Company's transition of services and relationship with the Former Parent. Refer to *Note 4, Spinoff Transaction* for additional information regarding these agreements and nature of transactions.

Use of Estimates and Judgments

In preparing the consolidated financial statements, South Bow is required to make certain 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.

Significant items subject to estimates and judgments include, but are not limited to:

- allocation of costs across reportable segments (*Note 5, Segment Results*);
- recoverability and depreciation rates of plant, property and equipment (*Note 9, Plant, Property and Equipment*);
- assumptions used to measure the carrying value of the net investment in lease (*Note 10, Leases*);
- assumptions used to measure the environmental remediation liability from the Milepost 14 (MP-14) pipeline incident (*Note 23, Commitments, Contingencies, and Guarantees*);
- provisions for income taxes, including valuation allowances and releases (*Note 15, Income Taxes*);
- fair value of financial instruments (*Note 21, Risk Management and Financial Instruments*);
- provisions for commitments, contingencies, and guarantees (*Note 23, Commitments, Contingencies, and Guarantees*); and
- allocation of costs from its Former Parent (*Note 25, Related Party Transactions*).

Actual results could differ from these estimates.

Regulatory Bodies

The Company's liquids pipelines are regulated by, but not limited to, Canada Energy Regulator (CER), Federal Energy Regulatory Commission (FERC), Alberta Energy Regulator (AER), Alberta Utilities Commission (AUC), Pipeline and Hazardous Materials Safety Association (PHMSA), and Railroad Commission of Texas. These regulatory bodies exercise statutory authority over matters such as construction, operations, approval of rates and commercial agreements, and the abandonment and decommissioning of assets.

Accounting Policies

Revenue Recognition

The total consideration for services and products to which the Company expects to be entitled can include fixed and variable amounts. The Company has variable revenue that is subject to factors outside the Company's influence, such as market prices, actions of third parties, and weather conditions. The Company considers this variable revenue to be "constrained" as it cannot be reliably estimated and, therefore, recognizes variable revenue when the service is provided.

Revenues from contracts with customers are recognized net of any commodity taxes collected from customers, which are subsequently remitted to governmental authorities. The Company's contracts with customers include pipeline capacity arrangements, transportation contracts, and other contracts.

Revenues from the Company's pipelines are generated mainly from providing customers with firm capacity arrangements to transport crude oil. The performance obligation in these contracts is the reservation of a specified amount of capacity, together with the transportation of crude oil on a monthly basis. Revenues earned from these arrangements are recognized ratably over the term of the contract, regardless of the amount of crude oil that is transported. Revenues for volumetric-based services are recognized when the service is performed. Pipeline revenues are invoiced and received on a monthly basis. The Company does not take ownership of the crude oil that it transports for customers within its liquids pipelines business.

Revenues from the Company's marketing activities are earned through purchase and sale of crude oil, which is recorded on a net basis in the month of delivery. The Marketing segment has a contract where it is acting as the principal in the transaction and the marketing activities are not held for trading purposes. The related commodity purchases resold under this contract are recorded on a gross basis.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original terms to maturity of three months or less. The Company's cash and cash equivalents are recorded at cost, which approximates fair value.

Inventories

Inventories primarily consist of proprietary crude oil that is in transit or in storage, as well as materials and supplies, which include spare parts. Inventories are carried at the lower of cost, as determined on a weighted-average basis, and net realizable value.

Plant, Property and Equipment

Plant, property and equipment is carried at cost. Depreciation is calculated on a straight-line basis once the assets are ready for their intended use. Pipeline, pumping equipment, and tanks are depreciated at annual rates ranging from two per cent to 2.5 per cent and other plant, property and equipment are depreciated at various rates, reflecting their estimated useful lives. The cost of these assets includes interest capitalized during construction. When the Company retires plant, property and equipment from service, the original book cost and related accumulated depreciation are derecognized and any gain or loss is recorded in net income.

Leases

The Company determines if a contract contains a lease at inception of a contract by using judgment in assessing the following aspects: i) the contract specifies an identified asset that is physically distinct or, if not physically distinct, represents substantially all of the capacity of the asset; ii) the contract provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset; and iii) the customer has the right to direct how and for what purpose the identified asset is used throughout the period of the contract.

Lessee Accounting Policy

Operating leases are recognized as right-of-use (ROU) assets and are included in plant, property and equipment while corresponding liabilities are included in accounts payable and other and other long-term liabilities on the consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date of the lease agreement. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. South Bow's lease contracts do not provide an implicit interest rate, so the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Operating lease expense is recognized on a straight-line basis over the lease term and included in plant operating costs and other in the consolidated statements of income.

The Company applies the practical expedient approach to not recognize ROU assets or lease liabilities for leases that qualify for the short-term lease recognition exemption.

Lessor Accounting Policy

The Company provides transportation and other services on certain assets to customers according to long-term service agreements through sales-type leases.

In a sales-type lease, the Company measures the total consideration within the contract at lease commencement. When a lease arrangement contains more than one lease and/or non-lease component, a portion of the contract consideration is allocated to each component based on the standalone selling price for each distinct service. The Company applies judgment to determine reasonable estimates of the expected future cost of satisfying the performance obligations of each service. The payments associated with lease components are apportioned between a reduction in the lease receivable and sales-type lease income.

At lease commencement, the Company recognizes a net investment in lease, represented by the present value of both the future lease payments and the estimated residual value of the leased asset. The plant, property and equipment of the leased asset is derecognized, with related gains or losses, if any, recognized in the consolidated statement of income. Sales-type lease income is determined using the rate implicit in the lease and is recorded in interest income and other.

Impairment of Long-lived Assets

The Company reviews long-lived assets such as plant, property and equipment and capital projects in development for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the total of the estimated undiscounted future cash flows for an asset within plant, property and equipment, or the estimated selling price of any long-lived asset, is less than the carrying value of an asset, an impairment loss is recognized in the consolidated statements of income for the excess of the carrying value over the estimated fair value of the asset.

Impairment of Equity Method Investments

The Company reviews equity method investments for impairment when an event or change in circumstances has a significant adverse effect on the investment's fair value. Where the Company concludes an investment's fair value is below its carrying value, the Company then determines whether the decline in value is other-than-temporary, and if so, an impairment loss is recognized in the consolidated statements of income for the excess of the carrying value over the estimated fair value of the investment, not exceeding the carrying value of the investment.

Impairment of Financial Assets

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. An expected credit loss (ECL) is calculated using a model and methodology based on assumptions and judgments, considering historical data, current counterparty information, as well as reasonable and supportable forecasts of future economic conditions. The ECL is recognized in plant operating costs and other in the consolidated statements of income, and is presented on the consolidated balance sheets as a reduction to the carrying value of the related financial asset.

Restricted Investments

The Company has certain investments that are restricted as to their withdrawal and use. These restricted investments are classified as available for sale and are recorded at fair value on the consolidated balance sheets in other long-term assets. As a result of the CER's Land Matters Consultation Initiative (LMCI), South Bow is required to collect funds to cover estimated future pipeline abandonment costs for its CER-regulated pipeline facilities. Funds collected are placed in trusts and invested until withdrawn to fund decommissioning and abandonment activities, and therefore are accounted for as restricted investments (LMCI restricted investments). LMCI restricted investments may only be used to fund the abandonment of the CER-regulated pipeline facilities, and therefore, a corresponding liability is recorded on the consolidated balance sheets in other long-term liabilities.

Receivables

Accounts receivable are measured at amortized cost.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. This method requires the recognition of deferred income tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates at the balance sheet date that are anticipated to apply to taxable income in the years in which temporary differences are expected to be reversed or settled. Changes to these balances are recognized in net income in the period in which they occur. Deferred income tax assets and liabilities are classified as non-current on the consolidated balance sheets. A valuation allowance is applied if it is more likely than not that some or all of the deferred tax assets will not be realized, based on available evidence and future taxable income estimates. The Company recognizes the financial effects of tax positions when it is more likely than not that the position will be sustained upon examination. The Company's exposure to uncertain tax positions is evaluated and a provision is made where it is more likely than not that this exposure will materialize.

Environmental Liabilities

The Company generally records liabilities on an undiscounted basis for environmental remediation efforts that are likely to occur and where the cost can be reasonably estimated. These estimates, including associated legal costs, are based on available information using existing technology and enacted laws and regulations, and are subject to revision in future periods based on actual costs incurred or new circumstances. The Company evaluates recoveries from insurers and other third parties separately from the liability and, when recovery is probable, it records an asset separately from the associated liability. These recoveries are presented, along with environmental remediation costs, on a net basis in plant operating costs and other in the consolidated statements of income. Variations in one or more of the categories described above could result in additional costs, such as fines, penalties and/or expenditures associated with litigation, and settlement of claims with respect to environmental liabilities.

Asset Retirement Obligations

Asset retirement obligations (ARO) associated with the retirement of the Company's long-lived assets are measured at fair value and recognized as other current or other long-term liabilities in the period when they can be reasonably estimated. The fair value of ARO estimates are meant to represent the cost a third party would charge to perform the required work to decommission the assets, and is recognized at the present value of expected future cash flows when an estimate is available. The scope and timing of asset retirements for the Company's pipeline and storage assets are indeterminable because the Company intends to operate them as long as there is supply and demand for crude oil. Accordingly, the Company has not recorded an amount for ARO related to these assets.

Employee Post-retirement Benefits

The Company sponsors defined benefit pension plans and defined contribution pension plans (collectively, the Pension Plans). The Company's defined benefit pension plans are closed to new employees subsequent to January 1, 2024 and the defined contribution pension plans are open to new entrants. The cost of the Pension Plans received by employees is determined using the projected benefit method, pro-rated based on service and Management's best estimate of actuarial assumptions, such as expected plan investment performance, salary escalation, and retirement age of employees. The Company's share of the Pension Plans' assets and liabilities assumed from its Former Parent upon Spinoff have been accounted for in the year ended December 31, 2024.

