

## **TC Energy reports robust third quarter financial results Continues to advance \$37 billion secured capital program**

CALGARY, Alberta – **October 29, 2020** – TC Energy Corporation (TSX, NYSE: TRP) (TC Energy or the Company) today announced net income attributable to common shares for third quarter 2020 of \$904 million or \$0.96 per share compared to net income of \$739 million or \$0.79 per share for the same period in 2019. For the nine months ended September 30, 2020, net income attributable to common shares was \$3.3 billion or \$3.55 per share compared to net income of \$2.9 billion or \$3.09 per share for the same period in 2019. Comparable earnings for third quarter 2020 were \$893 million or \$0.95 per common share compared to \$970 million or \$1.04 per common share in 2019. For the nine months ended September 30, 2020, comparable earnings were \$2.9 billion or \$3.05 per common share compared to \$2.9 billion or \$3.11 per common share for the same period in 2019. TC Energy's Board of Directors also declared a quarterly dividend of \$0.81 per common share for the quarter ending December 31, 2020, equivalent to \$3.24 per common share on an annualized basis.

"During the first nine months of 2020, our diversified portfolio of essential energy infrastructure continued to perform very well," said Russ Girling, TC Energy's President and Chief Executive Officer. "Results once again highlight the resiliency of our assets despite significant volatility in global energy markets. We continue to deliver the energy and advance projects vital to powering the North American economy in a safe and reliable manner, employing thousands of people and fulfilling our obligations to all stakeholders in these unprecedented times."

Despite the challenges brought about by COVID-19, TC Energy's assets have been largely unimpacted. Across our extensive North American operations, flows and utilization levels generally remain in line with historical and seasonal norms, underscoring the importance of our assets to the North American economy. Given the regulated and/or long-term contracted nature of our portfolio, we continue to be largely insulated from volatility associated with volume throughput and commodity prices. As a result, the Company's outlook for full year 2020 is essentially unchanged.

TC Energy also continues to advance its industry leading \$37 billion secured capital program and placed over \$3 billion of assets into service during the first nine months of 2020. Importantly, all of our capital projects are underpinned by long-term contracts highlighting the market need for this critical new infrastructure while at the same time giving us visibility to the earnings and cash flow they will generate as they enter service over the next four years. Looking beyond the current suite of projects, we are well positioned to capture future growth opportunities associated with our extensive asset footprint and deep organizational capabilities as well as others that may arise as the world both consumes more energy and transitions to a cleaner energy future.

"Our significant internally generated cash flow, strong financial position and continued access to capital markets will enable us to prudently fund our secured capital program in a manner that is consistent with maintaining our strong credit profile and targeted metrics," added Girling. "Once completed, approximately 98 per cent of the Company's EBITDA is expected to come from regulated and/or long-term contracted assets. Success in advancing these and other organic growth opportunities emanating from our five operating businesses across North America is expected to support annual dividend growth of eight to 10 per cent in 2021 and five to seven per cent thereafter in this historically low-interest rate environment."

## Highlights

*(All financial figures are unaudited and in Canadian dollars unless otherwise noted)*

- Third quarter 2020 financial results
  - Net income attributable to common shares of \$904 million or \$0.96 per common share
  - Comparable earnings of \$893 million or \$0.95 per common share
  - Comparable EBITDA of \$2.3 billion
  - Net cash provided by operations of \$1.8 billion
  - Comparable funds generated from operations of \$1.7 billion
- Declared a quarterly dividend of \$0.81 per common share for the quarter ending December 31, 2020
- Announced the retirement of our President and CEO, Russ Girling, effective December 31, 2020 and named his successor, François Poirier, currently Chief Operating Officer and President, Power & Storage
- Placed approximately \$3.0 billion of NGTL System and \$0.1 billion of Canadian Mainline capacity projects in service in the first nine months of 2020
- Continued to advance \$37 billion secured capital program by investing \$2.3 billion in various projects during the third quarter
- Received approval for the NGTL System 2021 Expansion Program which will add incremental capacity of 1.45 Bcf/d
- Approved the US\$0.2 billion Wisconsin Access project on October 28 to replace, upgrade and modernize certain ANR facilities
- Received approval from the Canada Energy Regulator (CER) in August for the NGTL System's 2020-2024 Revenue Requirement Settlement Application as filed
- Announced a non-binding offer to acquire all of the publicly-held outstanding common units of TC PipeLines, LP in exchange for TC Energy common shares.

Net income attributable to common shares increased by \$165 million or \$0.17 per common share to \$904 million or \$0.96 per share for the three months ended September 30, 2020 compared to the same period last year. Per share results reflect the dilutive impact of common shares issued under our Dividend Reinvestment and Share Purchase Plan (DRP) in 2019. Third quarter 2020 results included an incremental after-tax loss of \$45 million related to the sale of the Ontario natural gas-fired power plants on April 29, 2020 and a \$6 million reduction to the after-tax gain related to the sale of a 65 per cent equity interest in Coastal GasLink. Third quarter 2019 included an after-tax loss of \$133 million related to the sale of the Ontario natural gas-fired power plants, an after-tax loss of \$133 million due to the sale of certain Columbia Midstream assets and an after-tax gain of \$115 million related to the partial sale of Northern Courier. These specific items, as well as unrealized gains and losses from changes in risk management activities, are excluded from comparable earnings as we do not consider them to be reflective of our underlying operations.

Comparable EBITDA decreased by \$50 million for the three months ended September 30, 2020 compared to the same period in 2019 primarily due to the net effect of the following:

- decreased earnings from Liquids Pipelines as a result of lower uncontracted volumes on the Keystone Pipeline System and reduced contributions from liquids marketing activities
- lower Power and Storage earnings mainly attributable to decreased Bruce Power results due to the planned removal from service of Unit 6 on January 17, 2020 for the Major Component Replacement (MCR) program and decreased Canadian Power earnings largely as a result of the sale of our Ontario natural gas-fired power plants on April 29, 2020
- higher comparable EBITDA from Canadian Natural Gas Pipelines primarily due to the impact of increased NGTL System rate base earnings and flow-through depreciation from additional facilities placed in service as well as higher financial charges on the NGTL System, plus Coastal GasLink development fees, partially offset by lower flow-through income taxes on the NGTL System

- lower operating costs in U.S. Natural Gas Pipelines on Columbia Gas and Columbia Gulf and increased earnings from ANR as a result of the sale of natural gas from certain gas storage facilities
- increased Mexico Natural Gas Pipelines results mainly due to higher earnings from our investment in the Sur de Texas pipeline which was placed in service in September 2019
- foreign exchange impact of a stronger U.S. dollar on the Canadian dollar equivalent earnings in our U.S. and Mexico operations.

Due to the flow-through treatment of certain expenses including income taxes, financial charges and depreciation on our Canadian rate-regulated pipelines, changes in these expenses impact our comparable EBITDA despite having no significant effect on net income.

Comparable earnings decreased by \$77 million or \$0.09 per common share for the three months ended September 30, 2020 compared to the same period in 2019 and was primarily the net effect of:

- changes in comparable EBITDA described above
- a decrease in Income tax expense mainly due to lower pre-tax earnings, a reduction in the Alberta corporate income tax rate and decreased flow-through income taxes on Canadian rate-regulated pipelines
- lower Interest expense as a result of higher capitalized interest mainly related to Keystone XL, net of the impact of Napanee completing construction in first quarter 2020, and lower interest rates on reduced levels of short-term borrowings, partially offset by the effect of long-term debt issuances, net of maturities
- higher depreciation largely in Canadian Natural Gas Pipelines and U.S. Natural Gas Pipelines reflecting new assets placed in service
- lower AFUDC predominantly due to NGTL System expansions placed in service
- lower Interest income and other primarily related to the peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture reflecting lower interest rates and the weakening of the Mexican peso in 2020.

Depreciation in Canadian Natural Gas Pipelines is recoverable in tolls on a flow-through basis as discussed in comparable EBITDA above, and therefore has no significant impact on comparable earnings. Similarly, the interest income and our share of the interest expense on the Sur de Texas inter-affiliate loans offset within each reporting period, resulting in no impact on comparable earnings. Comparable earnings per common share for the three months ended September 30, 2020 also reflects the dilutive impact of common shares issued under our DRP in 2019.

On March 11, 2020, the World Health Organization declared the novel coronavirus, or COVID-19, a global pandemic. Company business continuity plans are in place across our organization and we continue to effectively operate our assets, conduct commercial activities and execute on projects with a focus on health, safety and reliability. Our businesses are broadly considered essential in Canada, the United States and Mexico given the important role our infrastructure plays in providing energy to North American markets. We are confident that our robust continuity and business resumption plans for critical teams, including liquids and gas control as well as commercial and field operations, will continue to ensure the safe and reliable delivery of energy for our customers.

With approximately 95 per cent of our comparable EBITDA generated from rate-regulated assets and/or long-term contracts, we are largely insulated from the short-term volatility associated with fluctuations in volume throughput and commodity prices. Aside from the impact of maintenance activities and normal seasonal factors, to date we have not seen any pronounced changes in the utilization of our assets, with the exception of the Keystone Pipeline System which has experienced a reduction in uncontracted volumes that we expect to remain until market conditions rebalance and normalize. To date, we have not encountered any significant impacts on our supply chain. While it is too early to ascertain any long-term impact that COVID-19 may have on our capital program, directionally we have observed some slowdown of our construction activities and capital expenditures in 2020, largely due to permitting delays as regulators have been unable to process permits and conduct consultations in time frames that were originally anticipated. In March 2020, as a result of COVID-19 impacts, Bruce Power declared force majeure with respect to its Unit 6 MCR and certain Asset Management work. As the MCR and Asset Management activities continue to progress, the ultimate impact of the Unit 6 force majeure will depend on the extent and duration of the pandemic and their ability to implement mitigation measures.

The full extent and lasting impact of the COVID-19 pandemic on the global economy is as yet undetermined but to date has included extreme volatility in financial markets and commodity prices, a significant reduction in overall economic activity, widespread extended shutdowns of businesses and supply chain disruptions. The degree to which COVID-19 has a more pronounced longer-term impact on our operations and growth projects will depend on future developments, policies and actions, all of which remain highly uncertain.

Other notable recent developments include:

#### **Canadian Natural Gas Pipelines:**

- **Coastal GasLink:** Field activity continues along the pipeline route with crews continuing to incorporate our COVID-19 guidelines for construction safety. Ongoing work activity includes construction of roads, bridges, worker accommodations, right of way grading and mainline mechanical construction with a majority of the required pipe supply already delivered to site.

The introduction of partners, utilization of dedicated project-level credit facilities, recovery of cash payments through construction for carrying charges on costs incurred and remuneration for costs paid to close of the sale are expected to substantially satisfy our funding requirements through project completion.

Although the project continues its review of an updated baseline of cost and schedule, we expect that project costs will rise compared to the previously disclosed estimate due to scope increases, permit delays and COVID-19 impacts; however, we do not expect our future equity contributions to increase significantly following the conclusion of this process.

- **NGTL System:** In the nine months ended September 30, 2020, the NGTL System placed approximately \$3.0 billion of capacity projects in service.

On February 19, 2020, the CER issued a report recommending that the Governor in Council (GIC) approve the 2021 NGTL System Expansion Program. The GIC approved the program on October 19, 2020 and the NGTL System plans to immediately progress construction activities in accordance with regulatory requirements. Compressor station field work is expected to begin in December 2020 with pipeline construction activities planned to commence in January 2021. Once facilities are placed in service, the 2021 NGTL System Expansion Program will provide 1.59 PJ/d (1.45 Bcf/d) of incremental system capacity underpinned by long-term receipt and delivery contracts, connecting incremental supply to growing intra-basin and export markets. In-service is expected through 2021, with all program components expected to be completed by April 2022.

On August 17, 2020, the CER approved the NGTL System's 2020-2024 Revenue Requirement Settlement negotiated with its customers and other interested parties. The settlement, effective January 1, 2020, maintains the equity return at 10.1 per cent on 40 per cent deemed common equity, provides the NGTL System with the opportunity to increase depreciation rates if tolls fall below projected levels and includes an incentive mechanism for certain operating costs where variances from projected amounts are shared between the NGTL System and its customers. It also includes a mechanism to review the settlement should tolls exceed a pre-determined level, without affecting the equity return.

### U.S. Natural Gas Pipelines:

- **Wisconsin Access:** On October 28, 2020, we approved the Wisconsin Access project that will replace, upgrade and modernize certain facilities while reducing emissions on a highly utilized segment of the ANR pipeline system. The enhanced facilities will improve reliability of the ANR pipeline system and also allow for additional contracted transportation services of approximately 77 TJ/d (72 MMcf/d) to be provided to utilities serving the Midwestern United States under long-term contracts. The anticipated in-service date of the combined project is in the second half of 2022 with estimated costs of US\$0.2 billion.
- **Elwood Power Project/ANR Horsepower Replacement:** On July 29, 2020, we approved the Elwood Power Project/ANR Horsepower Replacement that will replace, upgrade and modernize certain facilities while reducing emissions along a highly utilized section of the ANR pipeline system. The enhanced facilities will improve reliability of the ANR pipeline system and also allow for additional contracted transportation services of approximately 132 TJ/d (123 MMcf/d) to be provided to an existing power plant near Joliet, Illinois. The anticipated in-service date of the combined project is in the second half of 2022 with estimated costs of US\$0.4 billion.
- **Columbia Gas Section 4 Rate Case:** Columbia Gas filed a general Natural Gas Act Section 4 Rate Case with FERC on July 31, 2020 requesting an increase to Columbia Gas's maximum transportation rates expected to become effective February 1, 2021, subject to refund. The rate case continues to progress as expected, and we intend to pursue a collaborative process to reach a mutually beneficial outcome with our customers through settlement negotiations.

### Mexico Natural Gas Pipelines:

- **Villa de Reyes:** Villa de Reyes project construction is ongoing. The project has been delayed due to COVID-19 contingency measures which impeded our ability to obtain work authorizations as a result of government administrative closures. We expect to complete construction of Villa de Reyes in the first half of 2021.

### Liquids Pipelines:

- **Keystone XL:** On March 31, 2020, we announced that we would proceed with construction of Keystone XL, resulting in an expected additional investment of approximately US\$8.0 billion. Construction commenced in April and the pipeline is expected to be placed into service in 2023.

As part of the funding plan, the Government of Alberta has agreed to invest approximately US\$1.1 billion as equity in Keystone XL which substantially covers planned construction costs through the end of 2020. The remaining capital investment of approximately US\$6.9 billion is expected to be financed through the combination of a US\$4.2 billion project-level credit facility to be fully guaranteed by the Government of Alberta and a US\$2.7 billion investment by us. Our remaining capital contribution is expected to be funded through a combination of internally generated cash flows, hybrid securities and common equity through the activation of our DRP in 2021 and 2022. Once the project is completed and placed into service, we expect to acquire the Government of Alberta's equity investment under agreed terms and conditions and to refinance borrowings under the US\$4.2 billion credit facility in the debt capital markets.

Keystone XL is underpinned by new 20-year transportation service agreements which are expected to generate approximately US\$1.3 billion of EBITDA on an annual basis. Subject to terms and conditions outlined in the agreements, 50 per cent of any differences between the estimated capital cost and final cost of Keystone XL are subject to a sharing mechanism and will be reflected in the pipeline tolls.

The Company continues to manage various legal and regulatory matters related to the project.

### Power and Storage:

- **Bruce Power – Life Extension:** In late March 2020, as a result of COVID-19 impacts, Bruce Power declared force majeure under its contract with the Independent Electricity System Operator. This force majeure notice covers the Unit 6 MCR and certain Asset Management work. On May 11, 2020, work on the Unit 6 MCR and Asset Management programs was restarted with additional prevention measures in place for worker safety related to COVID-19 and progress continuing on critical path activities. The impact of the force majeure will ultimately depend on the extent and duration of disruptions resulting from the pandemic and their ability to implement mitigation measures.

On October 1, 2020, the Unit 6 MCR project achieved a major milestone with the completion of the preparation phase and the commencement of the Fuel Channel and Feeder Replacement Program. Operations on the remaining units continues as normal with scheduled outages on Units 3, 4 and 5 successfully completed in second quarter 2020 and the Unit 8 outage, currently underway, is progressing as expected.

### Corporate:

- **Retirement of our President and CEO, Russ Girling:** On September 21, 2020, we announced the retirement of Russ Girling as President and CEO of TC Energy and from our Board of Directors effective December 31, 2020. François Poirier, currently Chief Operating Officer and President, Power & Storage, will succeed Mr. Girling as President and CEO and will join the Board on January 1, 2021. Mr. Girling will assist Mr. Poirier with the transition through February 28, 2021.
- **Common share dividend:** Our Board of Directors declared a quarterly dividend of \$0.81 per common share for the quarter ending December 31, 2020. The quarterly amount is equivalent to \$3.24 per common share on an annualized basis.
- **Proposed acquisition of common units of TC PipeLines, LP:** On October 5, 2020, we announced a non-binding offer to acquire all of the publicly-held outstanding common units of our master limited partnership, TC PipeLines, LP, in exchange for TC Energy common shares. Under the proposal, TC PipeLines, LP common unitholders would receive 0.65 common shares of TC Energy for each issued and outstanding publicly-held TC PipeLines, LP common unit. The proposed exchange ratio reflected a value for all the publicly held common units of TC PipeLines, LP of approximately US\$1.48 billion, or 35.2 million TC Energy common shares based on the price of our common shares on October 2, 2020. The transaction is subject to the review and favourable recommendation by an independent conflicts committee of the Board of Directors of the general partner of TC PipeLines, LP (the TC PipeLines, LP Board), approvals by the TC PipeLines, LP Board and the TC Energy Board of Directors, along with the holders of a majority of the outstanding common units of TC PipeLines, LP, as well as customary regulatory approvals.

## Teleconference and Webcast:

We will hold a teleconference and webcast on Thursday, October 29, 2020 to discuss our third quarter 2020 financial results. Russ Girling, President and Chief Executive Officer, Don Marchand, Executive Vice-President, Strategy & Corporate Development and Chief Financial Officer, François Poirier, Chief Operating Officer and President, Power & Storage along with other members of the executive leadership team will discuss TC Energy's financial results and Company developments at 9:00 a.m. MDT / 11:00 a.m. EDT.

Members of the investment community and other interested parties are invited to participate by calling 1.855.327.6838. No pass code is required. Please dial in 15 minutes prior to the start of the call. A live webcast of the teleconference will be available on TC Energy's website at [www.TCEnergy.com/events](http://www.TCEnergy.com/events) or via the following URL: <http://www.gowebcasting.com/10883>.

A replay of the teleconference will be available two hours after the conclusion of the call until midnight (EDT) on November 5, 2020. Please call 1.855.669.9658 and enter pass code 5322.

**The unaudited interim condensed consolidated financial statements and Management's Discussion and Analysis (MD&A) are available on our website at [www.TCEnergy.com](http://www.TCEnergy.com) and will be filed today under TC Energy's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and with the U.S. Securities and Exchange Commission on EDGAR at [www.sec.gov](http://www.sec.gov).**

## About TC Energy

We are a vital part of everyday life – delivering the energy millions of people rely on to power their lives in a sustainable way. Thanks to a safe, reliable network of natural gas and crude oil pipelines, along with power generation and storage facilities, wherever life happens – we're there. Guided by our core values of safety, responsibility, collaboration and integrity, our more than 7,500 people make a positive difference in the communities where we operate across Canada, the U.S. and Mexico.

TC Energy's common shares trade on the Toronto (TSX) and New York (NYSE) stock exchanges under the symbol TRP. To learn more, visit us at [www.TCEnergy.com](http://www.TCEnergy.com).

## Forward-Looking Information

This release contains certain information that is forward-looking and is subject to important risks and uncertainties (such statements are usually accompanied by words such as "anticipate", "expect", "believe", "may", "will", "should", "estimate", "intend" or other similar words). Forward-looking statements in this document are intended to provide TC Energy security holders and potential investors with information regarding TC Energy and its subsidiaries, including management's assessment of TC Energy's and its subsidiaries' future plans and financial outlook. All forward-looking statements reflect TC Energy's beliefs and assumptions based on information available at the time the statements were made and as such are not guarantees of future performance. As actual results could vary significantly from the forward-looking information, you should not put undue reliance on forward-looking information and should not use future-oriented information or financial outlooks for anything other than their intended purpose. We do not update our forward-looking information due to new information or future events, unless we are required to by law. For additional information on the assumptions made, and the risks and uncertainties which could cause actual results to differ from the anticipated results, refer to the most recent Quarterly Report to Shareholders and Annual Report filed under TC Energy's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and with the U.S. Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

## **Non-GAAP Measures**

This news release contains references to non-GAAP measures, including comparable earnings, comparable earnings per common share, comparable EBITDA and comparable funds generated from operations, that do not have any standardized meaning as prescribed by U.S. GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are calculated on a consistent basis from period to period and are adjusted for specific items in each period, as applicable except as otherwise described in the Condensed consolidated financial statements and MD&A. For more information on non-GAAP measures, refer to TC Energy's most recent Quarterly Report to Shareholders.

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# Quarterly report to shareholders

## Third quarter 2020

### Financial highlights

(millions of \$, except per share amounts)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Income</b>				
Revenues	<b>3,195</b>	3,133	<b>9,702</b>	9,992
Net income attributable to common shares	<b>904</b>	739	<b>3,333</b>	2,868
per common share – basic and diluted	<b>\$0.96</b>	\$0.79	<b>\$3.55</b>	\$3.09
Comparable EBITDA <sup>1</sup>	<b>2,294</b>	2,344	<b>7,028</b>	7,051
Comparable earnings <sup>1</sup>	<b>893</b>	970	<b>2,865</b>	2,881
per common share <sup>1</sup>	<b>\$0.95</b>	\$1.04	<b>\$3.05</b>	\$3.11
<b>Cash flows</b>				
Net cash provided by operations	<b>1,783</b>	1,585	<b>5,119</b>	5,256
Comparable funds generated from operations <sup>1</sup>	<b>1,663</b>	1,802	<b>5,306</b>	5,292
Capital spending <sup>2</sup>	<b>2,250</b>	2,135	<b>6,669</b>	6,429
<b>Dividends declared</b>				
Per common share	<b>\$0.81</b>	\$0.75	<b>\$2.43</b>	\$2.25
<b>Basic common shares outstanding (millions)</b>				
– weighted average for the period	<b>940</b>	932	<b>940</b>	927
– issued and outstanding at end of period	<b>940</b>	934	<b>940</b>	934

1 Comparable EBITDA, comparable earnings, comparable earnings per common share and comparable funds generated from operations are all non-GAAP measures. Refer to the Non-GAAP measures section for more information.