The Pension Plans' assets are measured at fair value at December 31 of each year. The expected return on the Pension Plans' assets is determined using market-related values based on a five-year moving average value for all of the Pension Plans' assets. The Company recognizes the overfunded or underfunded status of its Pension Plans as an asset or liability, respectively, on the consolidated balance sheets and recognizes changes in that funded status through other comprehensive income (OCI) in the year in which the change occurs. The excess of net actuarial gains or losses over 10 per cent of the greater of the benefit obligation and the market-related value of the Pension Plans' assets, if any, is amortized out of accumulated other comprehensive income (loss) (AOCI) and into net income over the average remaining service periods of the active participants. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. Post-retirement benefit amounts are recoverable through tolls as benefits are funded.

Foreign Currency Transactions and Translation

Foreign currency transactions are those transactions whose terms are denominated in a currency other than the currency of the primary economic environment in which the Company or combined entity operates. This is referred to as the functional currency. Transactions denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at the historical exchange rate in effect on the date of the transaction. Foreign exchange gains and losses resulting from translation of monetary assets and liabilities are recorded in net income.

Gains and losses arising from translation of foreign operations' functional currencies to the Company's U.S.-dollar reporting currency are reflected in OCI until the operations are sold, at which time the gains and losses are reclassified to net income. Asset and liability accounts are translated at the period-end exchange rates, while revenues, expenses, gains and losses, and equity items are translated at the average monthly exchange rates.

Derivative Instruments and Hedging Activities

All derivative instruments are recorded on the consolidated balance sheets at fair value, unless they qualify for and are designated under a normal purchase and normal sales exemption, or are considered to meet other permitted exemptions.

Derivatives are used as economic hedges and for proprietary trading strategies in the Company's marketing business. These derivatives do not meet the specific criteria for hedge accounting treatment and therefore, the changes in fair value are recorded in net income in the period of change.

Derivatives embedded in other financial instruments or contracts (host instrument) are recorded as separate derivatives. Embedded derivatives are measured at fair value if their economic characteristics are not clearly and closely related to those of the host instrument, their terms are the same as those of a standalone derivative, and the total contract is not held for trading or accounted for at fair value. When changes in the fair value of embedded derivatives are measured separately, they are recorded in net income.

Net Investment Hedges

Net investment hedges are used by the Company to hedge its net investments in foreign operations against foreign currency exposure. South Bow has only used non-derivative instruments as net investment hedges. At inception, the net investment hedge is formally identified, designated and documented, and hedge effectiveness is assessed. Changes in the fair value of the net investment hedge are recognized in OCI with any ineffective portions recognized in net income.

Variable Interest Entities

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support, or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. The assessment of whether an entity is a VIE and, if so, whether the Company is the primary beneficiary, is completed at the inception of the entity or at a reconsideration event.

Consolidated VIEs

The Company's consolidated VIEs consist of legal entities where the Company has a variable interest and for which it is considered the primary beneficiary. As the primary beneficiary, the Company has the power, through voting or similar rights, to direct the activities of the VIE that most significantly impact economic performance, including: purchasing or selling significant assets; maintenance and operations of assets; incurring additional indebtedness; or determining the strategic operating direction of the entity. In addition, the Company has the obligation to absorb losses or the right to receive benefits from the consolidated VIE that could potentially be significant to the VIE.

Non-consolidated VIEs

The Company's non-consolidated VIEs consist of legal entities where the Company has a variable interest but is not the primary beneficiary as it does not have the power (either explicit or implicit), through voting or similar rights, to direct the activities that most significantly impact the economic performance of these VIEs or where this power is shared with third parties. The Company contributes capital to these VIEs and receives ownership interests that provide it with residual claims on assets after liabilities are paid. Non-consolidated VIEs are accounted for as equity investments.

The Company's maximum exposure to loss is the maximum loss that could potentially be recorded through net income in future periods as a result of the Company's variable interest in a VIE.

Share-based Compensation

South Bow records share-based compensation for its long-term incentive plans, which includes stock options, restricted share units (RSUs), performance share units (PSUs), and deferred share units (DSUs). The Company established these plans upon Spinoff, in which the existing grants and awards from the Company's Former Parent transferred to South Bow with similar contractual terms and valuations.

South Bow's Stock Option Plan permits options for the purchase of common shares to be awarded to certain employees, including officers. Stock options granted are recorded using the fair value method. Under this method, compensation expense is measured at the grant date based on the fair value and is recognized on a straight-line basis over the vesting period in the consolidated statements of income, with an offset to contributed surplus on the consolidated balance sheets. Forfeitures are accounted for when they occur. Upon exercise of stock options, amounts originally recorded against additional paid-in capital are reclassified to common shares within shareholders' capital on the consolidated balance sheets. No stock options have been granted under the Former Parent or South Bow's plans since 2023.

The expense related to RSU, PSU, and DSU incentive plans is accounted for on a liability basis. Under these plans, benefits vest when certain conditions are met, including the employees' continued employment during a specified period and for PSUs only, achievement of specified corporate performance targets. RSUs, PSUs, and DSUs accrue dividend equivalent units based on record date, increasing awards outstanding over time.

Cost Allocation

South Bow allocates shared services and corporate support costs to its reportable segments on a consistent and systematic basis. Shared services include centralized functions which support multiple operating activities and are therefore allocated to ensure that each reportable segment reflects an appropriate share of Company-wide costs. Corporate expenses have been allocated to the reportable segments based on a specific identification basis or, when specific identification was not practicable, a proportional cost allocation method.

3. Accounting Policy Changes

Accounting Changes Adopted

Amendments to Income Taxes

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09 *Improvements to Income Tax Disclosures* 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 and the Company has applied changes to the disclosures for the periods presented in the consolidated financial statements on a retrospective basis. Refer to *Note 15, Income Taxes* for additional information.

Future Accounting Changes Not Yet Adopted

Disaggregation of Income Statement Expenses

In November 2024, the FASB issued ASU 2024-03 *Disaggregation of Income Statement Expenses*, which requires additional disclosures about certain costs and expenses in the notes to the consolidated financial statements. This new guidance is effective for annual periods beginning after December 15, 2026, and interim periods within annual periods beginning after December 15, 2027, with early adoption permitted. The guidance is to be applied prospectively, with retrospective application permitted. The Company has chosen not to early adopt this guidance and is currently evaluating the impact on its consolidated financial statements and related disclosures.

4. Spinoff Transaction

The Spinoff was executed under a Separation Agreement with various other agreements outlining the governance of the Company's relationship with the Former Parent during a transition period, including, but not limited to, the Transition Services Agreement (TSA), the Tax Matters Agreement, and the Employee Matters Agreement (EMA). During the year ended December 31, 2025, the Former Parent billed the Company \$10 million for services pursuant to the TSA (2024 - \$5 million).

The Separation Agreement outlines key provisions of the separation of South Bow into a standalone entity and specifies the assets, liabilities, and contracts assigned to the Company in the Spinoff, as well as certain indemnification obligation arrangements for ongoing matters which existed prior to Spinoff. Under this agreement, the Former Parent will indemnify South Bow for 86 per cent of total assets, liabilities, and costs associated with the MP-14 incident, Keystone XL contractual recoveries, and the variable toll disputes on the Keystone Pipeline System up to October 1, 2024, subject to a maximum liability to South Bow of \$22 million (C\$30 million), in aggregate.

The following table summarizes the indemnity-related balances with the Company's Former Parent as at December 31, 2025 and December 31, 2024:

Transaction <i>U.S.\$ millions</i>	Note	Gross Asset (Liability)	Former Parent Asset (Liability) ¹	Net Asset (Liability)
As at December 31, 2025				
Keystone XL contractual recoveries ²	23	—	—	—
Variable toll disputes - CER ³	23	172	127	45
Variable toll disputes - FERC ³	23	—	—	—
MP-14 costs ⁴	23	(30)	(26)	(4)
Withdrawal of Keystone Variable Toll Disputes ⁵	23	(96)	(91)	(5)
As at December 31, 2024				
Keystone XL contractual recoveries ²	23	56	48	8
Variable toll disputes - CER ³	23	114	98	16
Variable toll disputes - FERC ³	23	(51)	(44)	(7)
MP-14 costs ⁴	23	(30)	(26)	(4)

1. Represents the net asset (liability) attributable to the Former Parent included in the consolidated balance sheets.
2. Contractual recoveries from backstop agreements as a result of the cancellation of the Keystone XL project in 2021. The gross asset balance is included in contractual recoveries on the consolidated balance sheets. During the year ended December 31, 2025, the Company updated its estimate of amounts to be recovered relating to these agreements.
3. Variable toll disputes filed by customers with the CER and FERC. The gross asset and liability balances are included in the accounts receivable and accounts payable and other, respectively, on the consolidated balance sheets.
4. Amounts related to estimated costs for the MP-14 pipeline incident that occurred in 2022. The gross liability balance is included in accounts payable and other on the consolidated balance sheets.
5. Represents the outstanding liabilities subject to indemnification related to the Company and associated parties mutual agreement to withdraw all complaints and protests associated with the variable toll disputes.

At September 30, 2025, the Company reached its maximum indemnity liability of \$22 million (see *Note 23, Commitments, Contingencies, and Guarantees*). During the year ended December 31, 2025, the Company made \$13 million in payments relating to indemnified liabilities and at December 31, 2025, has an outstanding maximum liability of \$9 million for future indemnification payments to be made.

5. Operating Segments Results

South Bow operates through three reportable segments: Keystone Pipeline System, Marketing, and Intra-Alberta & Other, which includes corporate activities. These segments are aligned with the Company's internal management structure and represent distinct business operations that provide products and services within areas of operation.

The Keystone Pipeline System segment consists of the Company's primary liquids pipeline system, which connects crude oil production in Hardisty, Alberta, Canada to key refining and demand markets in the U.S. Midwest and Gulf Coast. Revenue is primarily generated through committed contracts, whereby customers receive access to pipeline capacity and the transportation of crude oil in exchange for a committed monthly payment. The segment also generates variable and uncontracted revenue, including revenue from uncommitted spot volumes.

South Bow's Marketing business provides customers with a variety of crude oil marketing services, including transportation, storage, and logistics.

South Bow's Intra-Alberta pipelines are comprised of the Grand Rapids Pipeline and White Spruce Pipeline, which provide crude oil transportation from Alberta's oil sands region to terminals in the Edmonton and Heartland refining and market regions. Revenue is generated through committed contracts, whereby customers receive access to pipeline capacity, variable revenue, and the transportation of crude oil in exchange for a committed monthly payment, sales-type lease revenue. This segment includes other activities, including corporate activities, that support South Bow's operations and business development efforts, including financing activities.