2 Includes capacity capital expenditures, maintenance capital expenditures, capital projects in development and contributions to equity investments.

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## Management's discussion and analysis

October 28, 2020

This management's discussion and analysis (MD&A) contains information to help the reader make investment decisions about TC Energy Corporation (TC Energy). It discusses our business, operations, financial position, risks and other factors for the three and nine months ended September 30, 2020, and should be read with the accompanying unaudited Condensed consolidated financial statements for the three and nine months ended September 30, 2020, which have been prepared in accordance with U.S. GAAP.

This MD&A should also be read in conjunction with our December 31, 2019 audited Consolidated financial statements and notes and the MD&A in our 2019 Annual Report. Capitalized abbreviated terms that are used but not otherwise defined herein are identified in our 2019 Annual Report. Certain comparative figures have been adjusted to reflect the current period's presentation.

### FORWARD-LOOKING INFORMATION

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

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

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

- our financial and operational performance, including the performance of our subsidiaries
- expectations about strategies and goals for growth and expansion
- expected cash flows and future financing options available, including portfolio management
- expected dividend growth
- expected access to and cost of capital
- expected costs and schedules for planned projects, including projects under construction and in development
- 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 tax and accounting changes
- expected industry, market and economic conditions
- the expected impact of COVID-19.

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

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

### Assumptions

- regulatory decisions and outcomes
- planned and unplanned outages and the use of our pipeline, power and storage assets
- integrity and reliability of our assets
- anticipated construction costs, schedules and completion dates
- access to capital markets, including portfolio management
- expected industry, market and economic conditions
- inflation rates and commodity prices
- interest, tax and foreign exchange rates
- nature and scope of hedging
- expected impact of COVID-19.

### Risks and uncertainties

- our ability to successfully implement our strategic priorities and whether they will yield the expected benefits
- our ability to implement a capital allocation strategy aligned with maximizing shareholder value
- the operating performance of our pipeline, power and storage assets
- amount of capacity sold and rates achieved in our pipeline businesses
- the amount of capacity payments and revenues from our power generation assets due to plant availability
- production levels within supply basins
- construction and completion of capital projects
- cost and availability of labour, equipment and materials
- the availability and market prices of commodities
- access to capital markets on competitive terms
- interest, tax and foreign exchange rates
- performance and credit risk of our counterparties
- regulatory decisions and outcomes of legal proceedings, including arbitration and insurance claims
- our ability to effectively anticipate and assess changes to government policies and regulations, including those related to the environment and COVID-19
- competition in the businesses in which we operate
- unexpected or unusual weather
- acts of civil disobedience
- cyber security and technological developments
- economic conditions in North America as well as globally
- global health crises, such as pandemics and epidemics, including COVID-19 and the unexpected impacts related thereto.

You can read more about these factors and others in this MD&A and in other reports we have filed with Canadian securities regulators and the SEC, including the MD&A in our 2019 Annual Report.

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

### FOR MORE INFORMATION

You can find more information about TC Energy in our Annual Information Form and other disclosure documents, which are available on SEDAR ([www.sedar.com](http://www.sedar.com)).

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**NON-GAAP MEASURES**

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

- comparable EBITDA
- comparable EBIT
- comparable earnings
- comparable earnings per common share
- funds generated from operations
- comparable funds generated from operations.

These measures do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

**Comparable measures**

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

Our decision not to adjust for a specific item is subjective and made after careful consideration. Specific items may include:

- gains or losses on sales of assets or assets held for sale
- income tax refunds, adjustments to enacted tax rates and valuation allowances
- certain fair value adjustments relating to risk management activities
- legal, contractual and bankruptcy settlements
- impairment of goodwill, investments and other assets
- acquisition and integration costs
- restructuring costs.

We exclude the unrealized gains and losses from changes in the fair value of derivatives used to reduce our exposure to certain financial and commodity price risks. These derivatives generally provide effective economic hedges but do not meet the criteria for hedge accounting. As a result, the changes in fair value are recorded in net income. As these amounts do not accurately reflect the gains and losses that will be realized at settlement, we do not consider them reflective of our underlying operations. We also exclude the unrealized foreign exchange gains and losses on the Loan receivable from affiliate as well as the corresponding proportionate share of Sur de Texas foreign exchange gains and losses, as these amounts do not accurately reflect the gains and losses that will be realized at settlement. These amounts offset within each reporting period, resulting in no impact on net income.

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

Comparable measure	GAAP measure
comparable EBITDA	segmented earnings
comparable EBIT	segmented earnings
comparable earnings	net income attributable to common shares
comparable earnings per common share	net income per common share
comparable funds generated from operations	net cash provided by operations

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### **Comparable EBITDA and comparable EBIT**

Comparable EBITDA represents segmented earnings adjusted for certain specific items, excluding non-cash charges for depreciation and amortization. We use comparable EBITDA as a measure of our earnings from ongoing operations as it is a useful indicator of our performance and is also presented on a consolidated basis. Comparable EBIT represents segmented earnings adjusted for specific items and is an effective tool for evaluating trends in each segment. Refer to each business segment section for a reconciliation to segmented earnings.

### **Comparable earnings and comparable earnings per common share**

Comparable earnings represents earnings or losses attributable to common shareholders on a consolidated basis, adjusted for specific items. Comparable earnings is comprised of segmented earnings, Interest expense, AFUDC, Interest income and other, Income tax expense, Non-controlling interests and Preferred share dividends, adjusted for specific items. Refer to the Consolidated results section for reconciliations to Net income attributable to common shares and Net income per common share.

### **Funds generated from operations and comparable funds generated from operations**

Funds generated from operations reflects net cash provided by operations before changes in operating working capital. We believe it is a useful measure of our consolidated operating cash flows because it does not include fluctuations from working capital balances, which do not necessarily reflect underlying operations in the same period, and is used to provide a consistent measure of the cash generating performance of our assets. Comparable funds generated from operations is adjusted for the cash impact of specific items noted above. Refer to the Financial condition section for a reconciliation to Net cash provided by operations.

THIRD QUARTER 2020

## Consolidated results – third quarter 2020

(millions of \$, except per share amounts)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Canadian Natural Gas Pipelines	334	283	1,307	794
U.S. Natural Gas Pipelines	644	626	2,107	2,081
Mexico Natural Gas Pipelines	142	125	532	354
Liquids Pipelines	342	491	1,059	1,493
Power and Storage	105	27	138	353
Corporate	(61)	33	220	(1)
<b>Total segmented earnings</b>	<b>1,506</b>	1,585	<b>5,363</b>	5,074
Interest expense	(559)	(573)	(1,698)	(1,747)
Allowance for funds used during construction	91	120	254	358
Interest income and other	164	(19)	(160)	250
<b>Income before income taxes</b>	<b>1,202</b>	1,113	<b>3,759</b>	3,935
Income tax expense	(190)	(274)	(78)	(727)
<b>Net income</b>	<b>1,012</b>	839	<b>3,681</b>	3,208
Net income attributable to non-controlling interests	(69)	(59)	(228)	(217)
<b>Net income attributable to controlling interests</b>	<b>943</b>	780	<b>3,453</b>	2,991
Preferred share dividends	(39)	(41)	(120)	(123)
<b>Net income attributable to common shares</b>	<b>904</b>	739	<b>3,333</b>	2,868
<b>Net income per common share – basic and diluted</b>	<b>\$0.96</b>	\$0.79	<b>\$3.55</b>	\$3.09

Net income attributable to common shares increased by \$165 million and \$465 million or \$0.17 and \$0.46 per common share for the three and nine months ended September 30, 2020 compared to the same periods in 2019. Net income per common share reflects the dilutive impact of common shares issued under our DRP in 2019.

Net income in all periods included unrealized gains and losses from changes in risk management activities which we excluded along with other specific items as noted below to arrive at comparable earnings.

2020 results included:

- a \$6 million reduction to the after-tax gain in third quarter 2020, related to the sale of a 65 per cent equity interest in the Coastal GasLink Pipeline Limited Partnership (Coastal GasLink) on May 22, 2020, resulting in an after-tax gain of \$402 million for the nine months ended September 30, 2020
- an income tax valuation allowance release of \$281 million following our reassessment of deferred tax assets that are deemed more likely than not to be realized as a result of our decision to proceed with the Keystone XL project in first quarter 2020
- an incremental after-tax loss of \$45 million and \$202 million in the three and nine months ended September 30, 2020 related to the sale of the Ontario natural gas-fired power plants on April 29, 2020. The total after-tax loss on this sale was \$396 million including losses accrued in 2019 upon classification of the assets as held for sale.

## THIRD QUARTER 2020

2019 results included:

- an after-tax loss of \$133 million in the nine months ended September 30, 2019 related to the sale of the Ontario natural gas-fired power plants
- an after-tax loss of \$133 million related to the sale of certain Columbia Midstream assets in third quarter 2019
- an after-tax gain of \$115 million related to the partial sale of Northern Courier in third quarter 2019
- an after-tax gain of \$54 million related to the sale of our Coolidge generating station in second quarter 2019
- a deferred tax benefit of \$32 million related to the impact of an Alberta corporate income tax rate reduction on our Canadian businesses not subject to rate-regulated accounting in second quarter 2019
- an after-tax loss of \$6 million for the nine months ended September 30, 2019 related to the remainder of our U.S. Northeast power marketing contracts which were sold in May 2019.

Refer to the Recent developments and Corporate sections for additional information regarding the above noted items.

These amounts have been excluded from comparable earnings as we do not consider these transactions or adjustments to be reflective of our underlying operations.

A reconciliation of Net income attributable to common shares to comparable earnings is shown in the following table.

### RECONCILIATION OF NET INCOME TO COMPARABLE EARNINGS

(millions of \$, except per share amounts)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Net income attributable to common shares</b>	<b>904</b>	739	<b>3,333</b>	2,868
<b>Specific items (net of tax):</b>				
Gain on partial sale of Coastal GasLink	6	—	(402)	—
Income tax valuation allowance release	—	—	(281)	—
Loss on sale of Ontario natural gas-fired power plants	45	133	202	133
Loss on sale of Columbia Midstream assets	—	133	—	133
Gain on partial sale of Northern Courier	—	(115)	—	(115)
Gain on sale of Coolidge generating station	—	—	—	(54)
Alberta corporate income tax rate reduction	—	—	—	(32)
U.S. Northeast power marketing contracts	—	—	—	6
Risk management activities <sup>1</sup>	(62)	80	13	(58)
<b>Comparable earnings</b>	<b>893</b>	970	<b>2,865</b>	2,881
<b>Net income per common share</b>	<b>\$0.96</b>	\$0.79	<b>\$3.55</b>	\$3.09
<b>Specific items (net of tax):</b>				
Gain on partial sale of Coastal GasLink	0.01	—	(0.43)	—
Income tax valuation allowance release	—	—	(0.30)	—
Loss on sale of Ontario natural gas-fired power plants	0.05	0.14	0.21	0.14
Loss on sale of Columbia Midstream assets	—	0.14	—	0.14
Gain on partial sale of Northern Courier	—	(0.12)	—	(0.12)
Gain on sale of Coolidge generating station	—	—	—	(0.06)
Alberta corporate income tax rate reduction	—	—	—	(0.03)
U.S. Northeast power marketing contracts	—	—	—	0.01
Risk management activities	(0.07)	0.09	0.02	(0.06)
<b>Comparable earnings per common share</b>	<b>\$0.95</b>	\$1.04	<b>\$3.05</b>	\$3.11

## THIRD QUARTER 2020

1 Risk management activities (millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Canadian Power	—	(1)	(1)	(1)
U.S. Power	—	—	—	(52)
Liquids marketing	9	(70)	16	(36)
Natural Gas Storage	(4)	(3)	(8)	(8)
Foreign exchange	78	(31)	(24)	176
Income tax attributable to risk management activities	(21)	25	4	(21)
<b>Total unrealized gains/(losses) from risk management activities</b>	<b>62</b>	<b>(80)</b>	<b>(13)</b>	<b>58</b>

**COMPARABLE EBITDA TO COMPARABLE EARNINGS**

Comparable EBITDA represents segmented earnings adjusted for the specific items described above and excludes non-cash charges for depreciation and amortization.

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Comparable EBITDA</b>				
Canadian Natural Gas Pipelines	666	572	1,884	1,656
U.S. Natural Gas Pipelines	863	796	2,719	2,625
Mexico Natural Gas Pipelines	170	153	620	440
Liquids Pipelines	415	575	1,292	1,720
Power and Storage	187	252	516	622
Corporate	(7)	(4)	(3)	(12)
<b>Comparable EBITDA</b>	<b>2,294</b>	<b>2,344</b>	<b>7,028</b>	<b>7,051</b>
Depreciation and amortization	(673)	(610)	(1,938)	(1,839)
Interest expense	(559)	(573)	(1,698)	(1,747)
Allowance for funds used during construction	91	120	254	358
Interest income and other included in comparable earnings	32	49	87	85
Income tax expense included in comparable earnings	(184)	(260)	(520)	(687)
Net income attributable to non-controlling interests	(69)	(59)	(228)	(217)
Preferred share dividends	(39)	(41)	(120)	(123)
<b>Comparable earnings</b>	<b>893</b>	<b>970</b>	<b>2,865</b>	<b>2,881</b>



## THIRD QUARTER 2020

**Comparable EBITDA – 2020 versus 2019**

Comparable EBITDA decreased by \$50 million for the three months ended September 30, 2020 compared to the same period in 2019 primarily due to the net effect of the following:

- decreased earnings from Liquids Pipelines as a result of lower uncontracted volumes on the Keystone Pipeline System and reduced contributions from liquids marketing activities
- lower Power and Storage earnings mainly attributable to decreased Bruce Power results due to the planned removal of Unit 6 on January 17, 2020 for the Major Component Replacement (MCR) program and decreased Canadian Power earnings largely as a result of the sale of our Ontario natural gas-fired power plants on April 29, 2020
- higher comparable EBITDA from Canadian Natural Gas Pipelines primarily due to the impact of increased NGTL System rate base earnings and flow-through depreciation from additional facilities placed in service as well as higher financial charges on the NGTL System, plus Coastal GasLink development fees, partially offset by lower flow-through income taxes on the NGTL System
- lower operating costs in U.S. Natural Gas Pipelines on Columbia Gas and Columbia Gulf and increased earnings from ANR as a result of the sale of natural gas from certain gas storage facilities
- increased Mexico Natural Gas Pipelines results mainly due to higher earnings from our investment in the Sur de Texas pipeline which was placed into service in September 2019
- foreign exchange impact of a stronger U.S. dollar on the Canadian dollar equivalent earnings in our U.S. and Mexico operations.

Comparable EBITDA decreased by \$23 million for the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to the net effect of the following:

- decreased contribution from Liquids Pipelines due to lower uncontracted volumes on the Keystone Pipeline System, reduced earnings from liquids marketing activities and the July 2019 sale of an 85 per cent equity interest in Northern Courier
- lower Power and Storage results mainly attributable to reduced earnings in Canadian Power largely as a result of the sale of our Ontario natural gas-fired power plants on April 29, 2020, the May 2019 sale of our Coolidge generating station and an outage at our Mackay River cogeneration facility in the first half of 2020. Also, a decreased contribution from Bruce Power in 2020 was primarily due to the net impact of lower generation with the commencement of the Unit 6 MCR program on January 17, 2020, partially offset by a higher realized power price
- higher comparable EBITDA from Canadian Natural Gas Pipelines primarily resulting from the impact of increased NGTL System rate base earnings and flow-through depreciation from additional facilities placed in service as well as higher financial charges on the NGTL System, plus Coastal GasLink development fees, partially offset by lower flow-through income taxes on the Canadian Mainline and the NGTL System
- increased contribution from Mexico Natural Gas Pipelines mainly due to higher earnings from our investment in the Sur de Texas pipeline following its September 2019 in-service. This includes revenues of US\$55 million from one-time fees recognized in first quarter 2020 from the Sur de Texas joint venture associated with our successful completion of the pipeline compared to contract targets
- incremental earnings in U.S. Natural Gas Pipelines from Columbia Gas and Columbia Gulf growth projects placed in service, partially offset by decreased earnings as a result of the sale of certain Columbia Midstream assets in August 2019
- foreign exchange impact of a stronger U.S. dollar on the Canadian dollar equivalent earnings in our U.S. and Mexico operations.

Due to the flow-through treatment of certain expenses including income taxes, financial charges and depreciation on our Canadian rate-regulated pipelines, changes in these expenses impact our comparable EBITDA despite having no significant effect on net income.

## THIRD QUARTER 2020

**Comparable earnings – 2020 versus 2019**

Comparable earnings decreased by \$77 million or \$0.09 per common share for the three months ended September 30, 2020 compared to the same period in 2019 and was primarily the net effect of:

- changes in comparable EBITDA described above
- a decrease in Income tax expense mainly due to lower pre-tax earnings, a reduction in the Alberta corporate income tax rate and decreased flow-through income taxes on Canadian rate-regulated pipelines
- lower Interest expense as a result of higher capitalized interest mainly related to Keystone XL, net of the impact of Napanee completing construction in first quarter 2020, and lower interest rates on reduced levels of short-term borrowings, partially offset by the effect of long-term debt issuances, net of maturities
- higher depreciation largely in Canadian Natural Gas Pipelines and U.S. Natural Gas Pipelines reflecting new assets placed in service
- lower AFUDC predominantly due to NGTL System expansions placed in service
- lower Interest income and other primarily related to the peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture reflecting lower interest rates and the weakening of the Mexican peso in 2020.

Comparable earnings decreased by \$16 million or \$0.06 per common share for the nine months ended September 30, 2020 compared to the same period in 2019 and was primarily the net effect of:

- changes in comparable EBITDA described above
- a decrease in Income tax expense mainly due to lower pre-tax earnings, a reduction in the Alberta corporate income tax rate and decreased flow-through income taxes on Canadian rate-regulated pipelines
- lower Interest expense as a result of higher capitalized interest largely related to Keystone XL and Coastal GasLink, net of the impact of Napanee completing construction in first quarter 2020, and lower interest rates on reduced levels of short-term borrowings, partially offset by the net effect of long-term debt issuances, net of maturities as well as the foreign exchange impact from a stronger U.S. dollar on translation of U.S. dollar-denominated interest
- lower AFUDC predominantly due to NGTL System expansions placed in service and the suspension of recording AFUDC on the Tula project as a result of continuing construction delays, partially offset by progression of the Villa de Reyes project
- higher depreciation largely in Canadian Natural Gas Pipelines and U.S. Natural Gas Pipelines reflecting new assets placed in service.

Depreciation in Canadian Natural Gas Pipelines is recoverable in tolls on a flow-through basis as discussed in comparable EBITDA above, and therefore has no significant impact on comparable earnings. Similarly, the interest income and our share of the interest expense on the Sur de Texas inter-affiliate loans offset within each reporting period, resulting in no impact on comparable earnings. Comparable earnings per common share for the three and nine months ended September 30, 2020 also reflects the dilutive impact of common shares issued under our DRP in 2019.

THIRD QUARTER 2020

## COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus, or COVID-19, a global pandemic. Company business continuity plans are in place across our organization and we continue to effectively operate our assets, conduct commercial activities and execute on projects with a focus on health, safety and reliability. Our businesses are broadly considered essential in Canada, the United States and Mexico given the important role our infrastructure plays in providing energy to North American markets. We are confident that our robust continuity and business resumption plans for critical teams, including liquids and gas control as well as commercial and field operations, will continue to ensure the safe and reliable delivery of energy for our customers.

With approximately 95 per cent of our comparable EBITDA generated from rate-regulated assets and/or long-term contracts, we are largely insulated from the short-term volatility associated with fluctuations in volume throughput and commodity prices. Aside from the impact of maintenance activities and normal seasonal factors, to date we have not seen any pronounced changes in the utilization of our assets, with the exception of the Keystone Pipeline System which has experienced a reduction in uncontracted volumes that we expect to remain until market conditions rebalance and normalize. To date, we have not encountered any significant impacts on our supply chain. While it is too early to ascertain any long-term impact that COVID-19 may have on our capital program, directionally we have observed some slowdown of our construction activities and capital expenditures in 2020, largely due to permitting delays as regulators have been unable to process permits and conduct consultations in time frames that were originally anticipated. In March 2020, as a result of COVID-19 impacts, Bruce Power declared force majeure with respect to its Unit 6 MCR and certain Asset Management work. As the MCR and Asset Management activities continue to progress, the ultimate impact of the Unit 6 force majeure will depend on the extent and duration of the pandemic and their ability to implement mitigation measures.

Capital market conditions in 2020 have seen periods of extreme volatility and reduced liquidity. Despite this challenging backdrop, we enhanced our liquidity by in excess of \$11 billion during the first nine months of 2020 by accessing debt capital markets, arranging incremental committed credit facilities and completing sizable portfolio management transactions. With the combination of our predictable and growing cash flows from operations, cash on hand, substantial committed credit facilities and various other financing levers available to us, we believe we are well positioned to continue to fund our obligations, including in the event similarly challenging market conditions re-emerge.

The combination of the COVID-19 pandemic and unparalleled energy demand and supply disruption has had a significant impact on certain of our customers. While counterparty risk has heightened and we have increased our monitoring of and communication with counterparties experiencing greater financial pressures, we are not expecting any material negative impact to our 2020 earnings or cash flows.

Since the pandemic began, we have endeavored to understand and respond to the requirements of the communities in which we operate. Based on the paramount needs of people in our communities, our support has focused on food security and first responder organizations. As our multi-billion dollar capital projects continue to progress, where possible, we will focus on buying and hiring locally, benefiting small businesses and creating jobs in many communities that have been significantly impacted by the COVID-19 crisis.

The full extent and lasting impact of the COVID-19 pandemic on the global economy is as yet undetermined but to date has included extreme volatility in financial markets and commodity prices, a significant reduction in overall economic activity, widespread extended shutdowns of businesses and supply chain disruptions. The degree to which COVID-19 has a more pronounced longer-term impact on our operations and growth projects will depend on future developments, policies and actions, all of which remain highly uncertain. Additional information regarding the risks, uncertainties and impact on our business from COVID-19 can be found throughout this MD&A including the Capital program, Outlook, Recent developments, Financial condition and Financial risks and financial instruments sections.

THIRD QUARTER 2020

## Capital program

We are developing quality projects under our capital program. These long-life infrastructure assets are supported by long-term commercial arrangements with creditworthy counterparties and/or regulated business models and are expected to generate significant growth in earnings and cash flows.

Our capital program consists of approximately \$37 billion of secured projects which include commercially supported, committed projects that are either under construction or are in or preparing to commence the permitting stage. An additional \$11 billion of projects under development are commercially supported (except where noted) but have greater uncertainty with respect to timing and estimated project costs and are subject to certain key approvals.

Three years of maintenance capital expenditures for our businesses are included in secured projects. Maintenance capital expenditures on our regulated Canadian and U.S. natural gas pipelines are added to rate base on which we have the opportunity to earn a return and recover these expenditures through current or future tolls, which is similar to our capacity capital projects on these pipelines. Tolling arrangements in our liquids pipelines business provide for the recovery of maintenance capital expenditures.

In the nine months ended September 30, 2020, we placed approximately \$3.1 billion of capacity capital projects in service, almost fully comprised of NGTL System expansions. In addition, approximately \$1.4 billion of maintenance capital expenditures were incurred.

All projects are subject to cost and timing adjustments due to weather, market conditions, route refinement, permitting conditions, scheduling and timing of regulatory permits, among other factors, as well as the additional restrictions and uncertainty presented by COVID-19. Amounts included in the following tables exclude capitalized interest and AFUDC.

## THIRD QUARTER 2020

## Secured projects

(billions of \$)	Expected in-service date	Estimated project cost <sup>1</sup>	Carrying value at September 30, 2020
<b>Canadian Natural Gas Pipelines</b>			
Canadian Mainline	2020-2023	0.4	0.2
NGTL System <sup>2</sup>	2020	3.3	3.3
	2021	1.7	0.8
	2022	2.5	0.1
	2023+	2.4	0.1
Coastal GasLink <sup>3</sup>	2023	0.2	0.2
Regulated maintenance capital expenditures	2020-2022	2.1	0.4
<b>U.S. Natural Gas Pipelines</b>			
Columbia Gas			
Modernization II	2020	US 1.1	US 1.1
Other capacity capital	2020-2023	US 2.0	US 0.6
Regulated maintenance capital expenditures	2020-2022	US 2.1	US 0.6
<b>Mexico Natural Gas Pipelines</b>			
Villa de Reyes	2021	US 0.9	US 0.8
Tula <sup>4</sup>	—	US 0.8	US 0.6
<b>Liquids Pipelines</b>			
Keystone XL <sup>5</sup>	2023	US 9.1	US 1.7
Other capacity capital	2022	0.1	—
Recoverable maintenance capital expenditures	2020-2022	0.1	—
<b>Power and Storage</b>			
Bruce Power – life extension <sup>6</sup>	2020-2023	2.4	1.1
<b>Other</b>			
Non-recoverable maintenance capital expenditures <sup>7</sup>	2020-2022	0.7	0.1
		<b>31.9</b>	<b>11.7</b>
Foreign exchange impact on secured projects <sup>8</sup>		<b>5.3</b>	<b>1.8</b>
<b>Total secured projects (Cdn\$)</b>		<b>37.2</b>	<b>13.5</b>

- 1 Amounts reflect 100 per cent of costs related to wholly-owned assets, Keystone XL and assets held through TC PipeLines, LP, as well as cash contributions to our joint venture investments.
- 2 Estimated project costs for 2022 and 2023 include \$0.5 billion for the Foothills pipeline system related to the 2023 West Path Expansion Program.
- 3 On May 22, 2020, we sold a 65 per cent equity interest in Coastal GasLink and began to account for our remaining 35 per cent investment using equity accounting. As a result, the estimated project cost and carrying value represent our share of partner equity contributions to the project, with the expected in-service date and estimated project cost reflecting the last project update reported in our third quarter 2019 MD&A. The expected in-service date and estimated project cost will be adjusted to reflect an updated project baseline which is currently under review and subject to finalization. Refer to Recent developments – Canadian Natural Gas Pipelines for additional information regarding the review of project cost and schedule.
- 4 Construction of the central segment of the Tula project has been delayed due to a lack of progress to successfully complete Indigenous consultation by the Secretary of Energy. Project completion is expected approximately two years after the consultation process is successfully concluded. The East Section of the Tula pipeline is available for interruptible transportation services.
- 5 US\$5.3 billion will be funded through equity contributions and debt guaranteed by the Government of Alberta. The Keystone XL project carrying value reflects the amount remaining after the 2015 impairment charge, along with additional amounts expended and capitalized since January 2018. A portion of the carrying value is recoverable from shippers under certain conditions or has been funded by Government of Alberta contributions.
- 6 Reflects our expected share of cash contributions for the Unit 6 MCR program costs, expected to be in service in 2023, and amounts to be invested under the Asset Management program through 2023.
- 7 Includes non-recoverable maintenance capital expenditures from all segments and is primarily comprised of our proportionate share of maintenance capital expenditures for Bruce Power and other Power and Storage assets.
- 8 Reflects U.S./Canada foreign exchange rate of 1.33 at September 30, 2020.

## THIRD QUARTER 2020

**Projects under development**

The costs provided in the table below reflect the most recent estimates for each project as filed with the various regulatory authorities or otherwise determined by management.

(billions of \$)	Estimated project cost <sup>1</sup>	Carrying value at September 30, 2020
<b>Canadian Natural Gas Pipelines</b>		
NGTL System – Merrick	1.9	—
<b>U.S. Natural Gas Pipelines</b>		
Other capacity capital <sup>2</sup>	US 0.7	—
<b>Liquids Pipelines</b>		
Heartland and TC Terminals <sup>3</sup>	0.9	0.1
Grand Rapids Phase 2 <sup>3</sup>	0.7	—
Keystone Hardisty Terminal <sup>3</sup>	0.3	0.1
<b>Power and Storage</b>		
Bruce Power – life extension <sup>4</sup>	5.8	0.1
	10.3	0.3
Foreign exchange impact on projects under development <sup>5</sup>	0.2	—
<b>Total projects under development (Cdn\$)</b>	<b>10.5</b>	<b>0.3</b>

- 1 Amounts reflect our proportionate share of joint venture costs where applicable and 100 per cent of costs related to wholly-owned assets and assets held through TC PipeLines, LP.
- 2 Includes projects subject to a positive customer FID.
- 3 Regulatory approvals have been obtained and additional commercial support is being pursued.
- 4 Reflects our proportionate share of MCR program costs for Units 3, 4, 5, 7 and 8, and the remaining Asset Management program costs beyond 2023.
- 5 Reflects U.S./Canada foreign exchange rate of 1.33 at September 30, 2020.

THIRD QUARTER 2020

## Outlook

### **Consolidated comparable earnings**

Our overall comparable earnings per common share outlook for 2020 remains consistent with the 2019 Annual Report taking into consideration the net effect of increased capitalized interest related to Keystone XL, lower Liquids Pipelines volumes and marketing margins and higher income taxes as a result of a modestly higher effective tax rate.

The increase in Keystone XL capitalized interest is largely the result of additional capital expenditures along with the inclusion of previously impaired capital costs in the basis for calculating capitalized interest following our decision to proceed with construction of the Keystone XL pipeline. These prior costs were not re-capitalized but are included for determining capitalized interest in accordance with GAAP.

We do not expect COVID-19 to have a material impact on 2020 comparable earnings.

### **Consolidated capital spending**

Our total capital expenditures for 2020 are expected to be approximately \$10 billion on growth projects, maintenance capital expenditures and contributions to equity investments. The increase relative to the outlook in our 2019 Annual Report is primarily a result of higher spending in 2020 on Keystone XL, the majority of which is expected to be funded through the Government of Alberta's equity contributions to the project. We do not believe disruptions related to COVID-19 will be material to our 2020 capital expenditure outlook, but recognize that the longer-term impact remains uncertain at this time.

THIRD QUARTER 2020

## Canadian Natural Gas Pipelines

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

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
NGTL System	390	311	1,103	871
Canadian Mainline	229	234	677	704
Other Canadian pipelines <sup>1</sup>	47	27	104	81
<b>Comparable EBITDA</b>	<b>666</b>	<b>572</b>	<b>1,884</b>	<b>1,656</b>
Depreciation and amortization	(326)	(289)	(941)	(862)
<b>Comparable EBIT</b>	<b>340</b>	<b>283</b>	<b>943</b>	<b>794</b>
Specific item:				
Gain on partial sale of Coastal GasLink	(6)	—	364	—
<b>Segmented earnings</b>	<b>334</b>	<b>283</b>	<b>1,307</b>	<b>794</b>

<sup>1</sup> Includes results from Foothills, Ventures LP, Great Lakes Canada and our investment in TQM, Coastal GasLink development fees as well as general and administrative and business development costs related to our Canadian Natural Gas Pipelines.

Canadian Natural Gas Pipelines segmented earnings increased by \$51 million and \$513 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019. Third quarter 2020 results included a \$6 million reduction to the pre-tax gain related to the May 22, 2020 sale of a 65 per cent equity interest in Coastal GasLink, resulting in a pre-tax gain of \$364 million for the nine months ended September 30, 2020. These amounts have been excluded from our calculation of comparable EBIT.

Net income and comparable EBITDA for our rate-regulated Canadian natural gas pipelines are primarily affected by our approved ROE, our investment base, the level of deemed common equity and incentive earnings. Changes in depreciation, financial charges and income taxes also impact comparable EBITDA but do not have a significant impact on net income as they are almost entirely recovered in revenues on a flow-through basis.

### NET INCOME AND AVERAGE INVESTMENT BASE

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Net Income</b>				
NGTL System	145	124	419	355
Canadian Mainline	40	43	118	129
<b>Average investment base</b>				
NGTL System			13,890	11,654
Canadian Mainline			3,649	3,677



## THIRD QUARTER 2020

Net income for the NGTL System increased by \$21 million and \$64 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 mainly due to a higher average investment base resulting from continued system expansions. On August 17, 2020, the CER approved the NGTL System's 2020-2024 Revenue Requirement Settlement Application. This settlement, which is effective from January 1, 2020 to December 31, 2024, includes an ROE of 10.1 per cent on 40 per cent deemed equity, provides the NGTL System the opportunity to increase depreciation rates if tolls fall below projected levels and includes an incentive mechanism for certain operating costs where variances from projected amounts are shared between the NGTL System and its customers. It also includes a mechanism to review the settlement should tolls exceed a pre-determined level, without affecting the equity return. The NGTL System's 2019 results reflected the 2018-2019 Revenue Requirement Settlement that expired on December 31, 2019 which included an ROE of 10.1 per cent on 40 per cent deemed common equity, a mechanism for sharing variances above and below a fixed annual OM&A amount and flow-through treatment of all other costs.

Net income for the Canadian Mainline decreased by \$3 million and \$11 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 largely due to lower incentive earnings.

**COMPARABLE EBITDA**

Comparable EBITDA for Canadian Natural Gas Pipelines increased by \$94 million and \$228 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 due to the net effect of:

- increased rate base earnings and flow-through depreciation on the NGTL System due to additional facilities placed in service as well as higher financial charges
- lower flow-through income taxes and reduced incentive earnings on the Canadian Mainline and the NGTL System
- Coastal GasLink development fees. Refer to Recent developments for additional information.

**DEPRECIATION AND AMORTIZATION**

Depreciation and amortization increased by \$37 million and \$79 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 mainly due to NGTL System expansion facilities that were placed in service.

THIRD QUARTER 2020

## U.S. Natural Gas Pipelines

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

(millions of US\$, unless otherwise noted)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Columbia Gas	308	291	968	906
ANR	120	107	381	373
TC PipeLines, LP <sup>1,2</sup>	28	26	88	88
Columbia Gulf	46	47	143	131
Great Lakes <sup>3</sup>	18	15	65	62
Other U.S. pipelines <sup>4</sup>	36	39	86	145
Non-controlling interests <sup>5</sup>	91	79	277	270
<b>Comparable EBITDA</b>	<b>647</b>	604	<b>2,008</b>	1,975
Depreciation and amortization	(164)	(145)	(452)	(425)
<b>Comparable EBIT</b>	<b>483</b>	459	<b>1,556</b>	1,550
Foreign exchange impact	161	146	551	510
<b>Comparable EBIT (Cdn\$)</b>	<b>644</b>	605	<b>2,107</b>	2,060
Specific item:				
Gain on sale of Columbia Midstream assets	—	21	—	21
<b>Segmented earnings (Cdn\$)</b>	<b>644</b>	626	<b>2,107</b>	2,081

- 1 Reflects our share of earnings from TC PipeLines, LP's ownership interests in eight natural gas pipelines as well as general and administrative costs related to TC PipeLines, LP. Results from Northern Border and Iroquois reflect our share of equity income from these investments.
- 2 For the three and nine months ended September 30, 2020, our ownership interest in TC PipeLines, LP was 25.5 per cent which is unchanged from the same periods in 2019.
- 3 Reflects our 53.55 per cent direct interest in Great Lakes. The remaining 46.45 per cent is held by TC PipeLines, LP.
- 4 Reflects earnings from our effective ownership in Crossroads, Millennium and Hardy Storage, and certain Columbia Midstream assets until sold in August 2019, as well as general and administrative and business development costs related to our U.S. natural gas pipelines.
- 5 Reflects earnings attributable to portions of TC PipeLines, LP that we do not own.

U.S. Natural Gas Pipelines segmented earnings increased by \$18 million and \$26 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 and included a pre-tax gain of \$21 million related to the sale of certain Columbia Midstream assets in August 2019 which has been excluded from comparable EBIT. A stronger U.S. dollar in 2020 had a positive impact on the Canadian dollar equivalent segmented earnings from our U.S. operations compared to the same periods in 2019.

Comparable EBITDA for U.S. Natural Gas Pipelines increased by US\$43 million and US\$33 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 and was primarily the net effect of:

- incremental earnings in 2020 from Columbia Gas and Columbia Gulf growth projects placed in service as well as lower operating costs in third quarter 2020
- increased third quarter 2020 earnings from ANR due to the sale of natural gas from certain gas storage facilities
- decreased earnings as a result of the sale of certain Columbia Midstream assets in August 2019.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by US\$19 million and US\$27 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 mainly due to new projects placed in service and certain third quarter 2020 adjustments, partially offset by the sale of certain Columbia Midstream assets in August 2019.

THIRD QUARTER 2020

## Mexico Natural Gas Pipelines

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

(millions of US\$, unless otherwise noted)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Topolobampo	40	40	120	120
Tamazunchale	31	31	91	93
Mazatlán	18	17	53	52
Guadalajara	16	17	47	49
Sur de Texas <sup>1</sup>	23	10	145	18
<b>Comparable EBITDA</b>	<b>128</b>	115	<b>456</b>	332
Depreciation and amortization	(21)	(21)	(65)	(65)
<b>Comparable EBIT</b>	<b>107</b>	94	<b>391</b>	267
Foreign exchange impact	35	31	141	87
<b>Comparable EBIT and segmented earnings (Cdn\$)</b>	<b>142</b>	125	<b>532</b>	354

<sup>1</sup> Represents equity income from our 60 per cent interest and fees earned from the construction and operation of the pipeline.

Mexico Natural Gas Pipelines comparable EBIT and segmented earnings increased by \$17 million and \$178 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019. In addition to the net increases in comparable EBITDA noted below, a stronger U.S. dollar in 2020 had a positive impact on the Canadian dollar equivalent segmented earnings compared to the same periods in 2019.

Comparable EBITDA for Mexico Natural Gas Pipelines increased by US\$13 million and US\$124 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 mainly due to higher earnings from our investment in the Sur de Texas pipeline, including:

- increased Sur de Texas equity income from the commencement of transportation services in September 2019 as well as lower interest expense attributable to lower interest rates and the significant weakening of the Mexican peso
- revenues of US\$55 million from one-time fees recognized in first quarter 2020 from the Sur de Texas joint venture associated with the successful completion of the pipeline compared to contract targets, as well as ongoing fees earned from operating the pipeline.

Prior to in-service, Sur de Texas equity income primarily reflected AFUDC during construction, net of our proportionate share of interest expense on peso-denominated inter-affiliate loans. These inter-affiliate loans remain in place and our share of related interest expense in Sur de Texas equity income continues to be fully offset by corresponding interest income recorded in Interest income and other in the Corporate segment.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the three and nine months ended September 30, 2020 was consistent with the same periods in 2019.

THIRD QUARTER 2020

## Liquids Pipelines

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

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Keystone Pipeline System	345	415	1,113	1,283
Intra-Alberta pipelines <sup>1</sup>	22	29	69	109
Liquids marketing and other	48	131	110	328
<b>Comparable EBITDA</b>	<b>415</b>	<b>575</b>	<b>1,292</b>	<b>1,720</b>
Depreciation and amortization	(82)	(83)	(249)	(260)
<b>Comparable EBIT</b>	<b>333</b>	<b>492</b>	<b>1,043</b>	<b>1,460</b>
Specific items:				
Gain on partial sale of Northern Courier	—	69	—	69
Risk management activities	9	(70)	16	(36)
<b>Segmented earnings</b>	<b>342</b>	<b>491</b>	<b>1,059</b>	<b>1,493</b>
<b>Comparable EBIT denominated as follows:</b>				
Canadian dollars	84	88	257	272
U.S. dollars	187	306	580	894
Foreign exchange impact	62	98	206	294
<b>Comparable EBIT</b>	<b>333</b>	<b>492</b>	<b>1,043</b>	<b>1,460</b>

<sup>1</sup> Intra-Alberta pipelines include Grand Rapids, White Spruce and Northern Courier. In July 2019, we sold an 85 per cent interest in Northern Courier and began applying equity accounting to our remaining 15 per cent investment.

Liquids Pipelines segmented earnings decreased by \$149 million and \$434 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 and included the following specific items which have been excluded from our calculation of comparable EBIT:

- a pre-tax gain of \$69 million related to the sale of an 85 per cent interest in Northern Courier in July 2019
- unrealized gains and losses from changes in the fair value of derivatives related to our liquids marketing business.

The net decreases in comparable EBITDA noted below are partially offset by a stronger U.S. dollar in 2020 which had a positive impact on the Canadian dollar equivalent segmented earnings compared to the same periods in 2019.

Comparable EBITDA for Liquids Pipelines decreased by \$160 million and \$428 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019. This was primarily the net effect of:

- lower uncontracted volumes on the Keystone Pipeline System
- lower contributions from liquids marketing activities mainly due to lower margins
- the sale of an 85 per cent equity interest in Northern Courier in July 2019.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by \$1 million and \$11 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 primarily as a result of the sale of an 85 per cent equity interest in Northern Courier.

THIRD QUARTER 2020

## Power and Storage

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

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Canadian Power <sup>1</sup>	39	61	164	228
Bruce Power <sup>2</sup>	140	193	339	378
Natural Gas Storage and other	8	(2)	13	16
<b>Comparable EBITDA</b>	<b>187</b>	252	<b>516</b>	622
Depreciation and amortization	(18)	(19)	(48)	(66)
<b>Comparable EBIT</b>	<b>169</b>	233	<b>468</b>	556
Specific items:				
Loss on sale of Ontario natural gas-fired power plants	(60)	(202)	(321)	(202)
Gain on sale of Coolidge generating station	—	—	—	68
U.S. Northeast power marketing contracts	—	—	—	(8)
Risk management activities	(4)	(4)	(9)	(61)
<b>Segmented earnings</b>	<b>105</b>	27	<b>138</b>	353

1 Includes our Ontario natural gas-fired power plants until sold on April 29, 2020 and Coolidge generating station until sold in May 2019.

2 Includes our share of equity income from Bruce Power.

Power and Storage segmented earnings increased by \$78 million for the three months ended and decreased by \$215 million for the nine months ended September 30, 2020 compared to the same periods in 2019 and included the following specific items which have been excluded from comparable EBIT:

- additional pre-tax losses of \$60 million and \$321 million for the three and nine months ended September 30, 2020 (\$202 million for the three and nine months ended September 30, 2019) related to the sale of our Ontario natural gas-fired power plants. Refer to the Recent developments section for additional information
- a pre-tax gain of \$68 million for the nine months ended September 30, 2019 related to the sale of our Coolidge generating station in May 2019
- a pre-tax loss of \$8 million for the nine months ended September 30, 2019 related to the remainder of our U.S. Northeast power marketing contracts which were sold in May 2019
- unrealized losses from changes in the fair value of derivatives used to reduce our exposure to certain commodity price risks.

Comparable EBITDA for Power and Storage decreased by \$65 million and \$106 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 primarily due to the net effect of:

- the planned removal from service of Bruce Power Unit 6 on January 17, 2020 for its MCR program, partially offset by lower outage days on the remaining units. Bruce Power results for the nine months ended September 30, 2020 also included the effects of a higher realized power price. Additional financial and operating information on Bruce Power is provided below

## THIRD QUARTER 2020

- lower Canadian Power earnings largely as a result of the sale of our Ontario natural gas-fired power plants on April 29, 2020, although the Napanee plant added incremental earnings to that date following its March 13, 2020 in-service, the May 2019 sale of our Coolidge generating station and an outage at our Mackay River cogeneration facility in the first half of 2020
- Natural Gas Storage and other results for the three months ended September 30, 2020 increased mainly due to improved access to our natural gas storage facilities and lower business development costs.

**DEPRECIATION AND AMORTIZATION**

Depreciation and amortization for the three months ended September 30, 2020 was consistent with the same period in 2019 and decreased by \$18 million year-over-year for the nine months ended September 30, 2020 primarily due to the cessation of depreciation on our Halton Hills power plant in July 2019 upon classification as held for sale.

**BRUCE POWER**

The following reflects our proportionate share of the components of comparable EBITDA and comparable EBIT.