South Bow's Chief Operating Decision Maker (CODM) is the CEO. The segments' financial performance is assessed based on normalized earnings before interest, income taxes, and depreciation and amortization (normalized EBITDA). The CODM reviews budget-to-actual variances of normalized EBITDA on a monthly basis and uses this information when making decisions about allocating resources to segments. The accounting policies, as outlined in *Note 2, Basis of Presentation and Accounting Policies*, are applied consistently across reporting segments. The CODM monitors segment long-term assets as the measure of total assets.

The following table summarizes segment results for the year ended December 31, 2025:

Year Ended December 31, 2025	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
<i>U.S.\$ millions</i>				
Revenue from contracts with customers ¹	1,447	—	18	1,465
Marketing activities	—	403	—	403
Other revenues	118	—	—	118
Segment Revenues	1,565	403	18	1,986
Income from equity investments	10	—	42	52
Plant operating costs and other ¹	(647)	(65)	(7)	(719)
Commodity purchases resold	—	(313)	—	(313)
Other segment items ²	42	(35)	9	16
Segment Normalized EBITDA	970	(10)	62	1,022
<i>Reconciliation to consolidated income (loss) before income taxes</i>				
Interest expense ³	—	—	(331)	(331)
Depreciation and amortization	(236)	—	(11)	(247)
Interest income and other	21	2	18	41
Other income	20	—	—	20
Normalizing items ⁴	(34)	35	(9)	(8)
Segment Income (Loss) before Income Taxes	741	27	(271)	497
Plant, property and equipment	7,829	3	378	8,210
Equity investments	104	—	639	743
Other ⁵	119	15	80	214
Segment Long-term Assets	8,052	18	1,097	9,167
Capital expenditures ⁶	36	—	152	188

1. The CODM reviews segment normalized EBITDA with intersegment transactions between entities eliminated. During the year ended December 31, 2025, the Marketing segment transacted with the Keystone Pipeline System segment, resulting in \$116 million of intercompany revenue in Keystone Pipeline System, with an offsetting expense in Marketing. These transactions are eliminated in segment normalized EBITDA reported to the CODM.

2. Other segment items for all segments include normalizing expenses that are not representative of the segments' core operations. These include other expenses per the consolidated statements of income, unrealized gains (losses) on derivatives, separation costs associated with the Spinoff, tariff charges, adjustments relating to variable toll disputes, and Keystone XL and other costs.

3. Interest expense is mainly associated with the Company's long-term debt, recorded in entities within the Intra-Alberta & Other segment. These amounts are not allocated to other segments.

4. Normalizing items are added back to reconcile to consolidated income (loss) before income taxes.

5. Includes deferred tax assets.

6. Capital expenditures for additions to long-lived assets include non-cash accruals.

The following table summarizes segment results for the year ended December 31, 2024:

Year Ended December 31, 2024	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
<i>U.S.\$ millions</i>				
Revenue from contracts with customers ¹	1,638	—	24	1,662
Marketing activities	—	453	—	453
Other revenues	5	—	—	5
Segment Revenues	1,643	453	24	2,120
Income from equity investments	10	—	39	49
Plant operating costs and other ¹	(624)	(73)	(41)	(738)
Commodity purchases resold	—	(376)	—	(376)
Other segment items ²	(1)	8	29	36
Segment Normalized EBITDA	1,028	12	51	1,091
<i>Reconciliation to consolidated income (loss) before income taxes</i>				
Interest expense ³	(1)	(1)	(386)	(388)
Depreciation and amortization	(238)	—	(8)	(246)
Interest income and other	3	3	6	12
Normalizing items ⁴	(14)	(8)	(29)	(51)
Segment Income (Loss) before Income Taxes	778	6	(366)	418
Plant, property and equipment	7,960	6	240	8,206
Equity investments	104	—	628	732
Other ⁵	131	22	40	193
Segment Long-term Assets	8,195	28	908	9,131
Capital expenditures ⁶	35	—	106	141

1. The CODM reviews segment normalized EBITDA with intersegment transactions between entities eliminated. During the year ended December 31, 2024, the Marketing segment transacted with the Keystone Pipeline System segment, resulting in \$152 million of intercompany revenue in Keystone Pipeline System, with an offsetting expense in Marketing. These transactions are eliminated in segment normalized EBITDA reported to the CODM.

2. Other segment items for all segments include normalizing items which are not representative of the segments' core operations and adjusted out of segment normalized EBITDA. These include other expenses per the consolidated statements of income, impairment charges, unrealized gains (losses) on derivatives, adjustments relating to variable toll disputes, gains on asset sales, and separation costs associated with the Spinoff.

3. Interest expense is mainly associated with the Company's long-term debt, recorded in entities within the Intra-Alberta & Other segment. These amounts are not allocated to other segments.

4. Normalizing items are added back to reconcile to consolidated income (loss) before income taxes.

5. Includes deferred tax assets.

6. Capital expenditures for additions to long-lived assets include non-cash accruals.

Entity-wide Information

South Bow operates within the U.S. and Canada and has assets within each country and offers services in each country. Revenues are generated in the country where the service is provided. The following tables summarize South Bow's revenues and plant, property and equipment by country:

U.S.\$ millions	Year Ended December 31,	
	2025	2024
U.S.	1,566	1,675
Canada - export	401	427
Canada - domestic	19	18
Total Revenues by Country	1,986	2,120

U.S.\$ millions	As at December 31,	
	2025	2024
U.S.	6,484	6,640
Canada	1,726	1,566
Plant, Property and Equipment by Country	8,210	8,206

6. Revenues

Disaggregation of Revenues

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Revenues from contracts with customers		
Capacity arrangements and transportation ¹	1,634	1,662
Other ²	(169)	—
	1,465	1,662
Marketing activities ³	403	453
Other revenues ²	118	5
Total Revenues	1,986	2,120

1. Capacity arrangements and transportation revenues include \$18 million (2024 - \$24 million) relating to the Intra-Alberta & Other segment. The remaining revenue relates to the Company's Keystone Pipeline System segment.

2. Other revenues from contracts with customers includes a gross reduction in revenue of \$169 million related to amounts accrued under the terms of the Withdrawal of Keystone Variable Toll Disputes. Refer to Note 23, *Commitments, Contingencies, and Guarantees* for additional details. For the year ended December 31, 2025, other revenues of \$118 million include \$126 million related to the amounts accrued for the indemnified amount receivable from the Former Parent in connection with the Withdrawal of Keystone Variable Toll Disputes and a (\$10 million) reduction relating to indemnified amounts due to the Former Parent for the CER variable toll disputes. Refer to Note 23, *Commitments, Contingencies, and Guarantees* for additional details.

3. Relates to revenue from the Company's marketing activities and financial instruments. Refer to Note 21, *Risk Management and Financial Instruments* for additional information.

During the year ended December 31, 2025, three major customers accounted for \$634 million, \$323 million, and \$183 million, respectively, in revenues, each representing more than 10 per cent of total revenues from contracts with customers (2024 - three major customers accounted for \$630 million, \$322 million, and \$175 million, respectively).

Contract Balances

U.S.\$ millions	December 31,		Affected Line Item on the Consolidated Balance Sheets
	2025	2024	
Receivables from contracts with customers	475	329	Accounts receivable
Contract liabilities ¹	16	15	Accounts payable and other
Long-term contract liabilities	24	19	Other long-term liabilities

1. During the year ended December 31, 2025, \$13 million (2024 – \$17 million) of revenues were recognized that were included in contract liabilities at the beginning of the year.

Contract liabilities and long-term contract liabilities represent unearned revenue for contracted services.

Future Revenues from Remaining Performance Obligations

As at December 31, 2025, total fixed future revenues from long-term pipeline capacity arrangements and transportation contracts extending through 2047 are approximately \$6.1 billion, of which approximately \$1 billion is expected to be recognized in 2026.

Revenues related to the following are not included in the future revenues above:

- contracts with performance obligations that have original expected duration of one year or less; and
- constrained variable considerations as volumes and costs to be recovered cannot be estimated.

7. Other Current Assets

U.S.\$ millions	As at December 31,	
	2025	2024
Fair value of derivative contracts (Note 21)	34	188
Cash provided as collateral	26	66
Prepaid assets	27	28
Variable toll disputes ¹ (Note 4)	91	44
Income tax receivable	66	—
Current portion of net investment in lease (Note 10)	4	—
Other	4	15
	252	341

1. Receivables from the Company's Former Parent under the indemnity agreements. Gross liability recorded in accounts payable and other.

8. Inventories

U.S.\$ millions	As at December 31,	
	2025	2024
Crude oil	65	173
Materials and supplies	35	34
	100	207

9. Plant, Property and Equipment

U.S.\$ millions	As at December 31,					
	2025			2024		
	Cost ³	Accumulated Depreciation ²	Net Book Value	Cost ³	Accumulated Depreciation ²	Net Book Value
Keystone Pipeline System						
Pipelines	7,227	1,970	5,257	7,156	1,799	5,357
Pumping equipment	820	270	550	813	248	565
Tanks and other	2,740	805	1,935	2,708	731	1,977
Under construction	86	—	86	60	—	60
	10,873	3,045	7,828	10,737	2,778	7,959
Intra-Alberta & Other						
Pipelines	105	16	89	100	13	87
Tanks and other ¹	153	19	134	84	9	75
Under construction	140	—	140	62	—	62
	398	35	363	246	22	224
Marketing	1	—	1	1	—	1
ROU Assets (Note 10)	30	12	18	39	17	22
Total	11,302	3,092	8,210	11,023	2,817	8,206

1. Includes capital expenditures invested in office spaces and leasehold improvements related to the Spinoff.

2. Includes depreciation expense of \$247 million for the year ended December 31, 2025 (2024 - \$246 million).

3. Total capital expenditures during the year ended December 31, 2025 were \$188 million (2024 - \$141 million).

10. Leases

Lessee

The Company incurs operating lease expenses for corporate office space and equipment to support its operations and administrative functions. Remaining lease terms at December 31, 2025 range from 2 months to 12 years. During the year ended December 31, 2024, the Company entered into a 12-year lease contract for its Calgary office space. Prior to the Spinoff, the Company shared office leases with its Former Parent.

U.S.\$ millions	As at December 31,	
	2025	2024
Operating Lease ROU Assets¹	18	22
Operating lease liabilities - current ²	3	—
Operating lease liabilities - long-term ²	23	22
Total Operating Lease Liabilities	26	22
Weighted-average Remaining Lease Term (years)	9.7	9.1
Weighted-average Discount Rate (%)	4.9 %	4.8 %

1. Reported in plant, property and equipment on the consolidated balance sheets.

2. Current operating lease liabilities and long-term operating lease liabilities are reported in accounts payable and other and other long-term liabilities, respectively, on the consolidated balance sheets. The current lease liabilities as at December 31, 2024 is comprised of a \$7 million current lease obligation offset by a \$7 million lease incentive.

During the years ended December 31, 2025 and 2024, South Bow incurred operating lease expenses, including short-term leases, of \$11 million and \$3 million, respectively. Operating lease expenses are reported in plant operating costs and other in the consolidated statements of income.

During the years ended December 31, 2025 and 2024, the Company made cash payments associated with leases of \$5 million and \$6 million, respectively. Cash payments relating to operating leases are recorded in operating activities in the consolidated statements of cash flows.

Future lease operating lease payments are as follows:

<i>U.S.\$ millions</i>	Payments
2026	4
2027	4
2028	4
2029	3
2030	3
Thereafter	16
Total undiscounted lease payments	34
Less: imputed interest	(8)
Total Operating Lease Liability	26

Lessor

During 2025, the Company entered into a sales-type lease arrangement for the natural gas lateral of the Blackrod Connection Project and recognized \$43 million in a net investment in lease. At the inception of the lease term, the Company determined that the carrying value of the assets approximated the fair value, and the net investment in the lease approximated the assets' carrying value at lease inception.

The following table lists the components of the aggregate net investment in leases reflected on the consolidated balance sheets:

<i>U.S.\$ millions</i>	As at December 31,	
	2025	2024
Net Investment in Lease		
Lease receivable	43	—
Current portion included in other current assets (Note 7)	4	—
Long-term Portion Included in Other Long-term Assets (Note 12)	39	—

Future lease payments to be collected under the existing sales-type leases are as follows:

<i>U.S.\$ millions</i>	Payments
2026	4
2027	6
2028	7
2029	7
2030	7
Thereafter	160
	191
Less: imputed interest income	(148)
Total Lease Receivable	43

During the year ended December 31, 2025, the Company recorded \$2 million (2024 - nil) of sales-type lease income in interest income and other.

11. Equity Investments

U.S.\$ millions	Ownership Interest at December 31, 2025	Income from Equity Investments		Equity Investments	
		Year Ended December 31,		As at December 31,	
		2025	2024	2025	2024
Grand Rapids Pipeline ¹	50.0%	42	39	639	628
HoustonLink Pipeline ¹	50.0%	—	1	13	13
Port Neches Link Pipeline	74.9%	10	9	91	91
		52	49	743	732

1. Classified as a VIE. Refer to Note 24, Variable Interest Entities for additional information.

The Spinoff triggered certain option rights for South Bow's partners to purchase the Company's ownership interest in its equity investments.

On April 10, 2024, the option rights for Port Neches Link LLC and HoustonLink Pipeline were triggered. These option rights were not exercised.

On October 1, 2024, the option to purchase the Company's interests in the Grand Rapids Pipeline was triggered and the valuation process required under the applicable contract provisions was completed in 2025. Under the terms of the relevant agreements, the optionee is required to obtain regulatory approvals within a specified timeline, which expired on December 24, 2025, after which time the option is null and void and no longer binding on the parties. This matter continues to be the subject of ongoing legal and regulatory proceedings and the timing of resolution is uncertain.

Distributions and Contributions

Distributions and contributions received from operating activities of equity investments for the year ended December 31, 2025 were \$74 million and nil, respectively (2024 – \$70 million and \$2 million, respectively).

Summarized Financial Information of Equity Investments

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Income		
Revenues	185	175
Operating and other expenses	(102)	(85)
Net income	101	97
Net income attributable to the Company	52	49

U.S.\$ millions	As at December 31,	
	2025	2024
Consolidated Balance Sheet		
Current assets	169	167
Non-current assets	1,149	1,134
Current liabilities	(16)	(20)
Non-current liabilities	(1)	(1)

At December 31, 2025, the cumulative carrying value of the Company's equity investments was \$65 million (2024 – \$62 million) higher than the cumulative underlying equity in the net assets, primarily due to interest capitalized during construction.

12. Other Long-term Assets

U.S.\$ millions	As at December 31,	
	2025	2024
Restricted investments ¹	89	80
Keystone XL long-term recoveries	12	19
Keystone environmental provision recovery (Note 23)	10	31
Recoverable Keystone expenses ²	24	22
Employee post-retirement benefits (Note 20)	17	10
Long-term portion of net investment in lease (Note 10)	39	—
Other	11	15
	202	177

1. Represents the amounts collected in tolls from customers and included in the LMCI restricted investments to fund future abandonment of the Company's CER-regulated pipeline facilities. Funds are held in trust with a corresponding liability in other long-term liabilities. Refer to *Note 21, Risk Management and Financial Instruments* for additional information.

2. Portion of Keystone Pipeline System expenses incurred that are recoverable through variable tolls beyond one year. Amounts collected within the next 12 months are recorded in accounts receivable.

13. Accounts Payable and Other

U.S.\$ millions	As at December 31,	
	2025	2024
Trade payables	754	1,062
Fair value of derivative contracts (Note 21)	29	219
Accrued share-based compensation (Note 16)	49	36
CER variable toll disputes ¹ (Note 23)	127	98
Keystone XL contractual recoveries ² (Note 4)	—	48
MP-14 estimated costs (Note 23)	30	30
Keystone XL termination provision	6	17
Contract liabilities (Note 6)	16	15
Keystone environmental provision (Note 23)	3	4
Income tax payable (Note 15)	8	—
Withdrawal of Keystone Variable Toll Disputes (Note 23)	102	—
Other	11	15
	1,135	1,544

1. Relates to variable toll disputes filed with the CER, whereby the CER has implemented interim tolls on the Keystone Pipeline pending resolution of the disputes. These disputes are subject to the terms of indemnity agreements with South Bow's Former Parent and are recorded as a gross asset, with the offsetting payable to its Former Parent. During the three months ended December 31, 2025, the CER approved the Company's final adjusted tolls for the periods 2020 to 2024, and amounts are expected to be collected in the first quarter of 2026. Refer to *Note 23, Commitments, Contingencies, and Guarantees* for additional information.

2. Represents the payable to the Company's Former Parent under the indemnity agreements in relation to Keystone contractual recoveries recorded in current assets.

14. Other Long-term Liabilities

U.S.\$ millions	As at December 31,	
	2025	2024
CER-regulated pipeline facilities abandonment trust ¹	88	79
Operating lease liabilities (Note 10)	23	22
Long-term contract liabilities (Note 6)	24	19
Withdrawal of Variable Toll Disputes ² (Note 23)	21	—
Keystone environmental provision (Note 23)	7	10
Employee post-retirement benefits (Note 20)	10	7
Other	6	3
	179	140

1. Represents the amounts collected from customers related to LMCI restricted investments to fund future abandonment of the Company's CER-regulated pipeline facilities.

2. Relates to payments not subject to indemnification terms of the Separation Agreement.

15. Income Taxes

Geographic Components of Income before Income Taxes

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Canada	115	83
U.S.	382	335
Income before Income Taxes	497	418

Provision for Income Taxes

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Canada		
Federal	17	15
Provincial	11	11
Foreign	36	76
Income Tax Expense	64	102
Current income taxes	(16)	43
Deferred income taxes	80	59
	64	102

Reconciliation of Income Tax Expense

U.S.\$ millions, unless otherwise noted	Year Ended December 31,			
	2025		2024	
	Amount	Percentage	Amount	Percentage
Income (loss) before Income Taxes	497		418	
Canadian federal statutory income tax rate	15%		15%	
Expected income tax expense (recovery)	75	15.0%	63	15.0%
Canadian provincial taxes ¹	11	2.2%	8	2.0%
Demerger rate adjustment	—	—%	1	0.3%
Other	—	—%	3	0.6%
Foreign reconciling items				
Statutory tax rate difference between US and Canada	23	4.6%	20	4.8%
State and local income taxes, net of federal income tax effect	5	1.0%	5	1.1%
State tax rate increase reduction	(9)	(1.8%)	—	—%
Settlement adjustments	(29)	(5.8%)	—	—%
Demerger debt settlement	(21)	(4.2%)	—	—%
US minimum tax	8	1.6%	—	—%
Other	1	0.2%	2	0.5%
Actual Income Tax Expense	64	12.8%	102	24.3%

1. Alberta, Saskatchewan, and Manitoba provincial tax comprises the majority of Canada provincial taxes in 2025 and 2024.

Deferred Income Tax Assets and Liabilities

U.S.\$ millions	As at December 31,	
	2025	2024
Deferred Income Tax Assets		
Tax loss and credit carryforward	60	42
Disallowed interest carryforward	73	60
Regulatory and other deferrals	8	0
Foreign currency translation - net investment hedge	—	9
Other	29	27
	170	138
Less: valuation allowance	4	40
	166	98
Deferred Income Tax Liabilities		
Difference in accounting and tax bases of plant, property and equipment	1,257	1,107
Equity investments	79	75
Other	3	2
	1,339	1,184
Net Deferred Income Tax Liabilities	1,173	1,086

The above deferred tax amounts have been classified on the consolidated balance sheets as follows:

<i>U.S.\$ millions</i>	As at December 31,	
	2025	2024
Deferred income tax assets	23	16
Deferred income tax liabilities	1,196	1,102
Net Deferred Income Tax Liabilities	1,173	1,086

A valuation allowance of \$30 million was recorded in 2024 against Kansas state tax credits, which expired in 2025. The deferred tax asset, net of federal impact, was \$30 million as it was considered more likely than not that the benefit would not be realized.