(millions of \$, unless otherwise noted)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Equity income included in comparable EBITDA and EBIT comprised of:</b>				
Revenues <sup>1</sup>	432	499	1,270	1,284
Operating expenses	(206)	(217)	(653)	(660)
Depreciation and other	(86)	(89)	(278)	(246)
<b>Comparable EBITDA and EBIT<sup>2</sup></b>	<b>140</b>	<b>193</b>	<b>339</b>	<b>378</b>
<b>Bruce Power – other information</b>				
Plant availability <sup>3,4</sup>	93%	93%	88%	83%
Planned outage days <sup>4</sup>	26	45	195	291
Unplanned outage days	16	3	28	57
Sales volumes (GWh) <sup>2</sup>	5,510	6,321	15,818	16,817
Realized power price per MWh <sup>5</sup>	\$78	\$78	\$80	\$75

1 Net of amounts recorded to reflect operating cost efficiencies shared with the IESO.

2 Represents our 48.4 per cent (2019 – 48.4 per cent) ownership interest in Bruce Power. Sales volumes include deemed generation and Unit 6 output until January 17, 2020 when its MCR program commenced.

3 The percentage of time the plant was available to generate power, regardless of whether it was running.

4 Excludes Unit 6 MCR outage days.

5 Calculation based on actual and deemed generation. Realized power price per MWh includes realized gains and losses from contracting activities and cost flow-through items. Excludes unrealized gains and losses on contracting activities and non-electricity revenues.

The Unit 6 MCR outage commenced on January 17, 2020. Planned maintenance on Units 3, 4 and 5 was completed in second quarter. Planned maintenance on Unit 8 began in third quarter and is expected to be completed in fourth quarter 2020. The overall average plant availability in 2020 is expected to be in the mid-80 per cent range, excluding the Unit 6 MCR.

THIRD QUARTER 2020

## Corporate

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

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Comparable EBITDA and EBIT</b>	<b>(7)</b>	(4)	<b>(3)</b>	(12)
Specific item:				
Foreign exchange (loss)/gain – inter-affiliate loans <sup>1</sup>	<b>(54)</b>	37	<b>223</b>	11
<b>Segmented (losses)/earnings</b>	<b>(61)</b>	33	<b>220</b>	(1)

<sup>1</sup> Reported in Income from equity investments in the Condensed consolidated statement of income.

Corporate segmented earnings decreased by \$94 million for the three months ended September 30, 2020 and increased by \$221 million for the nine months ended September 30, 2020 compared to the same periods in 2019.

Segmented (losses)/earnings include foreign exchange losses and gains on our proportionate share of peso-denominated inter-affiliate loans to the Sur de Texas joint venture from its partners. These amounts are recorded in Income from equity investments and have been excluded from our calculation of comparable EBITDA and EBIT as they are fully offset by corresponding foreign exchange gains and losses on the inter-affiliate loan receivable included in Interest income and other.

Comparable EBITDA decreased by \$3 million and increased by \$9 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019. The increase year-to-date was primarily due to a U.S. capital tax adjustment recorded in second quarter 2020.

### OTHER INCOME STATEMENT ITEMS

#### Interest expense

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Interest on long-term debt and junior subordinated notes</b>				
Canadian dollar-denominated	<b>(178)</b>	(152)	<b>(511)</b>	(440)
U.S. dollar-denominated	<b>(324)</b>	(330)	<b>(987)</b>	(989)
Foreign exchange impact	<b>(108)</b>	(106)	<b>(350)</b>	(326)
	<b>(610)</b>	(588)	<b>(1,848)</b>	(1,755)
Other interest and amortization expense	<b>(17)</b>	(33)	<b>(69)</b>	(121)
Capitalized interest	<b>68</b>	48	<b>219</b>	129
<b>Interest expense</b>	<b>(559)</b>	(573)	<b>(1,698)</b>	(1,747)

## THIRD QUARTER 2020

Interest expense decreased by \$14 million and \$49 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019 primarily due to the net effect of:

- higher capitalized interest largely related to Keystone XL, and Coastal GasLink prior to its change to equity accounting upon completion of the sale of a 65 per cent interest in the project on May 22, 2020, partially offset by lower capitalized interest due to the completion of Napanee construction in first quarter 2020. The increase for Keystone XL is largely the result of additional capital expenditures along with the inclusion of previously impaired capital costs in the basis for calculating capitalized interest following our decision to proceed with construction of the pipeline. These prior costs were not re-capitalized but are included for determining capitalized interest in accordance with GAAP
- lower interest rates on reduced levels of short-term borrowings
- long-term debt issuances, net of maturities
- foreign exchange impact from a stronger U.S. dollar on translation of U.S. dollar-denominated interest.

### Allowance for funds used during construction

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Canadian dollar-denominated	23	57	83	151
U.S. dollar-denominated	51	48	126	156
Foreign exchange impact	17	15	45	51
<b>Allowance for funds used during construction</b>	<b>91</b>	<b>120</b>	<b>254</b>	<b>358</b>

AFUDC decreased by \$29 million and \$104 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019. The decrease in Canadian dollar-denominated AFUDC is primarily due to NGTL System expansion projects placed in service since third quarter 2019. The increase in U.S. dollar-denominated AFUDC for the three months ended September 30, 2020 is mainly attributable to our Columbia Gas growth projects. The decrease in U.S. dollar-denominated AFUDC for the nine months ended September 30, 2020 is primarily the result of the suspension of recording AFUDC on Tula, effective January 1, 2020, due to ongoing construction delays on the project, partially offset by continuing construction of the Villa de Reyes project. Refer to the Recent developments section for additional information.

### Interest income and other

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Interest income and other included in comparable earnings</b>	<b>32</b>	<b>49</b>	<b>87</b>	<b>85</b>
Specific items:				
Foreign exchange gain/(loss) – inter-affiliate loan	54	(37)	(223)	(11)
Risk management activities	78	(31)	(24)	176
<b>Interest income and other</b>	<b>164</b>	<b>(19)</b>	<b>(160)</b>	<b>250</b>



## THIRD QUARTER 2020

Interest income and other increased by \$183 million for the three months ended September 30, 2020 compared to the same period in 2019 and was primarily due to:

- unrealized gains in 2020 compared to unrealized losses in 2019 on risk management activities primarily reflecting the weakening and strengthening of the U.S. dollar during third quarter 2020 and 2019, respectively. These amounts have been excluded from comparable earnings
- foreign exchange gains in 2020 compared to foreign exchange losses in 2019 related to a peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture. Our proportionate share of the offsetting foreign exchange losses and gains in Sur de Texas are reflected in Income from equity investments in the Corporate segment resulting in no impact on net income and are excluded from comparable earnings
- lower interest income related to the peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture as a result of lower interest rates and a weaker Mexican peso in third quarter 2020 compared to 2019. Our proportionate share of the offsetting interest expense is reflected in Income from equity investments in our Mexico Natural Gas Pipelines segment.

Interest income and other decreased by \$410 million for the nine months ended September 30, 2020 compared to the same period in 2019 and was primarily due to:

- higher foreign exchange losses in 2020 compared to 2019 related to a peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture. Our proportionate share of the offsetting foreign exchange gains in Sur de Texas are reflected in Income from equity investments in the Corporate segment resulting in no impact on net income and are excluded from comparable earnings
- unrealized losses in 2020 compared to unrealized gains in 2019 on risk management activities primarily reflecting the strengthening and weakening of the U.S. dollar in 2020 and 2019, respectively. These amounts have been excluded from comparable earnings
- lower interest income related to the peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture as a result of lower interest rates and a weaker Mexican peso in 2020 compared to 2019. Our proportionate share of the offsetting interest expense is reflected in Income from equity investments in our Mexico Natural Gas Pipelines segment
- unrealized foreign exchange gains, primarily on peso-denominated deferred income tax liabilities, reflecting the weakening of the Mexican peso in 2020.

### Income tax expense

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Income tax expense included in comparable earnings</b>	<b>(184)</b>	(260)	<b>(520)</b>	(687)
Specific items:				
Income tax valuation allowance release	—	—	<b>281</b>	—
Loss on sale of Ontario natural gas-fired power plants	<b>15</b>	69	<b>119</b>	69
Gain on partial sale of Coastal GasLink	—	—	<b>38</b>	—
Loss on sale of Columbia Midstream assets	—	(154)	—	(154)
Gain on partial sale of Northern Courier	—	46	—	46
Alberta corporate income tax rate reduction	—	—	—	32
Gain on sale of Coolidge generating station	—	—	—	(14)
U.S. Northeast power marketing contracts	—	—	—	2
Risk management activities	<b>(21)</b>	25	<b>4</b>	(21)
<b>Income tax expense</b>	<b>(190)</b>	(274)	<b>(78)</b>	(727)

## THIRD QUARTER 2020

Income tax expense included in comparable earnings decreased by \$76 million and \$167 million for the three and nine months ended September 30, 2020 compared to the same periods in 2019. The decreases were mainly due to lower pre-tax earnings, as well as a reduction in the Alberta corporate income tax rate and decreased flow-through income taxes on Canadian rate-regulated pipelines.

In addition to the tax impacts of the specific items noted in the Canadian Natural Gas Pipelines, U.S. Natural Gas Pipelines, Liquids Pipelines, Power and Storage and Corporate segments, Income tax expense for the nine months ended September 30, 2020 and the comparative period in 2019 included the following specific items, which have been excluded from our calculation of income tax expense included in comparable earnings:

- in first quarter 2020, an income tax valuation allowance release of \$281 million was recorded following our reassessment of deferred tax assets that are deemed more likely than not to be realized as a result of our decision to proceed with the Keystone XL project
- in second quarter 2019, a \$32 million income tax recovery on deferred income tax balances attributable to our Canadian businesses not subject to RRA due to an Alberta corporate income tax rate reduction enacted in June 2019.

On June 29, 2020, the Government of Alberta proposed to accelerate the reduction of the corporate income tax rate to eight per cent to become effective July 1, 2020. While this proposed change has not yet been enacted, we do not expect it to have a material impact on our financial statements.

#### Net income attributable to non-controlling interests

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Net income attributable to non-controlling interests</b>	<b>(69)</b>	(59)	<b>(228)</b>	(217)

Net income attributable to non-controlling interests for the three months ended September 30, 2020 increased by \$10 million primarily due to higher earnings in TC PipeLines, LP and similarly increased by \$11 million for the nine months ended September 30, 2020 compared to 2019 along with the positive impact of a stronger U.S. dollar in 2020 on the Canadian dollar equivalent earnings.

#### Preferred share dividends

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Preferred share dividends</b>	<b>(39)</b>	(41)	<b>(120)</b>	(123)

THIRD QUARTER 2020

## Recent developments

### CANADIAN NATURAL GAS PIPELINES

#### Coastal GasLink

On May 22, 2020, we completed the sale of a 65 per cent equity interest in Coastal GasLink for net proceeds of \$656 million before post-closing adjustments. A pre-tax gain of \$364 million (\$402 million after tax) was recorded in the nine months ended September 30, 2020. The after-tax gain includes the gain on sale, utilization of previously unrecognized tax loss benefits and the required remeasurement of our 35 per cent retained ownership to fair value including a derivative instrument used to hedge the interest rate risk on the credit facilities established to finance construction of the Coastal GasLink pipeline. Under the terms of the equity purchase agreement, the net proceeds included reimbursement of the 65 per cent equity share of the project costs paid to May 22, 2020. As part of the transaction, we were contracted by Coastal GasLink to construct and operate the pipeline. Effective this date, we also commenced recognizing development fees earned during the construction of the pipeline for management and financial services provided and began accounting for our remaining 35 per cent investment using equity accounting.

In conjunction with the equity sale, Coastal GasLink entered into project-level credit facilities with a current total capacity of \$6.8 billion which will be used to fund the majority of the construction costs of the Coastal GasLink pipeline. Immediately preceding the equity sale, Coastal GasLink drew down \$1.6 billion on the facilities, of which approximately \$1.5 billion was paid to TC Energy. Coastal GasLink has also entered into a subordinated demand revolving credit facility with TC Energy on commercial terms to provide additional short-term liquidity and funding flexibility to the project. At September 30, 2020, draws on this facility amounted to \$250 million and the facility was repaid in its entirety in October 2020.

The introduction of partners, utilization of dedicated project-level credit facilities, recovery of cash payments through construction for carrying charges on costs incurred and remuneration for costs paid to close of the sale are expected to substantially satisfy our funding requirements through project completion.

Although the project continues its review of an updated baseline of cost and schedule, we expect that project costs will rise compared to the previously disclosed estimate due to scope increases, permit delays and COVID-19 impacts; however, we do not expect our future equity contributions to increase significantly following the conclusion of this process.

We continue to work with the 20 First Nations that have executed agreements with Coastal GasLink to provide them with an opportunity to invest in the project, with an option to acquire a 10 per cent interest in Coastal GasLink on similar terms to what has been agreed with existing partners.

Field activity continues along the pipeline route with crews continuing to incorporate our COVID-19 guidelines for construction safety. Ongoing work activity includes construction of roads, bridges, worker accommodations, right of way grading and mainline mechanical construction with a majority of the required pipe supply already delivered to site.

#### NGTL System

In the nine months ended September 30, 2020, the NGTL System placed approximately \$3.0 billion of capacity projects in service.

THIRD QUARTER 2020

### **2021 NGTL System Expansion Program**

On February 19, 2020, the CER issued a report recommending that the Governor in Council (GIC) approve the 2021 NGTL System Expansion Program. The GIC approved the program on October 19, 2020 and the NGTL System plans to immediately progress construction activities in accordance with regulatory requirements. Compressor station field work is expected to begin in December 2020 with pipeline construction activities planned to commence in January 2021. Once facilities are placed in service, the 2021 NGTL System Expansion Program will provide 1.59 PJ/d (1.45 Bcf/d) of incremental system capacity underpinned by long-term receipt and delivery contracts, connecting incremental supply to growing intra-basin and export markets. In-service is expected through 2021, with all program components expected to be completed by April 2022.

The NGTL System held a Capacity Optimization Open Season in second quarter 2020 soliciting requests for the deferral or advancement of pending contracts to assist customers in optimizing their transportation service needs and align system expansions with customer growth requirements. Following analysis of the results of the open season, we concluded that all proposed system expansion projects continue to be required to meet aggregate system demand, although the in-service dates for some facilities have been delayed. This will result in the deferral of a certain amount of capital spending from 2020 and 2021 to 2022 through 2024. The net impact of these deferrals, together with some expected increase in project costs on the 2021 NGTL System Expansion Program, have been incorporated into the Secured projects table in this MD&A.

### **North Montney**

The North Montney project consists of approximately 206 km (128 miles) of new pipeline along with three compressor units and 13 meter stations. On January 31, 2020, the \$1.1 billion Aitken Creek section of the North Montney project was placed in service. The final pipeline section of the project, Kahta South, went into service on May 1, 2020. All compressor stations, pipeline sections and 11 of the 13 meter stations are complete and have been placed in service, with the remaining two meter stations currently planned for 2021.

### **NGTL System Rate Design**

In March 2019, the NGTL System Rate Design and Services Application was filed with the NEB. The application addressed rate design, terms and conditions of service for the NGTL System and a tolling methodology for the North Montney Mainline. The CER held a public hearing in fourth quarter 2019 and issued a decision on March 25, 2020 approving all elements of the application as filed.

### **NGTL System Revenue Requirement Settlement**

On August 17, 2020, the CER approved the NGTL System's 2020-2024 Revenue Requirement Settlement negotiated with its customers and other interested parties. The settlement, effective January 1, 2020, maintains the equity return at 10.1 per cent on 40 per cent deemed common equity, provides the NGTL System with the opportunity to increase depreciation rates if tolls fall below projected levels and includes an incentive mechanism for certain operating costs where variances from projected amounts are shared between the NGTL System and its customers. It also includes a mechanism to review the settlement should tolls exceed a pre-determined level, without affecting the equity return.

### **Canadian Mainline**

In the nine months ended September 30, 2020, the Canadian Mainline placed approximately \$0.1 billion of capacity projects in service.

On April 17, 2020, the CER approved a six-year unanimously supported negotiated settlement between the Canadian Mainline, its customers and other stakeholders. The settlement, effective January 1, 2021, sets a base equity return of 10.1 per cent on 40 per cent deemed common equity and includes an incentive to either decrease costs and/or increase revenues on the pipeline with a beneficial sharing mechanism to both the shippers and us.

THIRD QUARTER 2020

## U.S. NATURAL GAS PIPELINES

### **Wisconsin Access**

On October 28, 2020, we approved the Wisconsin Access project that will replace, upgrade and modernize certain facilities while reducing emissions on a highly utilized segment of the ANR pipeline system. The enhanced facilities will improve reliability of the ANR pipeline system and also allow for additional contracted transportation services of approximately 77 TJ/d (72 MMcf/d) to be provided to utilities serving the Midwestern United States under long-term contracts. The anticipated in-service date of the combined project is in the second half of 2022 with estimated costs of US\$0.2 billion.

### **Elwood Power Project/ANR Horsepower Replacement**

On July 29, 2020, we approved the Elwood Power Project/ANR Horsepower Replacement that will replace, upgrade and modernize certain facilities while reducing emissions along a highly utilized section of the ANR pipeline system. The enhanced facilities will improve reliability of the ANR pipeline system and also allow for additional contracted transportation services of approximately 132 TJ/d (123 MMcf/d) to be provided to an existing power plant near Joliet, Illinois. The anticipated in-service date of the combined project is in the second half of 2022 with estimated costs of US \$0.4 billion.

### **Alberta XPress**

On February 12, 2020, we approved the Alberta XPress project, an expansion project on the ANR pipeline system that also utilizes existing capacity on the Great Lakes and Canadian Mainline systems to connect growing supply from the WCSB to U.S. Gulf Coast LNG export markets. The anticipated in-service date is 2022 with estimated project costs of US\$0.3 billion.

### **Columbia Gas Section 4 Rate Case**

Columbia Gas filed a general Natural Gas Act Section 4 Rate Case with FERC on July 31, 2020 requesting an increase to Columbia Gas's maximum transportation rates expected to become effective February 1, 2021, subject to refund. The rate case continues to progress as expected, and we intend to pursue a collaborative process to reach a mutually beneficial outcome with our customers through settlement negotiations.

## MEXICO NATURAL GAS PIPELINES

### **Tula and Villa de Reyes**

The CFE initiated arbitration in June 2019 for the Villa de Reyes and Tula projects, disputing fixed capacity payments due to force majeure events. Arbitration proceedings are suspended until first quarter 2021 while management advances settlement discussions with the CFE.

Villa de Reyes project construction is ongoing. The project has been delayed due to COVID-19 contingency measures which impeded our ability to obtain work authorizations as a result of government administrative closures. We expect to complete construction of Villa de Reyes in the first half of 2021.

THIRD QUARTER 2020

## LIQUIDS PIPELINES

### **Keystone XL**

On March 31, 2020, we announced that we would proceed with construction of Keystone XL, resulting in an expected additional investment of approximately US\$8.0 billion. Construction commenced in April and the pipeline is expected to be placed into service in 2023.

As part of the funding plan, the Government of Alberta has agreed to invest approximately US\$1.1 billion as equity in Keystone XL which substantially covers planned construction costs through the end of 2020. The remaining capital investment of approximately US\$6.9 billion is expected to be financed through the combination of a US\$4.2 billion project-level credit facility to be fully guaranteed by the Government of Alberta and a US\$2.7 billion investment by us. Our remaining capital contribution is expected to be funded through a combination of internally generated cash flows, hybrid securities and common equity through the activation of our DRP in 2021 and 2022. Once the project is completed and placed into service, we expect to acquire the Government of Alberta's equity investment under agreed terms and conditions and to refinance borrowings under the US\$4.2 billion credit facility in the debt capital markets.

Keystone XL is underpinned by new 20-year transportation service agreements which are expected to generate approximately US\$1.3 billion of EBITDA on an annual basis. Subject to terms and conditions outlined in the agreements, 50 per cent of any differences between the estimated capital cost and final cost of Keystone XL are subject to a sharing mechanism and will be reflected in the pipeline tolls.

On April 15, 2020, the U.S. District Court in Montana ruled that the U.S. Army Corps of Engineers (USACE) violated the Endangered Species Act when it reissued the Clean Water Act Nationwide Permit 12 (NWP12) in 2017. The ruling vacated NWP12 and enjoined the USACE from using it to authorize construction across wetlands and other water bodies in the U.S. The ruling was later limited to the construction of new oil and natural gas pipelines only. The U.S. Court of Appeals for the Ninth Circuit denied motions for a stay of the ruling pending appeal and a subsequent application for a stay to the U.S. Supreme Court was granted, except as it applies to Keystone XL. Keystone XL is pursuing other permitting means to gain regulatory authorization to construct the pipeline across wetlands and waterbodies.

On May 29, 2020, a complaint was filed by Indigenous groups in the U.S. District Court in Montana against the U.S. Bureau of Land Management (BLM) and the USACE seeking to set aside BLM's grant of right of way over federal land and the USACE's permission with respect to land at the Missouri River crossing in Montana received earlier this year. The BLM grant of right of way has also been challenged in the same Montana Court by a group of non-governmental organizations in a complaint filed July 14, 2020. We have intervened and will continue to actively manage these and other legal and regulatory matters as the project advances.

Rulings regarding challenges to the 2019 Presidential Permit brought by environmental and Indigenous groups remain pending in the U.S. District Court in Montana. On October 16, 2020, the Court denied their request for injunctive relief and ordered additional briefing on the constitutional challenge to the permit within 30 days.

THIRD QUARTER 2020

## POWER AND STORAGE

### **Ontario natural gas-fired power plants**

On March 13, 2020, we placed the Napanee power plant into service after we completed construction and commissioning activities.

On April 29, 2020, we completed the sale of our Halton Hills and Napanee power plants as well as our 50 per cent interest in Portlands Energy Centre to a subsidiary of Ontario Power Generation Inc. for net proceeds of approximately \$2.8 billion before post-closing adjustments. Pre-tax losses of \$60 million (\$45 million after tax) and \$321 million (\$202 million after tax) were recognized in the three and nine months ended September 30, 2020, respectively. The total pre-tax loss of \$600 million (\$396 million after tax) on this transaction includes losses accrued during 2019 while classified as assets held for sale as well as utilization of previously unrecognized tax loss benefits. The increase in the total loss from that disclosed at December 31, 2019 is primarily the result of higher than expected costs to achieve Napanee's March 13, 2020 in-service and the accrual of post-closing obligations estimated on close as well as their subsequent revision recorded in third quarter 2020. Along with post-closing adjustments, this loss may also be further amended in the future as current estimates are revised and for items that could not be estimated on close, including the settlement of existing insurance claims.