At each reporting date, the Company considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. The decrease in valuation allowance is primarily a result of unrealized foreign exchange movements and the release of Kansas state tax credits discussed above.

At December 31, 2025, the Company has recognized the benefit of non-capital loss carryforwards of \$65 million (2024 – \$46 million) for federal and provincial purposes in Canada, which expire from 2044 to 2045. At December 31, 2025, the Company has recognized the benefit of non-capital loss carryforwards of \$194 million (2024 – nil) for U.S. federal and states purposes, which have no expiry, with the exception of certain state losses which partially expire in 2045. At December 31, 2025, the Company has recognized the benefit of disallowed Canadian and U.S. interest expense of \$337 million (2024 - \$271 million) which may be carried forward indefinitely.

Income Tax Payments

<i>U.S.\$ millions</i>	Year Ended December 31,	
	2025	2024
Cash paid for income taxes, net of refunds		
Jurisdiction		
Canada:		
Federal	7	1
Provincial:		
Alberta	3	—
Manitoba	2	—
Saskatchewan	2	—
Foreign:		
United States - federal	23	46
Other	1	2
Total	38	49

South Bow and its entities are subject to either Canadian federal and provincial income tax or U.S. federal, state, and local income tax. The Company has substantially concluded all Canadian federal and provincial income tax matters for the years through 2017. Substantially all material U.S. federal, state, and local income tax matters have been concluded for years through 2019. The Company does not anticipate material adjustments as a result of audit examinations by taxing authorities and other legislative amendments during the next 12 months that would have a material impact on its consolidated financial statements.

16. Share-based Compensation

Prior to the Spinoff, certain employees and executive officers of the Company participated in its Former Parent's equity incentive plan which included stock option, RSU, and PSU awards. On October 1, 2024, pursuant to the Spinoff, the Company established its own share-based compensation plans, and any outstanding share-based awards issued through the incentive plans of the Company's Former Parent were modified to maintain an equivalent value and contractual terms immediately before and after Spinoff. Pursuant to Spinoff, these awards were transferred to South Bow.

Share-based Awards

RSUs are awarded to certain employees and cliff vest three years from the grant date, unless otherwise specified. PSUs are awarded to Management and vest at the end of the three-year performance period and are paid in cash based on performance against corporate targets set at the beginning of the grant period. DSUs are offered to non-management Directors as a component of their compensation, are immediately vested, and are paid upon retirement from service on the Board. RSUs, PSUs, and DSUs accrue dividend-equivalent units based on record date, increasing awards outstanding over the life of the grant.

The following table reconciles the Company's RSUs, PSUs, and DSUs outstanding as at December 31, 2025:

	RSUs	PSUs ¹	DSUs
Outstanding at December 31, 2024	1,023,020	650,346	19,100
Granted ²	512,965	256,019	69,654
Exercised	(231,492)	(179,969)	—
Forfeited	(131,586)	(40,503)	—
Reinvested	95,064	59,037	3,722
Outstanding at December 31, 2025	1,267,971	744,930	92,476

1. Does not include effect of any PSU multipliers.

2. Includes 11,016 of RSUs transferred from Former Parent during the year ended December 31, 2025 for employees returning from leave.

Compensation expense recorded for the year ended December 31, 2025 was \$15 million for RSUs (2024 - nominal), \$11 million for PSUs (2024 - nominal), and \$4 million for DSUs (2024 - nominal).

As at December 31, 2025, unrecognized compensation expense related to non-vested RSUs was \$18 million (2024 - \$12 million). The expense is expected to be fully recognized over a weighted average period of approximately 1.49 years (2024 - 1.61 years). For PSUs, the unrecognized compensation expense as at December 31, 2025 was \$8 million (2024 - \$7 million). The expense is expected to be recognized over a weighted average period of approximately 1.09 years (2024 - 1.21 years).

The total amount paid during the year ended December 31, 2025 for RSUs was \$6 million (2024 - nominal) and \$5 million for PSUs (2024 - nominal).

Stock Options

Stock options were issued by the Company in exchange for stock options of its Former Parent held by certain South Bow employees. Stock options are classified as equity instruments and vest in thirds over a three-year period from the grant date and have a contractual life of seven years. Stock options may be exercised at a price determined at the time the option is awarded. Forfeiture of options results from the option holder's departure from the Company prior to vesting, or if options are not exercised by the end of their contractual term.

The following table summarizes the Company's stock options outstanding as at December 31, 2025:

	Stock Options (number)	Weighted Average Price (C\$)	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2024	781,250	29.60	4.1
Exercised	(209,403)	29.54	
Outstanding at December 31, 2025	571,847	29.62	3
Exercisable Stock Options Outstanding at December 31, 2025	418,892	30.76	2.6

The Company has not issued any stock options subsequent to the Spinoff. The Company recorded \$0.6 million (2024 - \$0.1 million) of share-based compensation expense related to stock options for the year ended December 31, 2025 and at December 31, 2025, compensation costs related to non-vested stock options not yet recognized were \$0.1 million (2024 \$0.6 million).

17. Long-term Debt

Long-term Debt

The Company completed its initial debt offering on August 28, 2024, comprised of U.S. and Canadian dollar-denominated senior unsecured notes (collectively, the Senior Notes) and U.S. dollar-denominated junior subordinated notes (the Junior Notes). Interest rates are fixed on these notes, and interest is paid semi-annually.

The Senior Notes are unsecured and rank equal in right of payment with all existing and future senior indebtedness. The Senior Notes rank senior in right of payment to all future indebtedness that is expressly subordinated in right of payment to the notes (including the Junior Notes).

The following tables summarize the Senior Notes and Junior Notes outstanding as at December 31, 2025 and 2024:

<i>U.S.\$ millions, except where noted</i>				As at December 31,	
Debt Instrument	Maturity	Amount	Rate	2025	2024
U.S. Dollar-denominated Debt					
Senior unsecured notes	September 2027	700	4.91 %	700	700
Senior unsecured notes	October 2029	1,000	5.03 %	1,000	1,000
Senior unsecured notes ¹	October 2034	1,250	5.58 %	1,250	1,250
Senior unsecured notes	October 2054	700	6.18 %	700	700
				3,650	3,650
Canadian Dollar-denominated Debt					
Senior unsecured notes	February 2030	450	4.32 %	328	313
Senior unsecured notes	February 2032	500	4.62 %	365	347
Senior unsecured notes	February 2035	500	4.93 %	365	347
				1,058	1,007
Less: unamortized debt issue costs and other				(26)	(28)
Total Senior Notes				4,682	4,629

¹ Non-cash issuance.

<i>U.S.\$ millions, except where noted</i>				As at December 31,	
Debt Instrument	Maturity	Amount	Rate	2025	2024
U.S. Dollar-denominated Debt					
Junior subordinated notes ¹	March 2055	450	7.63%	450	450
Junior subordinated notes ²	March 2055	650	7.50%	650	650
				1,100	1,100
Less: unamortized debt issue costs and other				(14)	(13)
Total Junior Notes				1,086	1,087

1. Subject to first rate reset on March 1, 2030 and every fifth year after 2030.

2. Subject to first rate reset on March 1, 2035 and every fifth year after 2035.

Principal Repayments

At December 31, 2025, principal repayments on the Company's long-term debt were as follows:

<i>U.S.\$ millions</i>	Total	2026	2027	2028	2029	2030	Thereafter
Long-term debt principal repayments	5,808	—	700	—	1,000	328	3,780

Long-term Debt Repaid to Affiliates of Former Parent

At December 31, 2023, the Company held \$5,967 million of U.S. and Canadian dollar-denominated long-term debt to affiliates of its Former Parent with a weighted-average interest rate of 6.21 per cent. On August 28, 2024, concurrent with the issuance of the Company's Senior Notes and Junior Notes, South Bow repaid a \$1.25 billion term loan to an affiliate of its Former Parent by way of issuing the non-cash \$1.25 billion senior unsecured notes due October 2034. On October 1, 2024, the Company repaid the remaining outstanding long-term debt owed to affiliates of the Former Parent.

Interest Expense

<i>U.S.\$ millions</i>	Year Ended December 31,	
	2025	2024
Interest on long-term debt to affiliates of Former Parent	—	270
Interest on Senior Notes ¹	246	85
Interest on Junior Notes ¹	83	28
Amortization and other financial charges ²	10	7
Capitalized interest	(8)	(2)
	331	388

1. Interest on Senior Notes and Junior Notes is paid semi-annually. At December 31, 2025, accrued interest for the Senior Notes was \$74 million (2024 - \$85 million) and accrued interest on the Junior Notes was \$28 million (2024 - \$28 million).

2. Includes amortization of debt issuance, premium, and discount costs associated with Senior Notes and Junior Notes. Other financial charges include bank service charges and carrying charges.

Credit Facilities

During the third quarter of 2024, the Company entered into a four-year senior unsecured revolving credit facility for \$1.4 billion (C\$2.0 billion), maturing in 2028 (the Facility). On October 3, 2025, the Company renewed the Facility, extending its maturity to October 1, 2029. The commitment remains at C\$2.0 billion with no modifications made to the Facility's financial covenants. At December 31, 2025, \$1.5 billion (C\$2.0 billion) of capacity was available and nil was drawn on the Facility.

The Company's Facility includes affirmative, negative, and financial covenants that require the Company to comply with certain operational and financial requirements on an ongoing basis, which, if breached, could result in accelerated repayment or termination of the agreement. As at December 31, 2025, the Company was in compliance with the covenants in all material respects.

The Company has three additional Canadian dollar-denominated bi-lateral credit facilities in place. At December 31, 2025, the total capacity of these facilities was \$109 million (C\$150 million), with outstanding letters of credit of \$20 million (C\$27 million) currently drawn against them.

Interest Income and Other

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Interest income	40	41
Penalty on early repayment of long-term debt to Former Parent	—	(26)
Foreign exchange gain (loss)	1	(3)
	41	12

18. Common Shares

The Company is authorized to issue an unlimited number of common shares and first and second preferred shares up to 20 per cent of the issued common shares outstanding.

U.S.\$ millions, except where noted	Common Shares	Common Shares (\$)
Balance at December 31, 2023	—	—
Issued on October 1, 2024	207,570,409	2,187
Issued on exercise of stock options	470,700	9
Balance at December 31, 2024	208,041,109	2,196
Issued on exercise of stock options	209,403	5
Balance at December 31, 2025	208,250,512	2,201

Prior to the Spinoff, the Company had nil common shares outstanding. Upon Spinoff on October 1, 2024, the Company issued a total of 207,570,409 common shares by distributing 0.2 common shares of South Bow for each share held by TC Energy's shareholders of record as of the record date of September 25, 2024.

Dividends Declared

The Company's dividend payable of \$104 million (\$0.50 per share) was declared on November 13, 2025, and paid on January 15, 2026, to shareholders of record at the close of business on December 31, 2025.

19. Net Income per Share

The following table summarizes the Company's net income per share for the years ended December 31, 2025 and 2024:

U.S.\$ millions, except share and per share amounts	Year Ended December 31,	
	2025	2024
Net income	433	316
Weighted average common shares outstanding (millions) - basic	208.2	207.6
Net Income per Share - Basic	2.08	1.52
Dilutive impact of share-based awards (millions) ¹	0.6	0.6
Weighted average common shares outstanding (millions) - diluted	208.8	208.2
Net Income per Share - Diluted	2.07	1.52

1. The dilutive impact considers the effect of the potential exercise of share-based awards and excludes any effect where the potential exercise would be anti-dilutive. At December 31, 2025, nil options were considered anti-dilutive (December 31, 2024 - 0.2 million options).

20. Employee Post-retirement Benefits

Defined Benefit Pension

Effective October 1, 2024, in connection with the Spinoff, pension obligations and the related Pension Plan assets for participants were transferred to U.S. and Canada pension plans established by the Company. As the Plan sponsor, South Bow's consolidated balance sheets reflect the net overfunded pension asset equal to an excess of the fair value of the Pension Plan assets over the projected benefit obligation (PBO).

Benefit Obligations, Plan Assets, and Funded Status

As of October 1, 2024, the Company assumed from the Former Parent the PBO and Pension Plan assets for South Bow participants in connection with the Spinoff. The plans were remeasured to determine the obligations and related Pension Plan assets to be transferred to South Bow as of Spinoff date. In October 2025, the Office of the Superintendent of Financial Institutions (OSFI) approved the transfer of the Pension Plan assets, which were held in the Former Parent's trust in accordance with the Separation Agreement and EMA.

The remeasurement completed at Spinoff resulted in the recognition of Pension Plan obligations of \$87 million, net of Pension Plan assets of \$88 million. The Company recognized a \$4 million loss (\$3 million after-tax loss) in AOCI for actuarial losses and prior service costs that had accrued over the lives of the Pension Plans prior to Spinoff, primarily based on South Bow's proportionate share of the total projected pension obligation from the Former Parent prior to Spinoff.

The Company uses a December 31 measurement date for its pension obligation and the related Pension Plan assets. The actuarial gains experienced upon remeasurement as of December 31, 2025 and 2024 were offset against AOCI and attributable to increases in the discount rates used to measure the benefit obligations, net of investment performance.

The following table summarizes the changes in the benefit obligations and Pension Plan assets for the years ended December 31, 2025 and 2024:

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Change in Benefit Obligation		
Benefit obligation - beginning of year	93	—
Canadian benefit obligation transferred on October 1, 2024	—	79
U.S. benefit obligation transferred on October 1, 2024	—	8
Service cost	8	2
Interest cost	4	1
Employee contributions	1	—
Benefits paid	(3)	—
Actuarial gain	(3)	(2)
Foreign exchange rate changes	(3)	5
Benefit Obligation - End of Year	97	93
Change in Pension Plan Assets		
Pension Plan assets - beginning of year	96	—
Fair value of Canadian net plan assets as of October 1, 2024 pending transfer ¹	—	79
Fair value of U.S. net Pension Plan assets as of October 1, 2024	—	9
Actual return on Pension Plan assets	11	3
Employer contributions	1	—
Employee contributions	3	—
Benefits paid	(3)	—
Foreign exchange rate changes	(4)	5
Fair Value of Pension Plan Assets - End of Year	104	96
Funded Status - Pension Plan Surplus	7	3

1. The Pension Plan assets remained in the Former Parent's pension trust as at December 31, 2024. In October 2025, OSFI approved the transfer of the Pension Plan assets that were being held in the Former Parent's trust in accordance with the Separation Agreement and EMA and \$104 million of Pension Plan assets were transferred. The remaining \$18 million of Pension Plan assets held in the Former Parent's pension trust will be transferred in 2026 (2024 - \$88 million).

Components of Net Periodic Benefit Costs

South Bow reports the net periodic benefit costs for all Pension Plans separately in the consolidated statements of income. The majority of the 2025 pension benefit cost for the Pension Plan is calculated using an expected long-term rate of return on Pension Plan assets of 6.60 per cent (2024 - 6.6 per cent) and a discount rate of 5.2 per cent (2024 - 5.0 per cent).

The following table presents the components of the Company's net periodic benefit costs for the years ended December 31, 2025 and 2024:

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Service cost	8	2
Interest cost	4	1
Expected return on plan assets	(6)	(2)
Amortization of actuarial gain	(1)	—
Net Periodic Benefit Cost Recognized	5	1

Components of Accumulated Other Comprehensive Income

South Bow recognizes the overfunded or underfunded status of the Pension Plans as an asset or liability on the consolidated balance sheets, with offsetting entries to AOCI. An updated measurement was performed as of December 31, 2025, the impact of which was recognized in AOCI as an actuarial gain.

The following tables provide the pre-tax components of AOCI for the years ended December 31, 2025 and 2024:

U.S.\$ millions	As at December 31,	
	2025	2024
Change in Pension Plan Assets and Benefit Obligation Recognized in AOCI:		
Opening AOCI	6	—
Spinoff-related adjustment	—	3
Net gain	7	3
Total Recognized in AOCI - End of Year	13	6

Average Remaining Service Period

For pension benefits, South Bow amortizes the unrecognized prior service costs (credits) and certain actuarial gains and losses reflected in AOCI, as applicable, based on participants' average remaining service periods. The resulting remaining service periods for pension was 10.94 years as of December 31, 2025 (2024 - 12.53 years).

Assumptions

The measurement of the Pension Plan obligations and costs of providing benefits under the Company's Pension Plans involves various factors, including the development of valuation assumptions and inputs and accounting policy elections. The measurement of benefit obligations and costs is impacted by several assumptions and inputs, as discussed below, among other factors. When developing the required assumptions, South Bow considers historical information as well as future expectations. Assumptions used to determine year-end benefit obligations are the assumptions used to estimate the subsequent year's net periodic benefit costs.

Discount Rate

The discount rates are determined by developing a spot rate curve based on the yield to maturity of a universe of high-quality, non-callable (or callable with make-whole provisions) bonds with similar maturities to the related pension obligation. The spot rates are used to discount the estimated future benefit distribution amounts under the Pension Plan. The discount rate is the single level rate that produces the same result as the spot rate curve. South Bow utilizes an analytical tool developed by its actuaries to determine the discount rates.

Expected Rate of Return

In determining the expected rate of return on assets, the Company considers historical economic indicators, including inflation and GDP growth, that impact asset returns, as well as expectations regarding future long-term capital markets performance, weighted by target asset class allocations.

Mortality

The mortality assumption is composed of a base table that represents the current expectation of life expectancy of the population, adjusted by an improvement scale that attempts to anticipate future improvements in life expectancy.

The following assumptions were used to determine the benefit obligations for the Plans for 2025 and 2024:

	Canadian Plan		U.S. Plan	
	2025	2024	2025	2024
Assumptions for Benefit Obligations				
Discount rate	5.10 %	4.70 %	5.60 %	5.70 %
Expected rate of return	6.70 %	6.90 %	6.50 %	6.50 %
Rate of compensation increase	3.5% per year	3.5% per year	4.5% for 2025 3% thereafter	4.5% for 2024 3% thereafter

Estimated Future Benefit Payments

Estimated future benefit payments to participants over the next 10 years for the Plans as of December 31, 2025 are as follows:

U.S.\$ millions	Payments
2026	3
2027	3
2028	4
2029	4
2030	5
2031 to 2035	29
Total Estimated Future Benefits Payments through 2035	48

Pension Plan Assets

South Bow regularly evaluates its investment strategy to ensure that Pension Plan assets will be sufficient to pay Pension Plan benefits when due. Asset-liability matching studies are performed by a third-party consultant to set the asset mix by quantifying the risk-and-return characteristics of possible asset mix strategies. Investment and contribution policies are integrated within this study, and areas of focus include asset mix as well as interest rate sensitivity. The objective for the investment of the Pension Plans funds is to generate sufficient returns at an appropriate level of risk.

The Company's Pension Plan target asset allocations as of December 31, 2025 were as follows:

As at December 31,	Target Allocation		Percentage of Plan Assets ¹			
	Canadian Plan	U.S. Plan	Canadian Plan		U.S. Plan	
			2025	2024	2025	2024
Equity securities	70 %	50 %	70 %	55 %	50 %	50 %
Fixed income securities	30 %	50 %	30 %	24 %	49 %	50 %
Cash investments ¹	— %	— %	— %	21 %	1 %	— %
	100 %	100 %	100 %	100 %	100 %	100 %

1. Cash investments held within the Canadian plan represent funds received on December 31, 2025 which were subsequently invested. The allocation of assets does not include the pending asset transfer from Former Parent's pension trust.

The Company evaluated its Pension Plans' asset portfolios for the existence of significant concentrations of credit risk as of December 31, 2025. Types of concentrations that were evaluated include, but were not limited to, investment concentrations in a single entity, type of sector, foreign country, and individual fund. As of December 31, 2025, the Plans held no credit risk concentrations exceeding 10 per cent of Pension Plan assets.

Fair Value Measurements

The following table presents Plan assets measured and recorded at fair value on the consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of December 31, 2025:

U.S.\$ millions	Quoted Prices in Active Markets (Level I)	
	As at December 31,	
	2025	2024
Asset Category		
Equity securities	61	4
Fixed income securities	30	—
U.S. bonds	—	4
Fair Value of Pension Plan Assets	91	8

21. 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.