### **Bruce Power – Life Extension**

In late March 2020, as a result of COVID-19 impacts, Bruce Power declared force majeure under its contract with the Independent Electricity System Operator. This force majeure notice covers the Unit 6 MCR and certain Asset Management work. On May 11, 2020, work on the Unit 6 MCR and Asset Management programs was restarted with additional prevention measures in place for worker safety related to COVID-19 and progress continuing on critical path activities. The impact of the force majeure will ultimately depend on the extent and duration of disruptions resulting from the pandemic and their ability to implement mitigation measures.

On October 1, 2020, the Unit 6 MCR project achieved a major milestone with the completion of the preparation phase and the commencement of the Fuel Channel and Feeder Replacement Program. Operations on the remaining units continue as normal with scheduled outages on Units 3, 4 and 5 successfully completed in second quarter 2020 and the Unit 8 outage, currently underway, is progressing as expected.

## CORPORATE

### **Retirement of our President and CEO, Russ Girling**

On September 21, 2020, we announced the retirement of Russ Girling as President and CEO of TC Energy and from our Board of Directors effective December 31, 2020. François Poirier, currently Chief Operating Officer and President, Power & Storage, will succeed Mr. Girling as President and CEO and will join the Board on January 1, 2021. Mr. Girling will assist Mr. Poirier with the transition through February 28, 2021.

### **Proposed acquisition of common units of TC PipeLines, LP**

On October 5, 2020, we announced a non-binding offer to acquire all of the publicly-held outstanding common units of our master limited partnership (MLP), TC PipeLines, LP, in exchange for TC Energy common shares. Under the proposal, TC PipeLines, LP common unitholders would receive 0.65 common shares of TC Energy for each issued and outstanding publicly-held TC PipeLines, LP common unit. The proposed exchange ratio reflected a value for all the publicly held common units of TC PipeLines, LP of approximately US\$1.48 billion, or 35.2 million TC Energy common shares based on the price of our common shares on October 2, 2020. The transaction is subject to the review and favourable recommendation by an independent conflicts committee of the Board of Directors of the general partner of TC PipeLines, LP (the TC PipeLines, LP Board), approvals by the TC PipeLines, LP Board and the TC Energy Board of Directors, along with the holders of a majority of the outstanding common units of TC PipeLines, LP, as well as customary regulatory approvals.

THIRD QUARTER 2020

## Financial condition

We strive to maintain financial strength and flexibility in all parts of the economic cycle. We rely on our operating cash flows to sustain our business, pay dividends and fund a portion of our growth. In addition, we access capital markets and engage in portfolio management to meet our financing needs, manage our capital structure and to preserve our credit ratings.

We continued to enhance our financial position in 2020 through:

- The Government of Alberta's commitment to Keystone XL comprised of US\$1.1 billion of equity contributions and the guarantee of US\$4.2 billion project-level debt financing
- Completion of the sale of the Ontario natural gas-fired power plants for net proceeds of approximately \$2.8 billion
- Completion of the sale of a 65 per cent equity interest in Coastal GasLink for net proceeds of \$656 million
- Establishment of seven-year senior secured project-level credit facilities for Coastal GasLink with current capacity of \$6.8 billion. Immediately preceding the equity sale, \$1.6 billion was drawn on these facilities of which approximately \$1.5 billion was paid to TC Energy
- TransCanada PipeLines Limited's issuance of \$2.0 billion of seven-year Medium Term Notes at a fixed rate of 3.80 per cent per annum and US\$1.25 billion of 10-year Senior Unsecured Notes at a fixed rate of 4.10 per cent per annum
- Arrangement of an additional US\$2.0 billion of 364-day committed bilateral credit facilities.

These transactions demonstrate our continued ability to access capital markets under all market conditions, including during periods of stress such as those recently resulting from COVID-19. Combined with our predictable and growing cash flows from operations, cash on hand, substantial committed credit facilities and various other financing levers available to us, we believe we are well positioned to continue to fund our obligations, capital program and dividends, including in the event similarly challenging market conditions re-emerge. We do not expect COVID-19 or the volatility in commodity prices to date in 2020 to have a material impact on our operating cash flows as a significant majority of our revenues are derived from long-term contracts and/or regulated cost of service business models; however, counterparty credit risk has heightened. Refer to the Financial risks and financial instruments section for additional information.

At September 30, 2020, our current assets totaled \$5.1 billion and current liabilities amounted to \$10.1 billion, leaving us with a working capital deficit of \$4.9 billion compared to \$5.2 billion at December 31, 2019. Our working capital deficiency is considered to be in the normal course of business and is managed through:

- our ability to generate predictable and growing cash flows from operations
- a total of \$13.0 billion of committed revolving credit facilities of which \$11.5 billion of incremental short-term borrowing capacity remains available, net of \$1.5 billion backstopping outstanding commercial paper balances. We also have arrangements in place for a further \$2.4 billion of demand credit facilities of which \$1.1 billion remains available as of September 30, 2020
- our access to capital markets, including through portfolio management activities, DRP and Corporate ATM programs, if deemed appropriate.



THIRD QUARTER 2020

**CASH PROVIDED BY OPERATING ACTIVITIES**

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Net cash provided by operations	<b>1,783</b>	1,585	<b>5,119</b>	5,256
(Decrease)/increase in operating working capital	<b>(120)</b>	(140)	<b>187</b>	(329)
Funds generated from operations	<b>1,663</b>	1,445	<b>5,306</b>	4,927
Specific items:				
Current income tax expense on sale of Columbia Midstream assets	—	357	—	357
U.S. Northeast power marketing contracts	—	—	—	8
<b>Comparable funds generated from operations</b>	<b>1,663</b>	1,802	<b>5,306</b>	5,292

**NET CASH PROVIDED BY OPERATIONS**

Net cash provided by operations increased by \$198 million for the three months ended September 30, 2020 compared to the same period in 2019 primarily due to higher funds generated by operations. Net cash provided by operations decreased by \$137 million for the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to the amount and timing of working capital changes, partially offset by higher funds generated by operations.

**COMPARABLE FUNDS GENERATED FROM OPERATIONS**

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

Comparable funds generated from operations decreased by \$139 million for the three months ended September 30, 2020 compared to the same period in 2019 primarily due to lower comparable earnings adjusted for non-cash items and lower distributions from our equity investments.

Comparable funds generated from operations increased by \$14 million for the nine months ended September 30, 2020 compared to the same period in 2019 primarily due to the recognition of fees related to the construction of Sur de Texas and Coastal GasLink, lower current income taxes and the recovery of higher depreciation on the NGTL System's investment base, partially offset by lower distributions from our equity investments.

THIRD QUARTER 2020

**CASH USED IN INVESTING ACTIVITIES**

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Capital spending</b>				
Capital expenditures	<b>(2,063)</b>	(1,818)	<b>(6,049)</b>	(5,411)
Capital projects in development	—	(184)	<b>(122)</b>	(565)
Contributions to equity investments	<b>(187)</b>	(133)	<b>(498)</b>	(453)
	<b>(2,250)</b>	(2,135)	<b>(6,669)</b>	(6,429)
Proceeds from sale of assets, net of transaction costs	—	1,807	<b>3,407</b>	2,398
Other distributions from equity investments	—	—	—	186
Loan to affiliate	<b>(250)</b>	—	<b>(250)</b>	—
Deferred amounts and other	<b>(137)</b>	(73)	<b>(359)</b>	(154)
<b>Net cash used in investing activities</b>	<b>(2,637)</b>	(401)	<b>(3,871)</b>	(3,999)

Capital expenditures in 2020 were incurred primarily for the expansion of the NGTL System and Columbia Gas projects, construction of Keystone XL, construction of the Coastal GasLink pipeline prior to the sale of a 65 per cent equity interest, as well as maintenance capital expenditures. Higher capital spending in 2020 compared to 2019 reflects increased spending on Keystone XL and Columbia Gas projects, partially offset by lower spending on the NGTL System and Napanee.

Costs incurred on capital projects in development in 2020 and 2019 were mostly attributable to spending on Keystone XL prior to our March 31, 2020 decision to proceed with construction of the pipeline.

Contributions to equity investments increased in 2020 compared to 2019 mainly due to contributions to Coastal GasLink subsequent to the sale of a 65 per cent interest on May 22, 2020 and higher contributions to Bruce Power, partially offset by our proportionate share of debt financing in 2019 for the Sur de Texas project which went into service in September 2019.

In second quarter 2020, we closed the sale of our Ontario natural gas-fired power plants for net proceeds of approximately \$2.8 billion, and the sale of a 65 per cent equity interest in Coastal GasLink for net proceeds of \$656 million.

Other distributions from equity investments in 2019 reflect Bruce Power financings undertaken to fund its capital program and to make distributions to its partners. There were no such distributions in 2020.

TC Energy and Coastal GasLink established a subordinated demand revolving credit facility to provide additional short-term liquidity and funding flexibility to the project. During the three months ended September 30, 2020, \$250 million was drawn on this facility, which was repaid in its entirety in October 2020. Refer to Note 6, Loans receivable from affiliates, of our Condensed consolidated financial statements for additional information.

## THIRD QUARTER 2020

## CASH PROVIDED BY FINANCING ACTIVITIES

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Notes payable issued/(repaid), net	338	(2,584)	(2,765)	(688)
Long-term debt issued, net of issue costs	35	1,994	5,571	3,015
Long-term debt repaid	—	(1)	(2,241)	(1,835)
Junior subordinated notes issued, net of issue costs	—	1,441	—	1,441
Loss on settlement of financial instruments	—	—	(130)	—
Dividends and distributions paid	(854)	(549)	(2,514)	(1,628)
Contributions from redeemable non-controlling interest	524	—	578	—
Common shares issued, net of issue costs	3	83	86	242
<b>Net cash provided by/(used in) financing activities</b>	<b>46</b>	<b>384</b>	<b>(1,415)</b>	<b>547</b>

In May 2020, Coastal GasLink drew down \$1.6 billion on its secured long-term project financing credit facilities, of which approximately \$1.5 billion was paid to TC Energy prior to the sale of a 65 per cent equity interest in the pipeline. Refer to the Recent developments section for more information.

In April 2020, we issued \$2.0 billion of Medium Term Notes bearing interest at a fixed rate of 3.80 per cent per annum and US\$1.25 billion of Senior Unsecured Notes at a fixed rate of 4.10 per cent per annum.

In June 2020, we repaid US\$750 million of Senior Unsecured Notes bearing interest at a fixed rate of 3.30 per cent per annum. In March 2020, we repaid US\$750 million of Senior Unsecured Notes bearing interest at a fixed rate of 4.60 per cent per annum. Further details related to our long-term debt are discussed in Note 7, Long-term debt, of our Condensed consolidated financial statements.

Financial instruments used to manage the interest rate exposure related to the issuance of U.S. dollar-denominated debt in second quarter 2020 were settled at fair value resulting in a total payment of \$130 million.

In the nine months ended September 30, 2020, our Keystone XL subsidiaries issued Class A Interests amounting to \$720 million to the Government of Alberta through \$578 million of cash contributed under its equity commitment to the project plus \$133 million of Canadian dollar equivalent notes receivable due by December 31, 2020. The U.S. dollar component of the notes receivable balance is translated to Canadian dollars at each reporting date. Refer to Note 8, Redeemable non-controlling interest, of our Condensed consolidated financial statements for additional information.

## DIVIDEND REINVESTMENT PLAN

Commencing with the dividends declared in October 2019, common shares purchased with reinvested cash dividends under TC Energy's DRP are no longer satisfied with shares issued from treasury at a discount, but rather acquired on the open market at 100 per cent of the weighted-average purchase price. The DRP is available for dividends payable on TC Energy's common and preferred shares.

## THIRD QUARTER 2020

**DIVIDENDS**

On October 28, 2020, we declared quarterly dividends on our common shares of \$0.81 per share payable on January 29, 2021 to shareholders of record at the close of business on December 31, 2020.

**TC ENERGY'S CORPORATE ATM PROGRAM**

We intend to file a \$1.0 billion equity shelf prospectus in fourth quarter 2020 to enable an at-the-market equity issuance program which will be utilized if and as deemed appropriate.

**SHARE INFORMATION**

At October 23, 2020, we had 940 million issued and outstanding common shares and 9 million outstanding options to buy common shares, of which 5 million were exercisable.

On June 30, 2020, 401,590 Series 3 preferred shares were converted, on a one-for-one basis, into Series 4 preferred shares and 1,865,362 Series 4 preferred shares were converted, on a one-for-one basis, into Series 3 preferred shares.

**CREDIT FACILITIES**

At October 23, 2020, we had a total of \$12.9 billion of committed revolving credit facilities of which \$8.7 billion of incremental short-term borrowing capacity remains available, net of \$4.2 billion backstopping outstanding commercial paper balances. We also have arrangements in place for a further \$2.4 billion of demand credit facilities of which \$1.1 billion remains available, and our operated affiliates had an additional \$0.8 billion of undrawn capacity on committed credit facilities.

Refer to Financial risks and financial instruments for more information about liquidity, market and other risks.

**CONTRACTUAL OBLIGATIONS**

Our capital expenditure commitments have decreased by approximately \$2.7 billion from those reported at December 31, 2019 mainly due to the sale of a 65 per cent equity interest in Coastal GasLink completed on May 22, 2020. Subsequent to the sale, Coastal GasLink is predominantly funded by project-level financing, recovery of cash payments for carrying charges on costs incurred and contributions from equity partners, of which we represent 35 per cent, and accounted for under the equity method. Capital expenditure commitments were also adjusted for normal course fulfillment of construction contracts along with new commitments on capital projects, primarily Keystone XL.

There were no other material changes to our contractual obligations in third quarter 2020 or to payments due in the next five years or after. Refer to the MD&A in our 2019 Annual Report for more information about our contractual obligations.

THIRD QUARTER 2020

## Financial risks and financial instruments

We are exposed to market risk and counterparty credit risk and have strategies, policies and limits in place to manage the impact of these risks on our earnings, cash flows and, ultimately, shareholder value. Risk management strategies, policies and limits are designed to ensure our risks and related exposures are in line with our business objectives and risk tolerance.

Refer to our 2019 Annual Report for more information about the risks we face in our business which have not changed substantially since December 31, 2019, other than as noted within this MD&A. Refer to the COVID-19 section of this MD&A for further information regarding its impact on our financial risks.

### INTEREST RATE RISK

We utilize short-term and long-term debt to finance our operations which exposes us to interest rate risk. We typically pay fixed rates of interest on our long-term debt and floating rates on our commercial paper programs and amounts drawn on our credit facilities. A small portion of our long-term debt bears interest at floating rates. In addition, we are exposed to interest rate risk on financial instruments and contractual obligations containing variable interest rate components. We actively manage our interest rate risk using interest rate derivatives.

Many of our financial instruments and contractual obligations with variable rate components reference LIBOR. This rate will cease to be published at the end of 2021 and may be replaced by a secured overnight financing rate. We will continue to monitor developments and the impact, if any, on our business.

### FOREIGN EXCHANGE RISK

We generate revenues and incur expenses and capital expenditures that are denominated in currencies other than Canadian dollars. As a result, our earnings and cash flows are exposed to currency fluctuations.

A significant portion of our businesses generate earnings in U.S. dollars, but since we report our financial results in Canadian dollars, changes in the value of the U.S. dollar against the Canadian dollar can affect our net income. As our U.S. dollar-denominated operations continue to grow, this exposure increases. A portion of this risk is offset by interest expense on U.S. dollar-denominated debt. The balance of the exposure is actively managed on a rolling two-year basis using foreign exchange derivatives, however, the natural exposure beyond that period remains.

### Average exchange rate – U.S. to Canadian dollars

The average exchange rate for one U.S. dollar converted into Canadian dollars was as follows:

<b>three months ended September 30, 2020</b>	<b>1.33</b>
three months ended September 30, 2019	1.32
<b>nine months ended September 30, 2020</b>	<b>1.35</b>
nine months ended September 30, 2019	1.33

The impact of changes in the value of the U.S. dollar on our U.S. and Mexico operations is partially offset by interest on U.S. dollar-denominated debt as set out in the table below. Comparable EBIT is a non-GAAP measure.

THIRD QUARTER 2020

**Significant U.S. dollar-denominated amounts**

(millions of US\$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
U.S. Natural Gas Pipelines comparable EBIT	<b>483</b>	459	<b>1,556</b>	1,550
Mexico Natural Gas Pipelines comparable EBIT <sup>1</sup>	<b>125</b>	122	<b>455</b>	349
U.S. Liquids Pipelines comparable EBIT	<b>187</b>	306	<b>580</b>	894
Interest on U.S. dollar-denominated long-term debt and junior subordinated notes	<b>(324)</b>	(330)	<b>(987)</b>	(989)
Capitalized interest on U.S. dollar-denominated capital expenditures	<b>38</b>	9	<b>89</b>	24
U.S. dollar-denominated allowance for funds used during construction	<b>51</b>	48	<b>126</b>	156
U.S. dollar comparable non-controlling interests and other	<b>(56)</b>	(46)	<b>(178)</b>	(174)
	<b>504</b>	568	<b>1,641</b>	1,810

1 Excludes interest expense on our inter-affiliate loan with Sur de Texas which is fully offset in Interest income and other.

**Net investment hedges**

We hedge a portion of our net investment in foreign operations (on an after-tax basis) with U.S. dollar-denominated debt, cross-currency swaps, foreign exchange forwards and foreign exchange options.

**COUNTERPARTY CREDIT RISK**

We have exposure to counterparty credit risk in the following areas:

- cash and cash equivalents
- accounts receivable
- available-for-sale assets
- the fair value of derivative assets
- loans receivable.

The combination of the COVID-19 pandemic along with unparalleled energy demand and supply disruption has led to significant commodity price volatility and restricted capital market access impacting a certain number of our customers. While the majority of our credit exposure is to large creditworthy entities, we have increased our monitoring of and communication with those counterparties experiencing greater financial pressures due to recent market events and the challenging business environment. Although counterparty credit risk has heightened, we are not expecting any material negative impact to our 2020 earnings or cash flows. Refer to our 2019 Annual Report for more information about the factors that mitigate our counterparty credit risk exposure.

We review financial assets carried at amortized cost for impairment using the lifetime expected loss of the financial asset at initial recognition and throughout the life of the financial asset. We use historical credit loss and recovery data, adjusted for our judgment regarding current economic and credit conditions, along with supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other. At September 30, 2020, we had no significant credit losses, no significant credit risk concentration and no significant amounts past due or impaired.

We have significant credit and performance exposure to financial institutions because they hold cash deposits and provide committed credit lines and letters of credit that help manage our exposure to counterparties and provide liquidity in commodity, foreign exchange and interest rate derivative markets.

## THIRD QUARTER 2020

**LIQUIDITY RISK**

We manage our liquidity risk by continuously forecasting our cash flows and ensuring we have adequate cash balances, cash flows from operations, committed and demand credit facilities and access to capital markets to meet our operating, financing and capital expenditure obligations under both normal and stressed economic conditions. As discussed previously, there have been periods of heightened global market volatility and reduced liquidity during 2020 but we have taken steps to further strengthen our financial condition and mitigate our exposure to these risks.

**LOANS RECEIVABLE FROM AFFILIATES****Coastal GasLink**

In conjunction with the equity sale on May 22, 2020, we entered into a subordinated demand revolving credit facility with Coastal GasLink, which had a capacity of \$1.0 billion at September 30, 2020. This facility provides additional short-term liquidity and funding flexibility to the project and bears interest at a floating market-based rate. At September 30, 2020, Other current assets on our Condensed consolidated balance sheet included a \$250 million current loan receivable from Coastal GasLink. The entire outstanding balance was repaid in October 2020.

**Sur de Texas**

At September 30, 2020, our Condensed consolidated balance sheet reflected a MXN\$20.9 billion or \$1.3 billion (December 31, 2019 – MXN\$20.9 billion or \$1.4 billion) loan receivable from the Sur de Texas joint venture which represents our 60 per cent proportionate share of long-term debt financing to the joint venture. Our Condensed consolidated statement of income reflects the related interest income and foreign exchange impact on this loan receivable which are fully offset upon consolidation with corresponding amounts included in our 60 per cent proportionate share of Sur de Texas equity earnings as follows:

(millions of \$)	three months ended September 30		nine months ended September 30		Affected line item in the Condensed consolidated statement of income
	2020	2019	2020	2019	
Interest income <sup>1</sup>	25	38	87	110	Interest income and other
Interest expense <sup>2</sup>	(25)	(38)	(87)	(110)	Income from equity investments
Foreign exchange gains/(losses) <sup>1</sup>	54	(37)	(223)	(11)	Interest income and other
Foreign exchange (losses)/gains <sup>1</sup>	(54)	37	223	11	Income from equity investments

1 Included in our Corporate segment.

2 Included in our Mexico Natural Gas Pipelines segment.

**FINANCIAL INSTRUMENTS**

With the exception of Long-term debt and Junior subordinated notes, our derivative and non-derivative financial instruments are recorded on the balance sheet at fair value unless they were entered into and continue to be held for the purpose of receipt or delivery in accordance with our normal purchase and sales exemptions and are documented as such. In addition, fair value accounting is not required for other financial instruments that qualify for certain accounting exemptions.

**Derivative instruments**

We use derivative instruments to reduce volatility associated with fluctuations in commodity prices, interest rates and foreign exchange rates. Derivative instruments, including those that qualify and are designated for hedge accounting treatment, are recorded at fair value.

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The majority of derivative instruments that are not designated or do not qualify for hedge accounting treatment have been entered into as economic hedges to manage our exposure to market risk and are classified as held for trading. Changes in the fair value of held-for-trading derivative instruments are recorded in net income in the period of change. This may expose us to increased variability in reported operating results since the fair value of the held-for-trading derivative instruments can fluctuate significantly from period to period.