Risk management strategies, policies, and limits are designed to ensure the Company's risks and related exposures are in line with South Bow's business objectives and risk tolerance. The Company's risks are managed within limits that are established by the Board, implemented by Management, and monitored by the risk management, internal audit, and business segment groups. South Bow's Audit Committee and Governance & Risk Committee of the Board oversee how Management monitors compliance with risk management policies and procedures, and Management's review of the adequacy of the Company's risk management framework.

Market Risk

The Company constructs and invests in crude oil pipeline systems, purchases and sells commodities, including amounts in foreign currencies, and invests in foreign operations. Certain of these activities expose the Company to market risk from changes in commodity prices, foreign exchange, and liquidity risk, which may impact the Company's earnings, cash flows, and the value of its financial assets and liabilities. The Company assesses contracts used to manage market risk to determine whether all, or a portion, meets the definition of a derivative.

Derivative contracts that the Company uses to assist in managing exposure to market risk may include the following:

- forwards and futures contracts – agreements to purchase or sell a specific financial instrument or liquids commodity at a specified price and date in the future; and
- options – agreements that convey the right, but not the obligation, of the purchaser to buy or sell a specific amount of a financial instrument or commodity at a fixed price, either at a fixed date or at any time within a specified period.

Commodity Price Risk

The Company's marketing business enters into pipeline and storage terminal capacity contracts as well as crude oil purchase and sale agreements, fixing a portion of the exposure on these contracts by entering into financial instruments to manage price fluctuations that arise from physical commodity transactions.

Sustained lower crude oil prices could lead to reduced investment in upstream development, expansion, and production, which could negatively impact opportunities for the Company to expand its asset base or re-contract with customers as contractual agreements expire.

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. South Bow manages liquidity risk by maintaining bank credit facilities, continuously managing forecasted and actual cash flows, and monitoring the maturity profiles of financial assets and liabilities. The Company has access to a wide range of funding at competitive rates through capital markets and banks to meet the immediate and ongoing requirements of the business.

Foreign Exchange Risk

A portion of the Company's entities generate all or most of their earnings in Canadian dollars and, since the Company reports its financial results in U.S. dollars, changes in the value of the Canadian dollar against the U.S. dollar can impact its comprehensive income. If the Company's Canadian dollar-denominated operations continue to grow, this exposure increases.

South Bow is exposed to foreign exchange risk in its Canadian-dollar functional currency entity which holds U.S. dollar-denominated debt. This foreign exchange risk is offset by the designation of its U.S. dollar-denominated Junior Notes as a net investment hedge in foreign operations. The net investment hedge is perfectly effective and any foreign exchange gain or loss, as determined by the respective period-end rate, is reported as cumulative translation adjustment within AOCI.

U.S.\$ millions	As at December 31,	
	2025	2024
Notional amount of U.S. dollar-denominated Junior Notes	1,100	1,100
Fair value of U.S. dollar-denominated Junior Notes	1,165	1,135
Cumulative translation adjustment recognized in AOCI	(12)	(67)

Counterparty Credit Risk

South Bow's exposure to counterparty credit risk includes its cash and cash equivalents, accounts receivable, environmental provision recovery, contractual recoveries and certain available-for-sale financial assets, and derivative assets.

At times, the Company's 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 the Company's 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 the Company's assets and the demand for the Company's services; and
- potential recovery of unpaid amounts through bankruptcy and similar proceedings.

South Bow 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 in the consolidated statements of income.

Entering into derivative instruments may result in exposure to credit risk from the possibility that a counterparty will default on its contractual obligations. In order to mitigate this risk, the Company enters into derivative transactions primarily with institutions that possess strong investment-grade credit ratings. Credit risk relating to derivative counterparties is mitigated through the maintenance and monitoring of credit exposure limits, contractual requirements, and netting arrangements. The Company also reviews counterparty credit exposure using external credit rating services and other analytical tools to manage credit risk.

The Company had no significant credit losses and no significant amounts impaired at December 31, 2025 and 2024 within trade accounts receivable. At December 31, 2025 and December 31, 2024, there were no significant credit risk concentrations.

At December 31, 2025, the Company has nil in Keystone XL contractual recoveries, and \$172 million in Keystone contractual recoveries from certain customers related to historical variable toll disputes with the CER which were approved by the CER in the fourth quarter of 2025 (December 31, 2024 - \$56 million and \$114 million, respectively). These recoveries are part of the indemnity adjustments with the Company's Former Parent. Refer to *Note 4, Spinoff Transaction* for additional information related to indemnification and *Note 23, Commitments, Contingencies, and Guarantees* for additional information on the variable toll disputes with the CER.

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.

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:

<i>U.S.\$ millions</i>	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II) ¹	Significant Unobservable Inputs (Level III) ¹	Total
Derivative instrument assets	30	4	—	34
Derivative instrument liabilities	(28)	(1)	—	(29)
As at December 31, 2025	2	3	—	5
Derivative instrument assets	184	4	—	188
Derivative instrument liabilities	(203)	(16)	—	(219)
As at December 31, 2024	(19)	(12)	—	(31)

1. There were no transfers from Level II to Level III for the periods presented.

Non-derivative Financial Instruments

Fair Value of Non-derivative Financial Instruments

Available-for-sale assets are recorded at fair value, which is calculated using quoted market prices where available. Certain non-derivative financial instruments included in cash and cash equivalents, accounts receivable, environmental provision recovery, contractual recoveries, other current assets, other long-term assets, accounts payable and other, 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. Each of these instruments 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:

U.S.\$ millions	December 31, 2025		December 31, 2024	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Notes ¹	(4,682)	(4,745)	(4,629)	(4,598)
Junior Notes ¹	(1,086)	(1,165)	(1,087)	(1,135)

1. The carrying amount of the Senior Notes and Junior Notes include unamortized debt issuance costs of \$26 million and \$14 million, respectively (December 31, 2024 - \$28 million and \$13 million, respectively).

Available-for-sale Assets Summary

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

U.S.\$ millions	As at December 31,	
	2025	2024
Fair Value of Fixed Income Securities ^{1,2}		
Maturing after 10 years	88	80
	88	80

1. Available-for-sale assets are recorded at fair value and included in other long-term assets on the consolidated balance sheets.

2. Classified in Level II of the fair value hierarchy.

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Net unrealized losses ¹	(4)	(1)
Net realized losses ^{1,2}	(3)	(2)

1. Unrealized and realized 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 losses within other long-term assets and liabilities on the consolidated balance sheet.

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. 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 or are not designated as a hedge 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:

U.S.\$ millions	As at December 31,	
	2025	2024
Total Derivative Assets (other current assets)	34	188
Total Derivative Liabilities (accounts payable and other)	(29)	(219)
Total Derivatives ^{1, 2}	5	(31)

1. Fair value equals carrying value.

2. Relates to purchases and sales of crude oil.

The majority of derivative instruments held for trading have been entered into for risk management purposes and all are subject to South Bow'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:

	As at December 31,	
	2025	2024
Gross sales volumes (millions of barrels)	(33)	(130)
Gross purchases volumes (millions of barrels)	22	116
Net Purchases Volumes (millions of barrels)	(11)	(14)
Maturity dates (year)	2026	2025

Unrealized and Realized Gains and Losses on Commodity Derivative Instruments

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Derivative Instruments Held for Trading ¹		
Unrealized gains (losses)	36	(6)
Realized gains	367	459
Gains on Derivatives	403	453

1. Realized and unrealized gains (losses) on derivative instruments held for trading used to purchase and sell crude oil are included on a net basis in revenues in the consolidated statements of income.

Offsetting of Derivative Instruments

South Bow 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 consolidated balance sheets.

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:

As at December 31, 2025	Gross Derivative Instruments	Amounts Available for Offset ¹	Net Amounts
<i>U.S.\$ millions</i>			
Derivative instrument assets	34	(28)	6
Derivative instrument liabilities	(29)	28	(1)

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

As at December 31, 2024	Gross Derivative Instruments	Amounts Available for Offset ¹	Net Amounts
<i>U.S.\$ millions</i>			
Derivative instrument assets	188	(187)	1
Derivative instrument liabilities	(219)	187	(32)

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 \$26 million and letters of credit of \$11 million at December 31, 2025 (December 31, 2024 - \$66 million and \$16 million, respectively) to its counterparties. At December 31, 2025, the Company held nil cash collateral and \$70 million in letters of credit (December 31, 2024 - nil and \$70 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 South Bow'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. The Company has provided collateral for the derivative instruments with credit risk-related contingent features, recorded within other current assets on the consolidated balance sheets. At December 31, 2025 and December 31, 2024, there were no other derivative instruments that had credit risk-related features for which collateral was provided.

22. Changes in Operating Working Capital

<i>U.S.\$ millions</i>	Year Ended December 31,	
	2025	2024
Decrease in accounts receivable	83	101
Decrease (increase) in inventories	107	(50)
Decrease (increase) in other current assets	(22)	(32)
Decrease in accounts payable and other	(203)	(81)
Increase in Operating Working Capital	(35)	(62)

23. Commitments, Contingencies, and Guarantees

Commitments

The Company's commitments as at December 31, 2025 are below:

<i>U.S.\$ millions</i>	Total	2026	2027	2028	2029	2030	Thereafter
Operating commitments ¹	130	29	8	24	14	15	40
Transportation by other parties ²	3	3	—	—	—	—	—
Capital expenditures ³	16	16	—	—	—	—	—
Total	149	48	8	24	14	15	40

1. Includes commitments for in-line inspection runs and power.

2. Contractual obligations are based on volumes contracted through capacity arrangements and exclude any variable charges that may be incurred when volumes flow.

3. Capital expenditures relate to the Blackrod Connection Project with targeted completion in 2026 in addition to other capital commitments by the Company. Amounts are estimates and subject to variability based on timing of construction and project requirements. Expenditures include obligations for growth projects and are presented based on projects proceeding as currently planned. Any changes to projects, including timing or possible cancellation, could change these estimates.

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 in 2025 were \$26 million (2024 – \$49 million).