**Balance sheet presentation of derivative instruments**

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

(millions of \$)	September 30, 2020	December 31, 2019
Other current assets	318	190
Intangible and other assets	12	7
Accounts payable and other	(280)	(115)
Other long-term liabilities	(75)	(81)
	(25)	1

**Unrealized and realized gains/(losses) on derivative instruments**

The following summary does not include hedges of our net investment in foreign operations:

(millions of \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Derivative instruments held for trading<sup>1</sup></b>				
Amount of unrealized (losses)/gains in the period				
Commodities	(2)	(69)	14	(98)
Foreign exchange	78	(31)	(24)	176
Amount of realized gains/(losses) in the period				
Commodities	68	132	146	319
Foreign exchange	(11)	(9)	(62)	(68)
<b>Derivative instruments in hedging relationships<sup>2</sup></b>				
Amount of realized gains/(losses) in the period				
Commodities	2	1	4	(8)
Interest rate	(6)	1	(10)	1

1 Realized and unrealized gains and losses on held-for-trading derivative instruments used to purchase and sell commodities are included on a net basis in Revenues. Realized and unrealized gains and losses on foreign exchange held-for-trading derivative instruments are included on a net basis in Interest income and other.

2 In the three and nine months ended September 30, 2020 and 2019, there were no gains or losses included in Net income relating to discontinued cash flow hedges where it was probable that the anticipated transaction would not occur.

For further details on our financial instruments, including classification assumptions made in the calculation of fair value and additional discussion of exposure to risks and mitigation activities, refer to Note 12, Risk management and financial instruments, in our Condensed consolidated financial statements.



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## Other information

### **CONTROLS AND PROCEDURES**

Management, including our President and CEO and our CFO, evaluated the effectiveness of our disclosure controls and procedures as at September 30, 2020, as required by the Canadian securities regulatory authorities and by the SEC, and concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

There were no changes in third quarter 2020 that had or are likely to have a material impact on our internal control over financial reporting.

### **CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY CHANGES**

When we prepare financial statements that conform with U.S. GAAP, we are required to make estimates and assumptions that impact the timing and amounts we record for our assets, liabilities, revenues and expenses because these items may be affected by future events. We base the estimates and assumptions on the most current information available, using our best judgment. We also regularly assess the assets and liabilities themselves. A summary of our critical accounting estimates is included in our 2019 Annual Report.

#### **Accounting Changes**

Our significant accounting policies have remained unchanged since December 31, 2019 other than as described in Note 2, Accounting changes, in our Condensed consolidated financial statements. A summary of our significant accounting policies is included in our 2019 Annual Report.

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## Quarterly results

### SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

(millions of \$, except per share amounts)	2020				2019			2018
	Third	Second	First	Fourth	Third	Second	First	Fourth
Revenues	<b>3,195</b>	3,089	3,418	3,263	3,133	3,372	3,487	3,904
Net income attributable to common shares	<b>904</b>	1,281	1,148	1,108	739	1,125	1,004	1,092
Comparable earnings	<b>893</b>	863	1,109	970	970	924	987	946
Share statistics								
Net income per common share – basic and diluted	<b>\$0.96</b>	\$1.36	\$1.22	\$1.18	\$0.79	\$1.21	\$1.09	\$1.19
Comparable earnings per common share	<b>\$0.95</b>	\$0.92	\$1.18	\$1.03	\$1.04	\$1.00	\$1.07	\$1.03
Dividends declared per common share	<b>\$0.81</b>	\$0.81	\$0.81	\$0.75	\$0.75	\$0.75	\$0.75	\$0.69

### FACTORS AFFECTING QUARTERLY FINANCIAL INFORMATION BY BUSINESS SEGMENT

Quarter-over-quarter revenues and net income fluctuate for reasons that vary across our business segments.

In our Canadian Natural Gas Pipelines, U.S. Natural Gas Pipelines and Mexico Natural Gas Pipelines segments, except for seasonal fluctuations in short-term throughput volumes on U.S. pipelines, quarter-over-quarter revenues and net income generally remain relatively stable during any fiscal year. Over the long term, however, they fluctuate because of:

- regulators' decisions
- negotiated settlements with shippers
- newly constructed assets being placed in service
- acquisitions and divestitures
- developments outside of the normal course of operations.

In Liquids Pipelines, annual revenues and net income are based on contracted and uncommitted spot transportation, as well as liquids marketing activities. Quarter-over-quarter revenues and net income are affected by:

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

In Power and Storage, quarter-over-quarter revenues and net income are affected by:

- weather
- customer demand
- newly constructed assets being placed in service
- acquisitions and divestitures
- market prices for natural gas and power
- capacity prices and payments
- planned and unplanned plant outages
- developments outside of the normal course of operations
- certain fair value adjustments.

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**FACTORS AFFECTING FINANCIAL INFORMATION BY QUARTER**

We calculate comparable measures by adjusting certain GAAP and non-GAAP measures for specific items we believe are significant but not reflective of our underlying operations in the period.

Comparable earnings exclude the unrealized gains and losses from changes in the fair value of certain derivatives used to reduce our exposure to certain financial and commodity price risks. These derivatives generally provide effective economic hedges, but do not meet the criteria for hedge accounting. As a result, the changes in fair value are recorded in net income. As these amounts do not accurately reflect the gains and losses that will be realized at settlement, we do not consider them part of our underlying operations.

In third quarter 2020, comparable earnings also excluded:

- an incremental after-tax loss of \$45 million related to the sale of the Ontario natural gas-fired power plants
- a \$6 million reduction in the after-tax gain related to the sale of a 65 per cent equity interest in Coastal GasLink.

In second quarter 2020, comparable earnings also excluded:

- an after-tax gain of \$408 million related to the sale of a 65 per cent equity interest in Coastal GasLink
- an incremental after-tax loss of \$80 million related to the sale of the Ontario natural gas-fired power plants.

In first quarter 2020, comparable earnings also excluded:

- an income tax valuation allowance release of \$281 million following our reassessment of deferred tax assets that are deemed more likely than not to be realized as a result of our decision to proceed with the Keystone XL project
- an incremental after-tax loss of \$77 million related to the Ontario natural gas-fired power plant assets held for sale.

In fourth quarter 2019, comparable earnings also excluded:

- an income tax valuation allowance release of \$195 million related to certain prior years' U.S. tax losses resulting from our reassessment of deferred tax assets that are more likely than not to be realized
- an incremental after-tax loss of \$61 million related to the Ontario natural gas-fired power plant assets held for sale
- an additional \$19 million expense related to state income taxes on the sale of certain Columbia Midstream assets.

In third quarter 2019, comparable earnings also excluded:

- an after-tax loss of \$133 million related to the Ontario natural gas-fired power plant assets held for sale
- an after-tax loss of \$133 million related to the sale of certain Columbia Midstream assets
- an after-tax gain of \$115 million related to the partial sale of Northern Courier.

In second quarter 2019, comparable earnings also excluded:

- an after-tax gain of \$54 million related to the sale of our Coolidge generating station
- a deferred tax benefit of \$32 million related to the impact of an Alberta corporate income tax rate reduction on our Canadian businesses not subject to rate-regulated accounting
- an after-tax gain of \$6 million related to the remainder of our U.S. Northeast power marketing contracts.

In first quarter 2019, comparable earnings also excluded:

- an after-tax loss of \$12 million related to our U.S. Northeast power marketing contracts.

## THIRD QUARTER 2020

In fourth quarter 2018, comparable earnings also excluded:

- a \$143 million after-tax gain related to the sale of our interests in the Cartier Wind power facilities
- a \$115 million deferred income tax recovery from an MLP regulatory liability write-off as a result of the 2018 FERC Actions
- a \$52 million recovery of deferred income taxes as a result of finalizing the impact of U.S. Tax Reform
- a \$27 million income tax recovery related to the sale of our U.S. Northeast power generation assets
- \$25 million of after-tax income recognized on the Bison contract terminations
- a \$140 million after-tax impairment charge on Bison
- a \$15 million after-tax goodwill impairment charge on Tuscarora
- an after-tax net loss of \$7 million related to our U.S. Northeast power marketing contracts.

THIRD QUARTER 2020

## Condensed consolidated statement of income

(unaudited - millions of Canadian \$, except per share amounts)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Revenues</b>				
Canadian Natural Gas Pipelines	1,162	1,016	3,281	2,939
U.S. Natural Gas Pipelines	1,186	1,176	3,745	3,691
Mexico Natural Gas Pipelines	156	151	562	455
Liquids Pipelines	606	694	1,827	2,233
Power and Storage	85	96	287	674
	3,195	3,133	9,702	9,992
<b>Income from Equity Investments</b>	200	334	934	695
<b>Operating and Other Expenses</b>				
Plant operating costs and other	976	982	2,829	2,819
Commodity purchases resold	—	—	—	365
Property taxes	174	178	549	546
Depreciation and amortization	673	610	1,938	1,839
	1,823	1,770	5,316	5,569
<b>Net (Loss)/Gain on Assets Sold/Held for Sale</b>	(66)	(112)	43	(44)
<b>Financial Charges</b>				
Interest expense	559	573	1,698	1,747
Allowance for funds used during construction	(91)	(120)	(254)	(358)
Interest income and other	(164)	19	160	(250)
	304	472	1,604	1,139
<b>Income before Income Taxes</b>	1,202	1,113	3,759	3,935
<b>Income Tax Expense</b>				
Current	100	452	287	724
Deferred	90	(178)	(209)	3
	190	274	78	727
<b>Net Income</b>	1,012	839	3,681	3,208
Net income attributable to non-controlling interests	69	59	228	217
<b>Net Income Attributable to Controlling Interests</b>	943	780	3,453	2,991
Preferred share dividends	39	41	120	123
<b>Net Income Attributable to Common Shares</b>	904	739	3,333	2,868
<b>Net Income per Common Share</b>				
Basic and diluted	\$0.96	\$0.79	\$3.55	\$3.09
<b>Weighted Average Number of Common Shares (millions)</b>				
Basic	940	932	940	927
Diluted	940	933	940	928

See accompanying notes to the Condensed consolidated financial statements.

THIRD QUARTER 2020

## Condensed consolidated statement of comprehensive income

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Net Income</b>	<b>1,012</b>	839	<b>3,681</b>	3,208
<b>Other Comprehensive (Loss)/Income, Net of Income Taxes</b>				
Foreign currency translation gains and losses on net investment in foreign operations	<b>(491)</b>	225	<b>417</b>	(530)
Reclassification to net income of foreign currency translation gains on disposal of foreign operations	—	(4)	—	(13)
Change in fair value of net investment hedges	<b>26</b>	(9)	<b>(6)</b>	24
Change in fair value of cash flow hedges	<b>(1)</b>	(26)	<b>(578)</b>	(85)
Reclassification to net income of gains and losses on cash flow hedges	<b>10</b>	4	<b>480</b>	10
Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans	<b>4</b>	3	<b>1</b>	8
Other comprehensive income/(loss) on equity investments	<b>14</b>	3	<b>(6)</b>	7
Other comprehensive (loss)/income	<b>(438)</b>	196	<b>308</b>	(579)
<b>Comprehensive Income</b>	<b>574</b>	1,035	<b>3,989</b>	2,629
Comprehensive income attributable to non-controlling interests	<b>35</b>	74	<b>263</b>	151
<b>Comprehensive Income Attributable to Controlling Interests</b>	<b>539</b>	961	<b>3,726</b>	2,478
Preferred share dividends	<b>39</b>	41	<b>120</b>	123
<b>Comprehensive Income Attributable to Common Shares</b>	<b>500</b>	920	<b>3,606</b>	2,355

See accompanying notes to the Condensed consolidated financial statements.

THIRD QUARTER 2020

## Condensed consolidated statement of cash flows

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Cash Generated from Operations</b>				
Net income	1,012	839	3,681	3,208
Depreciation and amortization	673	610	1,938	1,839
Deferred income taxes	90	(178)	(209)	3
Income from equity investments	(200)	(334)	(934)	(695)
Distributions received from operating activities of equity investments	277	339	802	888
Employee post-retirement benefits funding, net of expense	(22)	3	(6)	(27)
Net loss/(gain) on assets sold/held for sale	66	112	(43)	44
Equity allowance for funds used during construction	(63)	(76)	(168)	(225)
Unrealized (gains)/losses on financial instruments	(76)	100	10	(78)
Foreign exchange (gains)/losses on Loan receivable from affiliate	(54)	37	223	11
Other	(40)	(7)	12	(41)
Decrease/(increase) in operating working capital	120	140	(187)	329
Net cash provided by operations	1,783	1,585	5,119	5,256
<b>Investing Activities</b>				
Capital expenditures	(2,063)	(1,818)	(6,049)	(5,411)
Capital projects in development	—	(184)	(122)	(565)
Contributions to equity investments	(187)	(133)	(498)	(453)
Proceeds from sale of assets, net of transaction costs	—	1,807	3,407	2,398
Other distributions from equity investments	—	—	—	186
Loan to affiliate	(250)	—	(250)	—
Deferred amounts and other	(137)	(73)	(359)	(154)
Net cash used in investing activities	(2,637)	(401)	(3,871)	(3,999)
<b>Financing Activities</b>				
Notes payable issued/(repaid), net	338	(2,584)	(2,765)	(688)
Long-term debt issued, net of issue costs	35	1,994	5,571	3,015
Long-term debt repaid	—	(1)	(2,241)	(1,835)
Junior subordinated notes issued, net of issue costs	—	1,441	—	1,441
Loss on settlement of financial instruments	—	—	(130)	—
Dividends on common shares	(761)	(459)	(2,226)	(1,344)
Dividends on preferred shares	(39)	(40)	(121)	(120)
Distributions to non-controlling interests	(54)	(50)	(167)	(164)
Contributions from redeemable non-controlling interest	524	—	578	—
Common shares issued, net of issue costs	3	83	86	242
Net cash provided by/(used in) financing activities	46	384	(1,415)	547
<b>Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(19)</b>	<b>15</b>	<b>16</b>	<b>(1)</b>
<b>(Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(827)</b>	<b>1,583</b>	<b>(151)</b>	<b>1,803</b>
<b>Cash and Cash Equivalents</b>				
Beginning of period	2,019	666	1,343	446
<b>Cash and Cash Equivalents</b>				
End of period	1,192	2,249	1,192	2,249

See accompanying notes to the Condensed consolidated financial statements.

THIRD QUARTER 2020

## Condensed consolidated balance sheet

(unaudited - millions of Canadian \$)		September 30, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		1,192	1,343
Accounts receivable		2,056	2,422
Inventories		501	452
Assets held for sale		—	2,807
Other		1,375	627
		<b>5,124</b>	<b>7,651</b>
<b>Plant, Property and Equipment</b>	net of accumulated depreciation of \$29,340 and \$27,318, respectively	<b>70,544</b>	65,489
<b>Loan Receivable from Affiliate</b>		<b>1,259</b>	1,434
<b>Equity Investments</b>		<b>7,190</b>	6,506
<b>Restricted Investments</b>		<b>1,832</b>	1,557
<b>Regulatory Assets</b>		<b>1,737</b>	1,587
<b>Goodwill</b>		<b>13,245</b>	12,887
<b>Intangible and Other Assets</b>		<b>931</b>	2,168
		<b>101,862</b>	<b>99,279</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Notes payable		1,772	4,300
Accounts payable and other		4,219	4,544
Dividends payable		773	737
Accrued interest		651	613
Current portion of long-term debt		2,653	2,705
		<b>10,068</b>	<b>12,899</b>
<b>Regulatory Liabilities</b>		<b>4,145</b>	3,772
<b>Other Long-Term Liabilities</b>		<b>1,512</b>	1,614
<b>Deferred Income Tax Liabilities</b>		<b>5,791</b>	5,703
<b>Long-Term Debt</b>		<b>36,881</b>	34,280
<b>Junior Subordinated Notes</b>		<b>8,814</b>	8,614
		<b>67,211</b>	<b>66,882</b>
<b>Redeemable Non-Controlling Interest</b>		<b>719</b>	—
<b>EQUITY</b>			
Common shares, no par value		<b>24,483</b>	24,387
Issued and outstanding:	September 30, 2020 – 940 million shares		
	December 31, 2019 – 938 million shares		
Preferred shares		<b>3,980</b>	3,980
Additional paid-in capital		—	—
Retained earnings		<b>5,025</b>	3,955
Accumulated other comprehensive loss		<b>(1,286)</b>	(1,559)
<b>Controlling Interests</b>		<b>32,202</b>	30,763
Non-controlling interests		<b>1,730</b>	1,634
		<b>33,932</b>	<b>32,397</b>
		<b>101,862</b>	<b>99,279</b>

**Commitments, Contingencies and Guarantees** (Note 14)

**Variable Interest Entities** (Note 15)

See accompanying notes to the Condensed consolidated financial statements.



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## Condensed consolidated statement of equity

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Common Shares</b>				
Balance at beginning of period	24,480	23,795	24,387	23,174
Shares issued:				
On exercise of stock options	3	93	96	270
Under dividend reinvestment and share purchase plan	—	240	—	684
Balance at end of period	24,483	24,128	24,483	24,128
<b>Preferred Shares</b>				
Balance at beginning and end of period	3,980	3,980	3,980	3,980
<b>Additional Paid-In Capital</b>				
Balance at beginning of period	—	5	—	17
Issuance of stock options, net of exercises	2	(8)	(1)	(20)
Reclassification of additional paid-in capital deficit to retained earnings	(2)	3	1	3
Balance at end of period	—	—	—	—
<b>Retained Earnings</b>				
Balance at beginning of period	4,880	3,534	3,955	2,773
Net income attributable to controlling interests	943	780	3,453	2,991
Common share dividends	(762)	(701)	(2,284)	(2,090)
Preferred share dividends	(38)	(41)	(98)	(102)
Reclassification of additional paid-in capital deficit to retained earnings	2	(3)	(1)	(3)
Balance at end of period	5,025	3,569	5,025	3,569
<b>Accumulated Other Comprehensive Loss</b>				
Balance at beginning of period	(882)	(1,300)	(1,559)	(606)
Other comprehensive (loss)/income attributable to controlling interests	(404)	181	273	(513)
Balance at end of period	(1,286)	(1,119)	(1,286)	(1,119)
<b>Equity Attributable to Controlling Interests</b>	<b>32,202</b>	<b>30,558</b>	<b>32,202</b>	<b>30,558</b>
<b>Equity Attributable to Non-Controlling Interests</b>				
Balance at beginning of period	1,753	1,618	1,634	1,655
Net income attributable to non-controlling interests	67	59	229	217
Other comprehensive (loss)/income attributable to non-controlling interests	(34)	15	35	(66)
Distributions declared to non-controlling interests	(56)	(49)	(168)	(163)
Balance at end of period	1,730	1,643	1,730	1,643
<b>Total Equity</b>	<b>33,932</b>	<b>32,201</b>	<b>33,932</b>	<b>32,201</b>

See accompanying notes to the Condensed consolidated financial statements.

THIRD QUARTER 2020

## Notes to Condensed consolidated financial statements (unaudited)

### 1. Basis of presentation

These Condensed consolidated financial statements of TC Energy Corporation (TC Energy or the Company) have been prepared by management in accordance with U.S. GAAP. The accounting policies applied are consistent with those outlined in TC Energy's annual audited Consolidated financial statements for the year ended December 31, 2019, except as described in Note 2, Accounting changes. Capitalized and abbreviated terms that are used but not otherwise defined herein are identified in the 2019 audited Consolidated financial statements included in TC Energy's 2019 Annual Report.

These Condensed consolidated financial statements reflect adjustments, all of which are normal recurring adjustments that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Condensed consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the 2019 audited Consolidated financial statements included in TC Energy's 2019 Annual Report. Certain comparative figures have been reclassified to conform with the current period's presentation.

Earnings for interim periods may not be indicative of results for the fiscal year in certain of the Company's segments primarily due to:

- Natural gas pipelines segments – the timing of regulatory decisions and seasonal fluctuations in short-term throughput volumes on U.S. pipelines
- Liquids Pipelines – fluctuations in throughput volumes on the Keystone Pipeline System and marketing activities
- Power and Storage – the impact of seasonal weather conditions on customer demand and market pricing in certain of the Company's investments in electrical power generation plants and Canadian non-regulated gas storage facilities.

#### **USE OF ESTIMATES AND JUDGMENTS**

In preparing these financial statements, TC Energy is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses since the determination of these items may be dependent on future events. The Company uses the most current information available and exercises careful judgment in making these estimates and assumptions. In the opinion of management, these Condensed consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies included in the annual audited Consolidated financial statements for the year ended December 31, 2019, except as described in Note 2, Accounting changes.

THIRD QUARTER 2020

## 2. Accounting changes

### CHANGES IN ACCOUNTING POLICIES FOR 2020

#### Measurement of credit losses on financial instruments

In June 2016, the FASB issued new guidance that changes how entities measure credit losses for most financial assets and certain other financial instruments that are not measured at fair value through net income. The new guidance amends the impairment model of financial instruments, basing it on expected losses rather than incurred losses. These expected credit losses will be recognized as an allowance rather than as a direct write-down of the amortized cost basis. The new guidance was effective January 1, 2020 and was applied using a modified retrospective approach. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements. Refer to Note 12, Risk management and financial instruments, for additional information related to the Company's updated accounting policy on impairment of financial assets.

#### Implementation costs of cloud computing arrangements

In August 2018, the FASB issued new guidance requiring an entity in a hosting arrangement that is a service contract to follow the guidance for internal-use software to determine which implementation costs should be capitalized as an asset and which costs should be expensed. The guidance also requires the entity to amortize the capitalized implementation costs of a hosting arrangement over the term of the arrangement. This guidance was effective January 1, 2020 and was applied prospectively. The adoption of this new guidance did not have an impact on the Company's consolidated financial statements.

#### Consolidation

In October 2018, the FASB issued new guidance for determining whether fees paid to decision makers and service providers are variable interests for indirect interests held through related parties under common control. This new guidance was effective January 1, 2020 and was applied on a retrospective basis. The adoption of this new guidance did not have an impact on the Company's consolidated financial statements.