At December 31, 2025, the Company had capital expenditure commitments totalling approximately \$16 million (2024 – \$125 million).

Contingencies

Withdrawal of Keystone Variable Toll Disputes

Effective September 30, 2025, the Company and associated parties agreed to withdraw all complaints and protests associated with the Keystone variable toll disputes previously filed with the CER, FERC, Court of King's Bench of Alberta, and D.C. Circuit Court (collectively, the "Withdrawal of Keystone Variable Toll Disputes"). This agreement effectively resolved the Company's outstanding Keystone variable toll disputes discussed further below. Pursuant to an associated partial release of indemnification agreement and the Separation Agreement, the Former Parent was obligated to indemnify South Bow for certain amounts agreed to under the Withdrawal of Keystone Variable Toll Disputes.

Pursuant to these agreements, the Company recorded gross liabilities of \$226 million, with partially offsetting receivables from its Former Parent under the indemnification terms of \$189 million at September 30, 2025. The Company recorded additional liabilities not subject to the indemnification terms of \$33 million, discounted at the Company's credit-adjusted rate, to be paid over the next six years, beginning in the fourth quarter of 2025 and due in the third quarter of subsequent years. The amounts payable under the Withdrawal of the Keystone Variable Toll Disputes are primarily recorded in accounts payable and other on the consolidated balance sheets, with amounts expected to be recovered pursuant to the indemnification terms recorded in other current assets.

As a result of the Withdrawal of Keystone Variable Toll Disputes and the MP-14 costs previously recorded under indemnification terms, South Bow recorded net liabilities up to its maximum indemnity liability of \$22 million (C\$30 million) at September 30, 2025. Any incremental costs incurred related to the items subject to indemnification are no longer the obligation of the Company. The net impact of recording the terms of the Withdrawal of Keystone Variable Toll Disputes, related indemnification asset, and the reduction of the previously accrued balances (see FERC Variable Toll Disputes below) resulted in a net reduction of revenue in the consolidated statement of income of \$43 million during the year ended December 31, 2025. Under the partial release of indemnification agreement, the Company additionally recorded \$20 million in other income related to separation terms with its Former Parent in September 2025.

In November 2025, the Company made gross payments of \$99 million and has remaining outstanding gross liabilities of \$127 million, with \$91 million of partially offsetting receivables from its Former Parent relating to the Withdrawal of Keystone Variable Toll Disputes outstanding at December 31, 2025.

FERC Variable Toll Disputes

At September 30, 2025, the Company revised its provision relating to estimated payments for historical variable toll disputes with the FERC to nil in conjunction with the Withdrawal of Keystone Variable Toll Disputes (December 31, 2024 - \$51 million gross liability).

CER Ruling

In March 2025, the CER issued its Reasons for Decision and Order in respect of the complaint (CER Order), finding the Company's proposed drag-reducing agent cost allocation methodology will result in just and reasonable tolls for 2020 and 2021. In June 2025, under the CER Order, the Company filed its application for approval from the CER of the final variable toll adjustments for 2020 and 2021 and in October 2025, the CER approved South Bow's application. In November 2025, the Company filed its application for collection of the final adjusted variable tolls for the 2022 to 2024 periods and in December 2025, the CER approved the application. As a result of the approval of the final tolls, the Company is no longer subject to interim tolling and has commenced its collection of final adjusted variable tolls for the 2020 to 2024 period from its Keystone Canada customers.

During the year ended December 31, 2025, the Company recorded a \$10 million reduction to revenue under indemnification terms with its Former Parent and \$15 million in interest income and other, net of indemnification terms, relating to the CER Order. As at December 31, 2025, the Company has a \$45 million receivable, net of indemnification terms, relating to the CER approved final tolls recorded in accounts receivable (December 31, 2024 - \$16 million).

Keystone XL Contractual Recoveries

During the year ended December 31, 2025, the Company recorded a charge of \$5 million, net of indemnification terms, relating to its Keystone XL contractual recoveries. As at December 31, 2025, the Company has nil Keystone XL contractual recoveries balance outstanding (December 30, 2024 - \$8 million net receivable).

Milepost 171 Incident

On April 8, 2025, the Company responded to an oil release of approximately 3,500 barrels at Milepost 171 (MP-171), near Fort Ransom, North Dakota. On April 11, 2025, PHMSA issued a Corrective Action Order (CAO), requiring South Bow to undertake certain corrective actions in response to the MP-171 incident, including the completion of an independent third-party root cause analysis (RCA) along with mechanical and metallurgical testing. On April 15, 2025, South Bow safely restarted the Keystone Pipeline under certain operating pressure restrictions after receiving regulatory approval from PHMSA. In early June 2025, South Bow completed the cleanup and reclamation of the incident site.

During the year ended December 31, 2025, the Company incurred \$53 million in costs related to the incident, and sustaining pipeline integrity program on a prospective basis. These costs are largely expected to be recovered through the Company's insurance policies and include long-term environmental site monitoring. The Company received \$42 million from insurance policies during the year ended December 31, 2025.

Findings and recommendations from the RCA were released by PHMSA on February 11, 2026 and will be incorporated into South Bow's remedial work plan. The Company has commenced remedial actions, with 11 in-line inspection runs and 51 integrity digs completed as of March 5, 2026. The Company continues to be able to meet all contractual transportation services while operating under the CAO.

Milepost 14 Incident

In December 2022, the MP-14 incident occurred on the Keystone Pipeline in Washington County, Kansas. As a result of the incident, the Company was subject to an Amended Corrective Action Order (ACAO) issued by PHMSA. By June 2023, the recovery of all released volumes was completed, and by October 2023, creek restoration was finished, returning natural flows to Mill Creek. In January 2025, the Company received PHMSA approval of its remedial work plan. This approval culminated the completion of 2,145 miles of in-line inspections across the Keystone Pipeline System and 68 investigative excavations over a two-year period. In March 2025, South Bow received approval from PHMSA to lift the pressure restriction on the affected segment to 72 per cent of the specified minimum yield strength of the pipeline.

In the fourth quarter of 2024, South Bow recognized an additional provision for \$30 million for its best estimate of incremental costs relating to the MP-14 incident. South Bow also recognized a receivable for 86 per cent of this amount (\$26 million), representing its Former Parent's share of the anticipated incremental cost pursuant to the indemnity clauses in the Separation Agreement. At December 31, 2025, there have been no changes to this estimate.

During the year ended December 31, 2025, the Company incurred \$2 million relating to ongoing environmental remediation activities (2024 - \$68 million), adjusted the cost estimate down by \$1 million (2024 - \$18 million), and during the year, nil was received (2024 - \$89 million) from the insurance policies of its Former Parent related to the costs for environmental remediation.

The remaining balance reflected in accounts payable and other and other long-term liabilities on the consolidated balance sheets was \$3 million and \$7 million, respectively, at December 31, 2025 (December 31, 2024 - \$4 million and \$10 million, respectively).

The expected recovery of the remaining estimated environmental remediation costs recorded in environmental provision recovery was \$10 million at December 31, 2025 (December 31, 2024 - \$31 million).

Other Proceedings

In addition to the proceedings above, the Company is subject to various legal proceedings, arbitration, and actions arising in the normal course of business. The amounts involved in such 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 financial position or results of operations.

Guarantees

The Company and its partners in the Grand Rapids Partnership have guaranteed the financial performance of these entities either jointly and severally, jointly, or severally. These guarantees primarily cover construction services and liabilities. Payments made by the Company under these guarantees exceeding its ownership interest are reimbursed by its partners. The maximum term of the C\$56 million guarantees is to 2043 and at December 31, 2025, the Company's share of the maximum potential exposure was \$41 million (2024 - \$39 million) and the carrying value was nil (2024 - nil).

24. Variable Interest Entities

Consolidated Variable Interest Entities

Certain of the Company's assets and liabilities 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:

U.S.\$ millions	As at December 31,	
	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	2	—
Accounts receivable	3	3
Other current assets	4	—
	9	3
Plant, property and equipment, net	249	182
Net investment in lease	38	—
	296	185
LIABILITIES		
Current Liabilities		
Accounts payable and other	32	41
	32	41
Other Long-term Liabilities		
	15	10
	47	51

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 were as follows:

U.S.\$ millions	As at December 31,	
	2025	2024
Balance Sheet		
Equity investments	652	641
Off-balance Sheet		
Guarantees ¹	41	39
Maximum Exposure to Loss	693	680

1. Guarantees for the current and comparative period totaled C\$56 million.

As at December 31, 2025, the amount due from non-consolidated VIEs of \$6 million (2024 - \$4 million) is included in accounts receivable on the consolidated balance sheets. As at December 31, 2025, the amount due to non-consolidated VIEs of \$2 million (2024 - \$4 million) is included in accounts payable on the consolidated balance sheets.

25. Related Party Transactions

Prior to the Spinoff, South Bow did not operate as a standalone business and its Former Parent was responsible for providing the Company's administrative and operating services (referred to as corporate expenses) necessary to operate the business. These allocated corporate expenses are capitalized or expensed based on the nature of underlying expenditure. In addition, the Company also incurs operating costs provided by subsidiaries of its Former Parent that are not allocated but are direct costs. These direct costs are capitalized or expensed based on the nature of underlying expenditure. These transactions were considered related party transactions up to September 30, 2024, the day prior to Spinoff.

The allocated corporate expenses, direct operating costs, interest expense on long-term debt due to affiliates of South Bow's Former Parent, and interest income with affiliates of its Former Parent were as follows:

U.S.\$ millions	Year Ended December 31,	
	2025	2024
Allocated Corporate Expenses		
Plant operating costs and other	—	89
Plant, property and equipment	—	3
Equity investments ¹	—	2
	—	94
Direct Costs		
Plant operating costs and other	—	81
Plant, property and equipment	—	4
Equity investments ²	—	1
	—	86
Interest Expense on Long-term Debt to Affiliates of Former Parent	—	270
Return-of-capital Payment ³	—	24

1. For the year ended December 31, 2025, nil impacted income from equity investments (2024 - \$2 million).

2. For the year ended December 31, 2025, nil impacted income from equity investments (2024 - \$1 million).

3. On September 30, 2024, the Company declared a return-of-capital distribution of \$24 million and paid it on October 1, 2024.



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