#### Reference rate reform

In response to the expected cessation of LIBOR, in March 2020, the FASB issued new optional guidance that eases the potential burden in accounting for reference rate reform. The new guidance provides optional expedients for contracts and hedging relationships that are affected by reference rate reform if certain criteria are met. Each of the expedients can be applied as of January 1, 2020 through December 31, 2022. For eligible hedging relationships existing as of January 1, 2020 and prospectively, the Company has applied the optional expedient allowing an entity to assume that the hedged forecasted transaction in a cash flow hedge is probable of occurring. As reference rate reform is still an ongoing process, the Company will continue to evaluate the timing and potential impact of adoption for other optional expedients when deemed necessary.

### FUTURE ACCOUNTING CHANGES

#### Defined benefit plans

In August 2018, the FASB issued new guidance which amends and clarifies disclosure requirements related to defined benefit pension and other post-retirement benefit plans. This new guidance is effective for annual disclosure requirements at December 31, 2020 and is expected to be applied on a retrospective basis. The Company does not expect the adoption of this new guidance to have a material impact on its consolidated financial statements.

#### Income taxes

In December 2019, the FASB issued new guidance that simplified the accounting for income taxes and clarified existing guidance. This new guidance is effective January 1, 2021 and is not expected to have a material impact on the Company's consolidated financial statements.

THIRD QUARTER 2020

## 3. Segmented information

three months ended September 30, 2020 (unaudited - millions of Canadian \$)	Canadian Natural Gas Pipelines	U.S. Natural Gas Pipelines	Mexico Natural Gas Pipelines	Liquids Pipelines	Power and Storage	Corporate <sup>1</sup>	Total
Revenues	1,162	1,186	156	606	85	—	3,195
Intersegment revenues	—	41	—	—	—	(41) <sup>2</sup>	—
	1,162	1,227	156	606	85	(41)	3,195
Income/(loss) from equity investments	—	65	26	19	144	(54) <sup>3</sup>	200
Plant operating costs and other	(423)	(352)	(12)	(178)	(45)	34 <sup>2</sup>	(976)
Property taxes	(73)	(77)	—	(23)	(1)	—	(174)
Depreciation and amortization	(326)	(219)	(28)	(82)	(18)	—	(673)
Net loss on sale of assets	(6)	—	—	—	(60)	—	(66)
<b>Segmented Earnings/(Losses)</b>	<b>334</b>	<b>644</b>	<b>142</b>	<b>342</b>	<b>105</b>	<b>(61)</b>	<b>1,506</b>
Interest expense							(559)
Allowance for funds used during construction							91
Interest income and other <sup>3</sup>							164
<b>Income before Income Taxes</b>							<b>1,202</b>
Income tax expense							(190)
<b>Net Income</b>							<b>1,012</b>
Net income attributable to non-controlling interests							(69)
<b>Net Income Attributable to Controlling Interests</b>							<b>943</b>
Preferred share dividends							(39)
<b>Net Income Attributable to Common Shares</b>							<b>904</b>

1 Includes intersegment eliminations.

2 The Company records intersegment sales at contracted rates. For segmented reporting, these transactions are included as Intersegment revenues in the segment providing the service and Plant operating costs and other in the segment receiving the service. These transactions are eliminated on consolidation. Intersegment profit is recognized when the product or service has been provided to third parties or otherwise realized.

3 Income/(loss) from equity investments includes the Company's proportionate share of Sur de Texas foreign exchange losses on the peso-denominated loans from affiliates which are fully offset in Interest income and other. Refer to Note 6, Loans receivable from affiliates, for additional information.

## THIRD QUARTER 2020

<b>three months ended September 30, 2019</b>	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Corporate<sup>1</sup></b>	<b>Total</b>
(unaudited - millions of Canadian \$)							
Revenues	1,016	1,176	151	694	96	—	3,133
Intersegment revenues	—	40	—	—	4	(44) <sup>2</sup>	—
	1,016	1,216	151	694	100	(44)	3,133
Income from equity investments	4	60	12	18	203	37 <sup>3</sup>	334
Plant operating costs and other	(380)	(393)	(11)	(185)	(53)	40 <sup>2</sup>	(982)
Property taxes	(68)	(86)	—	(22)	(2)	—	(178)
Depreciation and amortization	(289)	(192)	(27)	(83)	(19)	—	(610)
Net gain/(loss) on assets sold/held for sale	—	21	—	69	(202)	—	(112)
<b>Segmented Earnings</b>	<b>283</b>	<b>626</b>	<b>125</b>	<b>491</b>	<b>27</b>	<b>33</b>	<b>1,585</b>
Interest expense							(573)
Allowance for funds used during construction							120
Interest income and other <sup>3</sup>							(19)
<b>Income before Income Taxes</b>							<b>1,113</b>
Income tax expense							(274)
<b>Net Income</b>							<b>839</b>
Net income attributable to non-controlling interests							(59)
<b>Net Income Attributable to Controlling Interests</b>							<b>780</b>
Preferred share dividends							(41)
<b>Net Income Attributable to Common Shares</b>							<b>739</b>

1 Includes intersegment eliminations.

2 The Company records intersegment sales at contracted rates. For segmented reporting, these transactions are included as Intersegment revenues in the segment providing the service and Plant operating costs and other in the segment receiving the service. These transactions are eliminated on consolidation. Intersegment profit is recognized when the product or service has been provided to third parties or otherwise realized.

3 Income from equity investments includes the Company's proportionate share of Sur de Texas foreign exchange gains on the peso-denominated loans from affiliates which are fully offset in Interest income and other. Refer to Note 6, Loans receivable from affiliates, for additional information.

## THIRD QUARTER 2020

<b>nine months ended September 30, 2020</b>	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Corporate<sup>1</sup></b>	<b>Total</b>
(unaudited - millions of Canadian \$)							
Revenues	3,281	3,745	562	1,827	287	—	9,702
Intersegment revenues	—	126	—	—	7	(133) <sup>2</sup>	—
	3,281	3,871	562	1,827	294	(133)	9,702
Income from equity investments	5	196	99	56	355	223 <sup>3</sup>	934
Plant operating costs and other	(1,183)	(1,099)	(41)	(498)	(138)	130 <sup>2</sup>	(2,829)
Property taxes	(219)	(249)	—	(77)	(4)	—	(549)
Depreciation and amortization	(941)	(612)	(88)	(249)	(48)	—	(1,938)
Net gain/(loss) on sale of assets	364	—	—	—	(321)	—	43
<b>Segmented Earnings</b>	<b>1,307</b>	<b>2,107</b>	<b>532</b>	<b>1,059</b>	<b>138</b>	<b>220</b>	<b>5,363</b>
Interest expense							(1,698)
Allowance for funds used during construction							254
Interest income and other <sup>3</sup>							(160)
<b>Income before Income Taxes</b>							<b>3,759</b>
Income tax expense							(78)
<b>Net Income</b>							<b>3,681</b>
Net income attributable to non-controlling interests							(228)
<b>Net Income Attributable to Controlling Interests</b>							<b>3,453</b>
Preferred share dividends							(120)
<b>Net Income Attributable to Common Shares</b>							<b>3,333</b>

1 Includes intersegment eliminations.

2 The Company records intersegment sales at contracted rates. For segmented reporting, these transactions are included as Intersegment revenues in the segment providing the service and Plant operating costs and other in the segment receiving the service. These transactions are eliminated on consolidation. Intersegment profit is recognized when the product or service has been provided to third parties or otherwise realized.

3 Income from equity investments includes the Company's proportionate share of Sur de Texas foreign exchange gains on the peso-denominated loans from affiliates which are fully offset in Interest income and other. Refer to Note 6, Loans receivable from affiliates, for additional information.

## THIRD QUARTER 2020

<b>nine months ended September 30, 2019</b>	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Corporate<sup>1</sup></b>	<b>Total</b>
(unaudited - millions of Canadian \$)							
Revenues	2,939	3,691	455	2,233	674	—	9,992
Intersegment revenues	—	123	—	—	15	(138) <sup>2</sup>	—
	2,939	3,814	455	2,233	689	(138)	9,992
Income from equity investments	8	196	22	46	412	11 <sup>3</sup>	695
Plant operating costs and other	(1,085)	(1,127)	(37)	(518)	(178)	126 <sup>2</sup>	(2,819)
Commodity purchases resold	—	—	—	—	(365)	—	(365)
Property taxes	(206)	(258)	—	(77)	(5)	—	(546)
Depreciation and amortization	(862)	(565)	(86)	(260)	(66)	—	(1,839)
Net gain/(loss) on assets sold/held for sale	—	21	—	69	(134)	—	(44)
<b>Segmented Earnings/(Losses)</b>	<b>794</b>	<b>2,081</b>	<b>354</b>	<b>1,493</b>	<b>353</b>	<b>(1)</b>	<b>5,074</b>
Interest expense							(1,747)
Allowance for funds used during construction							358
Interest income and other <sup>3</sup>							250
<b>Income before Income Taxes</b>							<b>3,935</b>
Income tax expense							(727)
<b>Net Income</b>							<b>3,208</b>
Net income attributable to non-controlling interests							(217)
<b>Net Income Attributable to Controlling Interests</b>							<b>2,991</b>
Preferred share dividends							(123)
<b>Net Income Attributable to Common Shares</b>							<b>2,868</b>

1 Includes intersegment eliminations.

2 The Company records intersegment sales at contracted rates. For segmented reporting, these transactions are included as Intersegment revenues in the segment providing the service and Plant operating costs and other in the segment receiving the service. These transactions are eliminated on consolidation. Intersegment profit is recognized when the product or service has been provided to third parties or otherwise realized.

3 Income from equity investments includes the Company's proportionate share of Sur de Texas foreign exchange gains on the peso-denominated loans from affiliates which are fully offset in Interest income and other. Refer to Note 6, Loans receivable from affiliates, for additional information.

**TOTAL ASSETS BY SEGMENT**

(unaudited - millions of Canadian \$)	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Canadian Natural Gas Pipelines	<b>22,386</b>	21,983
U.S. Natural Gas Pipelines	<b>44,480</b>	41,627
Mexico Natural Gas Pipelines	<b>7,628</b>	7,207
Liquids Pipelines	<b>17,130</b>	15,931
Power and Storage	<b>5,163</b>	7,788
Corporate	<b>5,075</b>	4,743
	<b>101,862</b>	99,279

THIRD QUARTER 2020

## 4. Revenues

### DISAGGREGATION OF REVENUES

The following tables summarize total Revenues for the three and nine months ended September 30, 2020 and 2019:

<b>three months ended September 30, 2020</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Total</b>
Revenues from contracts with customers						
Capacity arrangements and transportation	1,135	1,005	150	537	—	2,827
Power generation	—	—	—	—	40	40
Natural gas storage and other <sup>1</sup>	27	165	6	—	15	213
	1,162	1,170	156	537	55	3,080
Other revenues <sup>2,3</sup>	—	16	—	69	30	115
	1,162	1,186	156	606	85	3,195

- 1 Includes \$27 million of fee revenues from an affiliate related to construction of the Coastal GasLink pipeline which is 35 per cent owned by TC Energy as at September 30, 2020. Refer to Note 13, Dispositions, for additional information.
- 2 Other revenues include income from the Company's marketing activities, financial instruments and lease arrangements. These arrangements are not in the scope of the revenue guidance. Refer to Note 12, Risk management and financial instruments, for additional information on financial instruments.
- 3 Includes \$33 million of operating lease income.

<b>three months ended September 30, 2019</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Total</b>
Revenues from contracts with customers						
Capacity arrangements and transportation	1,016	1,008	149	614	—	2,787
Power generation	—	—	—	—	58	58
Natural gas storage and other	—	147	2	1	13	163
	1,016	1,155	151	615	71	3,008
Other revenues <sup>1,2</sup>	—	21	—	79	25	125
	1,016	1,176	151	694	96	3,133

- 1 Other revenues include income from the Company's marketing activities, financial instruments and lease arrangements. These arrangements are not in the scope of the revenue guidance. Refer to Note 12, Risk management and financial instruments, for additional information on financial instruments.
- 2 Includes \$38 million of operating lease income.



## THIRD QUARTER 2020

<b>nine months ended September 30, 2020</b>	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Total</b>
(unaudited - millions of Canadian \$)						
Revenues from contracts with customers						
Capacity arrangements and transportation	3,242	3,194	458	1,670	—	8,564
Power generation	—	—	—	—	143	143
Natural gas storage and other <sup>1</sup>	39	494	104	2	54	693
	3,281	3,688	562	1,672	197	9,400
Other revenues <sup>2,3</sup>	—	57	—	155	90	302
	3,281	3,745	562	1,827	287	9,702

- 1 Includes \$116 million of fee revenues from affiliates, of which \$77 million is related to the construction of the Sur de Texas pipeline which is 60 per cent owned by TC Energy and \$39 million is related to construction of the Coastal GasLink pipeline which is 35 per cent owned by TC Energy as at September 30, 2020. Refer to Note 13, Dispositions, for additional information.
- 2 Other revenues include income from the Company's marketing activities, financial instruments and lease arrangements. These arrangements are not in the scope of the revenue guidance. Refer to Note 12, Risk management and financial instruments, for additional information on financial instruments.
- 3 Includes \$98 million of operating lease income.

<b>nine months ended September 30, 2019</b>	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Total</b>
(unaudited - millions of Canadian \$)						
Revenues from contracts with customers						
Capacity arrangements and transportation	2,939	3,140	451	1,824	—	8,354
Power generation	—	—	—	—	599	599
Natural gas storage and other	—	481	4	3	55	543
	2,939	3,621	455	1,827	654	9,496
Other revenues <sup>1,2</sup>	—	70	—	406	20	496
	2,939	3,691	455	2,233	674	9,992

- 1 Other revenues include income from the Company's marketing activities, financial instruments and lease arrangements. These arrangements are not in the scope of the revenue guidance. Refer to Note 12, Risk management and financial instruments, for additional information on income from financial instruments.
- 2 Includes \$149 million of operating lease income.

**CONTRACT BALANCES**

(unaudited - millions of Canadian \$)	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>Affected line item on the Condensed consolidated balance sheet</b>
Receivables from contracts with customers	1,371	1,458	Accounts receivable
Contract assets	302	153	Other current assets
Long-term contract assets	212	102	Intangible and other assets
Contract liabilities <sup>1</sup>	84	61	Accounts payable and other
Long-term contract liabilities	234	226	Other long-term liabilities

- 1 During the nine months ended September 30, 2020, \$10 million (2019 – \$6 million) of revenues were recognized that were included in contract liabilities at the beginning of the period.

## THIRD QUARTER 2020

Contract assets and long-term contract assets primarily relate to the Company's right to revenues for services completed but not invoiced at the reporting date on long-term committed capacity natural gas pipelines contracts. The change in contract assets is primarily related to the transfer to Accounts receivable when these rights become unconditional and the customer is invoiced, as well as the recognition of additional revenues that remain to be invoiced. Contract liabilities and long-term contract liabilities primarily relate to force majeure fixed capacity payments received on long-term capacity arrangements in Mexico.

## FUTURE REVENUES FROM REMAINING PERFORMANCE OBLIGATIONS

### Capacity Arrangements and Transportation

As at September 30, 2020, future revenues from long-term pipeline capacity arrangements and transportation contracts extending through 2046 are approximately \$25.0 billion, of which approximately \$1.5 billion is expected to be recognized during the remainder of 2020.

### Power Generation

The Company has long-term power generation contracts extending through 2028. Revenues from power generation contracts have a variable component related to market prices that are subject to factors outside the Company's influence. These revenues are considered to be fully constrained and are recognized on a monthly basis when the Company satisfies the performance obligation.

### Natural Gas Storage and Other

As at September 30, 2020, future revenues from long-term natural gas storage and other contracts, including fee revenues from affiliates, extending through 2044 are approximately \$1.3 billion, of which approximately \$0.2 billion is expected to be recognized during the remainder of 2020.

## 5. Income taxes

### Effective Tax Rates

The effective income tax rates were two per cent and 18 per cent for the nine months ended September 30, 2020 and 2019, respectively. The decline in the effective income tax rate in 2020 was primarily due to the release of an income tax valuation allowance related to Keystone XL, the non-taxable portion of capital gains and income tax valuation allowance releases associated with the sale of a 65 per cent equity interest in Coastal GasLink Pipeline Limited Partnership (Coastal GasLink) and the sale of the Ontario natural gas-fired power plants, discussed below, along with lower pre-tax earnings, a reduction in the Alberta corporate income tax rate and decreased flow-through income taxes on Canadian rate-regulated pipelines.

TC Energy recorded an income tax valuation allowance of \$673 million against deferred income tax asset balances at December 31, 2019. 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. In the nine months ended September 30, 2020, the Company recorded the following income tax valuation allowance releases:

- on March 31, 2020, \$281 million following management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized due to the Company's decision to proceed with construction of the Keystone XL pipeline
- on April 29, 2020, \$21 million related to the sale of the Ontario natural gas-fired power plants
- on May 22, 2020, \$89 million related to the sale of a 65 per cent equity interest in Coastal GasLink.

Refer to Note 13, Dispositions, for additional information on the sale of the Ontario natural gas-fired power plants and Coastal GasLink equity sale.

## THIRD QUARTER 2020

**U.S. Tax Reform**

In late 2017, proposed income tax regulations were issued as part of U.S. Tax Reform. The U.S. Treasury and the U.S. Internal Revenue Service issued final base erosion and anti-abuse tax (BEAT) regulations in 2019 and final anti-hybrid rules on April 7, 2020. The finalization of these regulations did not have a material impact on the Company's consolidated financial statements as at September 30, 2020.

**Alberta Rate Reduction**

On June 29, 2020, the Government of Alberta proposed to accelerate the reduction of the corporate income tax rate to eight per cent to now become effective July 1, 2020. While this proposed change has not yet been enacted, the Company does not expect it to have a material impact on its consolidated financial statements.

**6. Loans receivable from affiliates**

Related party transactions are conducted in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**Coastal GasLink**

In conjunction with the equity sale on May 22, 2020, the Company entered into a subordinated demand revolving credit facility with Coastal GasLink, which had a capacity of \$1.0 billion at September 30, 2020. This facility provides additional short-term liquidity and funding flexibility to the project and bears interest at a floating market-based rate. At September 30, 2020, Other current assets on the Company's Condensed consolidated balance sheet included a \$250 million current loan receivable from Coastal GasLink. The entire outstanding balance was repaid in October 2020. Refer to Note 13, Dispositions, for additional information.

**Sur de Texas**

At September 30, 2020, Loan receivable from affiliate on the Company's Condensed consolidated balance sheet reflected a MXN\$20.9 billion or \$1.3 billion (December 31, 2019 – MXN\$20.9 billion or \$1.4 billion) loan receivable from the Sur de Texas joint venture which represents TC Energy's 60 per cent proportionate share of long-term debt financing to the joint venture. The Company's Condensed consolidated statement of income reflects the related interest income and foreign exchange impact on this loan receivable which are fully offset upon consolidation with corresponding amounts included in TC Energy's 60 per cent proportionate share of Sur de Texas equity earnings as follows:

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30		Affected line item in the Condensed consolidated statement of income
	2020	2019	2020	2019	
Interest income <sup>1</sup>	25	38	87	110	Interest income and other
Interest expense <sup>2</sup>	(25)	(38)	(87)	(110)	Income from equity investments
Foreign exchange gains/(losses) <sup>1</sup>	54	(37)	(223)	(11)	Interest income and other
Foreign exchange (losses)/gains <sup>1</sup>	(54)	37	223	11	Income from equity investments

1 Included in the Corporate segment.

2 Included in the Mexico Natural Gas Pipelines segment.

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## 7. Long-term debt

### LONG-TERM DEBT ISSUED

Long-term debt issued by the Company in the nine months ended September 30, 2020 included the following:

(unaudited - millions of Canadian \$, unless otherwise noted)					
Company	Issue date	Type	Maturity date	Amount	Interest rate
<b>TRANSCANADA PIPELINES LIMITED</b>					
	April 2020	Senior Unsecured Notes	April 2030	US 1,250	4.10%
	April 2020	Medium Term Notes	April 2027	2,000	3.80%
<b>GAS TRANSMISSION NORTHWEST LLC</b>					
	June 2020	Senior Unsecured Notes	June 2030	US 175	3.12%
<b>COASTAL GASLINK PIPELINE LIMITED PARTNERSHIP<sup>1</sup></b>					
	April 2020	Senior Secured Credit Facilities	April 2027	1,603	Floating

<sup>1</sup> On May 22, 2020, TC Energy completed the sale of a 65 per cent equity interest in Coastal GasLink and subsequently accounts for its remaining 35 per cent interest using the equity method. In conjunction with the equity sale, Coastal GasLink entered into secured long-term project financing credit facilities and, immediately preceding the equity sale, made an initial draw of \$1.6 billion, of which approximately \$1.5 billion was paid to TC Energy. Refer to Note 13, Dispositions, for additional information.

### LONG-TERM DEBT RETIRED/REPAID

Long-term debt retired/repaid by the Company in the nine months ended September 30, 2020 included the following:

(unaudited - millions of Canadian \$, unless otherwise noted)					
Company	Retirement/Repayment date	Type	Amount	Interest rate	
<b>TRANSCANADA PIPELINES LIMITED<sup>1</sup></b>					
	March 2020	Senior Unsecured Notes	US 750	4.60%	
<b>COLUMBIA PIPELINE GROUP, INC.</b>					
	June 2020	Senior Unsecured Notes	US 750	3.30%	
<b>GAS TRANSMISSION NORTHWEST LLC</b>					
	June 2020	Senior Unsecured Notes	US 100	5.29%	

<sup>1</sup> Related unamortized debt issue costs of \$8 million were included in Interest expense in the Condensed consolidated statement of income for the nine months ended September 30, 2020.

On October 1, 2020, TransCanada PipeLines Limited repaid US\$1.0 billion of Senior Unsecured Notes bearing interest at a fixed rate of 3.80 per cent.

### CAPITALIZED INTEREST

In the three and nine months ended September 30, 2020, TC Energy capitalized interest related to capital projects of \$68 million and \$219 million, respectively (2019 – \$48 million and \$129 million, respectively).

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## 8. Redeemable non-controlling interest

On March 31, 2020, TC Energy announced that it will proceed with construction of the Keystone XL pipeline. As part of the funding plan, the Government of Alberta has agreed to invest approximately US\$1.1 billion as equity in Keystone XL subsidiaries of TC Energy.

In conjunction with this agreement, the Company's Keystone XL subsidiaries issued Class A Interests amounting to \$720 million to the Government of Alberta in the nine months ended September 30, 2020 and recognized corresponding notes receivable amounting to \$133 million as at September 30, 2020 and due by December 31, 2020. These Class A Interests rank above TC Energy's equity investment in the Keystone XL project and have certain voting rights.

TC Energy has a call right exercisable at any time to repurchase the Class A Interests from the Government of Alberta. In turn, the Government of Alberta has a put right to sell its Class A Interests to the Company exercisable upon and following the in-service date of the Keystone XL pipeline if certain conditions are met. As a result of these redemption features, the Company classified the Class A Interests as Redeemable non-controlling interest outside of equity on the Condensed consolidated balance sheet.

Class A Interests are entitled to a return in accordance with contractual terms. The return accrues on a quarterly basis and adjusts the carrying value of the Class A Interests accordingly.

The changes in Redeemable non-controlling interest are as follows:

(unaudited - millions of Canadian \$)	three months ended September 30, 2020	nine months ended September 30, 2020
Balance at beginning of period	325	—
Class A Interests issued	392	720
Net income/(loss) attributable to redeemable non-controlling interest <sup>1</sup>	2	(1)
<b>Balance at end of period</b>	<b>719</b>	<b>719</b>

<sup>1</sup> Includes a return accrual and a foreign currency translation loss on Class A Interests, both presented within Net income attributable to non-controlling interests in the Condensed consolidated statement of income.

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## 9. Common shares and preferred shares

The Board of Directors of TC Energy declared dividends as follows:

(unaudited - Canadian \$, rounded to two decimals)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
per common share	<b>0.81</b>	0.75	<b>2.43</b>	2.25
per Series 1 preferred share	<b>0.22</b>	0.20	<b>0.65</b>	0.61
per Series 2 preferred share	<b>0.14</b>	0.23	<b>0.58</b>	0.68
per Series 3 preferred share	<b>0.11</b>	0.13	<b>0.37</b>	0.40
per Series 4 preferred share	<b>0.10</b>	0.19	<b>0.46</b>	0.56
per Series 5 preferred share	<b>0.14</b>	0.14	<b>0.42</b>	0.42
per Series 6 preferred share	<b>0.11</b>	0.20	<b>0.42</b>	0.60
per Series 7 preferred share	<b>0.24</b>	0.24	<b>0.73</b>	0.74
per Series 9 preferred share	<b>0.24</b>	0.27	<b>0.71</b>	0.80
per Series 11 preferred share	<b>0.24</b>	0.24	<b>0.48</b>	0.48
per Series 13 preferred share	<b>0.34</b>	0.34	<b>0.69</b>	0.69
per Series 15 preferred share	<b>0.31</b>	0.31	<b>0.61</b>	0.61

### PREFERRED SHARES

On June 30, 2020, 401,590 Series 3 preferred shares were converted, on a one-for-one basis, into Series 4 preferred shares and 1,865,362 Series 4 preferred shares were converted, on a one-for-one basis, into Series 3 preferred shares.

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## 10. Other comprehensive (loss)/income and accumulated other comprehensive loss

Components of other comprehensive (loss)/income, including the portion attributable to non-controlling interests and related tax effects, are as follows:

<b>three months ended September 30, 2020</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation losses on net investment in foreign operations	(489)	(2)	(491)
Change in fair value of net investment hedges	34	(8)	26
Change in fair value of cash flow hedges	(1)	—	(1)
Reclassification to net income of gains and losses on cash flow hedges	13	(3)	10
Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans	6	(2)	4
Other comprehensive income on equity investments	18	(4)	14
<b>Other Comprehensive Loss</b>	<b>(419)</b>	<b>(19)</b>	<b>(438)</b>

<b>three months ended September 30, 2019</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation gains on net investment in foreign operations	219	6	225
Reclassification to net income of foreign currency translation gains on disposal of foreign operations	(4)	—	(4)
Change in fair value of net investment hedges	(12)	3	(9)
Change in fair value of cash flow hedges	(34)	8	(26)
Reclassification to net income of gains and losses on cash flow hedges	5	(1)	4
Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans	4	(1)	3
Other comprehensive income on equity investments	3	—	3
<b>Other Comprehensive Income</b>	<b>181</b>	<b>15</b>	<b>196</b>

<b>nine months ended September 30, 2020</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation gains on net investment in foreign operations	347	70	417
Change in fair value of net investment hedges	(8)	2	(6)
Change in fair value of cash flow hedges	(766)	188	(578)
Reclassification to net income of gains and losses on cash flow hedges	639	(159)	480
Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans	2	(1)	1
Other comprehensive loss on equity investments	(8)	2	(6)
<b>Other Comprehensive Income</b>	<b>206</b>	<b>102</b>	<b>308</b>

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<b>nine months ended September 30, 2019</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation losses on net investment in foreign operations	(516)	(14)	(530)
Reclassification to net income of foreign currency translation gains on disposal of foreign operations	(13)	—	(13)
Change in fair value of net investment hedges	32	(8)	24
Change in fair value of cash flow hedges	(108)	23	(85)
Reclassification to net income of gains and losses on cash flow hedges	13	(3)	10
Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans	11	(3)	8
Other comprehensive income on equity investments	1	6	7
<b>Other Comprehensive Loss</b>	<b>(580)</b>	<b>1</b>	<b>(579)</b>

The changes in AOCI by component are as follows:

<b>three months ended September 30, 2020</b> (unaudited - millions of Canadian \$)	<b>Currency Translation Adjustments</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plan Adjustments</b>	<b>Equity Investments</b>	<b>Total<sup>1</sup></b>
AOCI balance at July 1, 2020	<b>64</b>	<b>(151)</b>	<b>(317)</b>	<b>(478)</b>	<b>(882)</b>
Other comprehensive (loss)/income before reclassifications <sup>2</sup>	<b>(428)</b>	<b>(1)</b>	<b>—</b>	<b>11</b>	<b>(418)</b>
Amounts reclassified from AOCI	<b>—</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>14</b>
Net current period other comprehensive (loss)/income	<b>(428)</b>	<b>6</b>	<b>4</b>	<b>14</b>	<b>(404)</b>
<b>AOCI balance at September 30, 2020</b>	<b>(364)</b>	<b>(145)</b>	<b>(313)</b>	<b>(464)</b>	<b>(1,286)</b>

1 All amounts are net of tax. Amounts in parentheses indicate losses recorded to OCI.

2 Other comprehensive (loss)/income before reclassifications on currency translation adjustments, cash flow hedges and equity investments are net of non-controlling interest losses of \$37 million, nil and nil, respectively.

<b>nine months ended September 30, 2020</b> (unaudited - millions of Canadian \$)	<b>Currency Translation Adjustments</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plan Adjustments</b>	<b>Equity Investments</b>	<b>Total<sup>1</sup></b>
AOCI balance at January 1, 2020	<b>(730)</b>	<b>(58)</b>	<b>(314)</b>	<b>(457)</b>	<b>(1,559)</b>
Other comprehensive income/(loss) before reclassifications <sup>2</sup>	<b>366</b>	<b>(562)</b>	<b>—</b>	<b>(15)</b>	<b>(211)</b>
Amounts reclassified from AOCI <sup>3</sup>	<b>—</b>	<b>475</b>	<b>1</b>	<b>8</b>	<b>484</b>
Net current period other comprehensive income/(loss)	<b>366</b>	<b>(87)</b>	<b>1</b>	<b>(7)</b>	<b>273</b>
<b>AOCI balance at September 30, 2020</b>	<b>(364)</b>	<b>(145)</b>	<b>(313)</b>	<b>(464)</b>	<b>(1,286)</b>

1 All amounts are net of tax. Amounts in parentheses indicate losses recorded to OCI.

2 Other comprehensive income/(loss) before reclassifications on currency translation adjustments, cash flow hedges and equity investments are net of non-controlling interest gains of \$45 million, losses of \$16 million and gains of \$1 million, respectively.

3 Losses related to cash flow hedges reported in AOCI and expected to be reclassified to net income in the next 12 months are estimated to be \$32 million (\$24 million, net of tax) at September 30, 2020. These estimates assume constant commodity prices, interest rates and foreign exchange rates over time, however, the amounts reclassified will vary based on the actual value of these factors at the date of settlement.



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Details about reclassifications out of AOCI into the Condensed consolidated statement of income are as follows:

(unaudited - millions of Canadian \$)	Amounts Reclassified From AOCI				Affected line item in the Condensed consolidated statement of income <sup>1</sup>
	three months ended September 30		nine months ended September 30		
	2020	2019	2020	2019	
Cash flow hedges					
Commodities	—	(4)	—	(4)	Revenues (Power and Storage)
Interest rate	(10)	(3)	(21)	(10)	Interest expense
Interest rate	—	—	(613)	—	Net (loss)/gain on assets sold/held for sale <sup>2</sup>
	(10)	(7)	(634)	(14)	Total before tax
	3	1	159	3	Income tax expense <sup>2</sup>
	(7)	(6)	(475)	(11)	Net of tax <sup>3</sup>
Pension and other post-retirement benefit plan adjustments					
Amortization of actuarial losses	(6)	(4)	(2)	(11)	Plant operating costs and other <sup>4</sup>
	2	1	1	3	Income tax expense
	(4)	(3)	(1)	(8)	Net of tax
Equity investments					
Equity income	(4)	(3)	(11)	(9)	Income from equity investments
	1	—	3	—	Income tax expense
	(3)	(3)	(8)	(9)	Net of tax
Currency translation adjustments					
Foreign currency translation gains on disposal of foreign operations	—	4	—	13	Net (loss)/gain on assets sold/held for sale
	—	—	—	—	Income tax expense
	—	4	—	13	Net of tax

1 All amounts in parentheses indicate expenses to the Condensed consolidated statement of income.

2 Represents a loss of \$613 million (\$459 million, net of tax) related to a contractually required derivative instrument used to hedge the interest rate risk associated with project-level financing for the Coastal GasLink pipeline construction. The derivative instrument was derecognized as part of the sale of a 65 per cent equity interest in Coastal GasLink. Refer to Note 13, Dispositions, for more information.

3 Amounts reclassified from AOCI on cash flow hedges are net of non-controlling interest losses of \$3 million and \$5 million for the three and nine months ended September 30, 2020, respectively (2019 – gains of \$2 million and \$1 million, respectively).

4 These AOCI components are included in the computation of net benefit cost. Refer to Note 11, Employee post-retirement benefits, for additional information.

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## 11. Employee post-retirement benefits

The net benefit cost recognized for the Company's pension benefit plans and other post-retirement benefit plans is as follows:

	three months ended September 30				nine months ended September 30			
	Pension benefit plans		Other post-retirement benefit plans		Pension benefit plans		Other post-retirement benefit plans	
(unaudited - millions of Canadian \$)	2020	2019	2020	2019	2020	2019	2020	2019
Service cost <sup>1</sup>	39	31	1	1	116	95	4	4
Other components of net benefit cost <sup>1</sup>								
Interest cost	32	36	3	5	100	107	11	13
Expected return on plan assets	(58)	(55)	(3)	(4)	(173)	(167)	(11)	(12)
Amortization of actuarial losses	5	3	—	1	16	9	1	2
Amortization of regulatory asset	7	3	1	—	19	10	2	1
	(14)	(13)	1	2	(38)	(41)	3	4
<b>Net Benefit Cost</b>	<b>25</b>	<b>18</b>	<b>2</b>	<b>3</b>	<b>78</b>	<b>54</b>	<b>7</b>	<b>8</b>

1 Service cost and other components of net benefit cost are included in Plant operating costs and other in the Condensed consolidated statement of income.

## 12. Risk management and financial instruments

### RISK MANAGEMENT OVERVIEW

TC Energy has exposure to market risk and counterparty credit risk, and has strategies, policies and limits in place to manage the impact of these risks on earnings, cash flows and shareholder value.

### COUNTERPARTY CREDIT RISK

TC Energy's maximum counterparty credit exposure with respect to financial instruments at September 30, 2020, without taking into account security held, consisted of cash and cash equivalents, accounts receivable, available-for-sale assets, the fair value of derivative assets and loans receivable.

The combination of the COVID-19 pandemic along with unparalleled energy demand and supply disruption has led to significant commodity price volatility and restricted capital market access impacting a certain number of TC Energy's customers. While the majority of the Company's credit exposure is to large creditworthy entities, TC Energy has increased its monitoring of and communication with those counterparties experiencing greater financial pressures due to recent market events and the challenging business environment. Refer to TC Energy's 2019 Annual Report for more information about the factors that mitigate the Company's counterparty credit risk exposure.

The Company reviews financial assets carried at amortized cost for impairment using the lifetime expected loss of the financial asset at initial recognition and throughout the life of the financial asset. TC Energy uses historical credit loss and recovery data, adjusted for management's judgment regarding current economic and credit conditions, along with supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other. At September 30, 2020, there were no significant credit losses, no significant credit risk concentration and no significant amounts past due or impaired.

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**NET INVESTMENT IN FOREIGN OPERATIONS**

The Company hedges a portion of its net investment in foreign operations (on an after-tax basis) with U.S. dollar-denominated debt, cross-currency swaps, foreign exchange forwards and foreign exchange options.

The fair values and notional amounts for the derivatives designated as a net investment hedge were as follows:

(unaudited - millions of Canadian \$, unless otherwise noted)	September 30, 2020		December 31, 2019	
	Fair value <sup>1,2</sup>	Notional amount	Fair value <sup>1,2</sup>	Notional amount
U.S. dollar cross-currency swaps (maturing 2020 to 2025)	(1)	US 400	3	US 100
U.S. dollar foreign exchange options (maturing 2020 to 2021)	14	US 2,800	10	US 3,000
	13	US 3,200	13	US 3,100

1 Fair value equals carrying value.

2 No amounts have been excluded from the assessment of hedge effectiveness.

The notional amounts and fair values of U.S. dollar-denominated debt designated as a net investment hedge were as follows:

(unaudited - millions of Canadian \$, unless otherwise noted)	September 30, 2020	December 31, 2019
Notional amount	28,700 (US 21,500)	29,300 (US 22,600)
Fair value	33,600 (US 25,200)	33,400 (US 25,700)

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**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, Other current assets, Loan receivable from affiliate, Restricted investments, Intangible and other assets, Notes payable, Accounts payable and other, Accrued interest 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, except for the Company's LMCI equity securities which are classified in Level I.

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

**Balance sheet presentation of non-derivative financial instruments**

The following table details the fair value of the Company's non-derivative financial instruments, excluding those where carrying amounts approximate fair value, which are classified in Level II of the fair value hierarchy:

(unaudited - millions of Canadian \$)	September 30, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt including current portion <sup>1,2</sup>	(39,534)	(47,659)	(36,985)	(43,187)
Junior subordinated notes	(8,814)	(8,707)	(8,614)	(8,777)
	<b>(48,348)</b>	<b>(56,366)</b>	(45,599)	(51,964)

1 Long-term debt is recorded at amortized cost except for US\$200 million at December 31, 2019 that was attributed to hedged risk and recorded at fair value.

2 Net income for the three and nine months ended September 30, 2020 includes unrealized gains of nil and \$1 million, respectively (2019 – unrealized gains of \$1 million and losses of \$4 million, respectively) for fair value adjustments attributable to the hedged interest rate risk associated with interest rate swap fair value hedging relationships on US\$200 million of long-term debt that matured in March 2020 (December 31, 2019 – US\$200 million). There were no other unrealized gains or losses from fair value adjustments to the non-derivative financial instruments.

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**Available-for-sale assets summary**

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

(unaudited - millions of Canadian \$)	September 30, 2020		December 31, 2019	
	LMCI restricted investments	Other restricted investments <sup>1</sup>	LMCI restricted investments	Other restricted investments <sup>1</sup>
Fair values of fixed income securities <sup>2,3</sup>				
Maturing within 1 year	—	26	—	6
Maturing within 1-5 years	—	109	26	100
Maturing within 5-10 years	948	—	801	—
Maturing after 10 years	78	—	61	—
Fair value of equity securities <sup>2,4</sup>	679	—	556	—
	<b>1,705</b>	<b>135</b>	1,444	106

- 1 Other restricted investments have been set aside to fund insurance claim losses to be paid by the Company's wholly-owned captive insurance subsidiary.
- 2 Available-for-sale assets are recorded at fair value and included in Other current assets and Restricted investments on the Company's Condensed consolidated balance sheet.
- 3 Classified in Level II of the fair value hierarchy.
- 4 Classified in Level I of the fair value hierarchy.

(unaudited - millions of Canadian \$)	September 30, 2020		September 30, 2019	
	LMCI restricted investments <sup>1</sup>	Other restricted investments <sup>2</sup>	LMCI restricted investments <sup>1</sup>	Other restricted investments <sup>2</sup>
Net unrealized gains/(losses) in the period				
three months ended	27	—	(57)	—
nine months ended	88	3	22	3
Net realized gains in the period				
three months ended	5	—	48	—
nine months ended	15	—	59	—

- 1 Gains and losses arising from changes in the fair value of LMCI restricted investments impact the subsequent amounts to be collected through tolls to cover future pipeline abandonment costs. As a result, the Company records these gains and losses as regulatory assets or liabilities.
- 2 Gains and losses on other restricted investments are included in Interest income and other in the Condensed consolidated statement of income.

**Derivative instruments****Fair value of derivative instruments**

The fair value of foreign exchange and interest rate derivatives has been calculated using the income approach which uses period-end market rates and applies a discounted cash flow valuation model. The fair value of commodity derivatives has been calculated using quoted market prices where available. In the absence of quoted market prices, third-party broker quotes or other valuation techniques have been used. The fair value of options has been calculated using the Black-Scholes pricing model. Credit risk has been taken into consideration when calculating the fair value of derivative instruments. Unrealized gains and losses on derivative instruments are not necessarily representative of the amounts that will be realized on settlement.

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In some cases, 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 derivative instruments is as follows:

<b>at September 30, 2020</b> (unaudited - millions of Canadian \$)	<b>Cash Flow Hedges</b>	<b>Net Investment Hedges</b>	<b>Held for Trading</b>	<b>Total Fair Value of Derivative Instruments<sup>1</sup></b>
Other current assets				
Commodities <sup>2</sup>	1	—	245	246
Foreign exchange	—	16	56	72
	<b>1</b>	<b>16</b>	<b>301</b>	<b>318</b>
Intangible and other assets				
Commodities <sup>2</sup>	—	—	2	2
Foreign exchange	—	6	4	10
	—	6	6	12
<b>Total Derivative Assets</b>	<b>1</b>	<b>22</b>	<b>307</b>	<b>330</b>
Accounts payable and other				
Commodities <sup>2</sup>	(3)	—	(229)	(232)
Foreign exchange	—	(4)	(22)	(26)
Interest rate <sup>3</sup>	(22)	—	—	(22)
	<b>(25)</b>	<b>(4)</b>	<b>(251)</b>	<b>(280)</b>
Other long-term liabilities				
Commodities <sup>2</sup>	(3)	—	(4)	(7)
Foreign exchange	—	(5)	(4)	(9)
Interest rate <sup>3</sup>	(59)	—	—	(59)
	<b>(62)</b>	<b>(5)</b>	<b>(8)</b>	<b>(75)</b>
<b>Total Derivative Liabilities</b>	<b>(87)</b>	<b>(9)</b>	<b>(259)</b>	<b>(355)</b>
<b>Total Derivatives</b>	<b>(86)</b>	<b>13</b>	<b>48</b>	<b>(25)</b>

1 Fair value equals carrying value.

2 Includes purchases and sales of power, natural gas and liquids.

3 In the nine months ended September 30, 2020, financial instruments fair valued at \$130 million were settled with the payment included in Net cash provided by/(used in) financing activities in the Condensed consolidated statement of cash flows.

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<b>at December 31, 2019</b>					
(unaudited - millions of Canadian \$)	<b>Cash Flow Hedges</b>	<b>Fair Value Hedges</b>	<b>Net Investment Hedges</b>	<b>Held for Trading</b>	<b>Total Fair Value of Derivative Instruments<sup>1</sup></b>
<b>Other current assets</b>					
Commodities <sup>2</sup>	—	—	—	118	118
Foreign exchange	—	—	10	61	71
Interest rate	—	1	—	—	1
	—	1	10	179	190
<b>Intangible and other assets</b>					
Foreign exchange	—	—	5	—	5
Interest rate	2	—	—	—	2
	2	—	5	—	7
<b>Total Derivative Assets</b>	<b>2</b>	<b>1</b>	<b>15</b>	<b>179</b>	<b>197</b>
<b>Accounts payable and other</b>					
Commodities <sup>2</sup>	(4)	—	—	(104)	(108)
Foreign exchange	—	—	(1)	(3)	(4)
Interest rate	(3)	—	—	—	(3)
	(7)	—	(1)	(107)	(115)
<b>Other long-term liabilities</b>					
Commodities <sup>2</sup>	(6)	—	—	(11)	(17)
Foreign exchange	—	—	(1)	—	(1)
Interest rate	(63)	—	—	—	(63)
	(69)	—	(1)	(11)	(81)
<b>Total Derivative Liabilities</b>	<b>(76)</b>	<b>—</b>	<b>(2)</b>	<b>(118)</b>	<b>(196)</b>
<b>Total Derivatives</b>	<b>(74)</b>	<b>1</b>	<b>13</b>	<b>61</b>	<b>1</b>

1 Fair value equals carrying value.

2 Includes purchases and sales of power, natural gas and liquids.

The majority of derivative instruments held for trading have been entered into for risk management purposes and all are subject to the Company'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.

### Derivatives in fair value hedging relationships

The following table details amounts recorded on the Condensed consolidated balance sheet in relation to cumulative adjustments for fair value hedges included in the carrying amount of the hedged liabilities:

(unaudited - millions of Canadian \$)	<b>Carrying amount</b>		<b>Fair value hedging adjustments<sup>1</sup></b>	
	<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<b>Long-term debt</b>	<b>—</b>	<b>(260)</b>	<b>—</b>	<b>(1)</b>

1 At September 30, 2020 and December 31, 2019, adjustments for discontinued hedging relationships included in these balances were nil.

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**Notional and maturity summary**

The maturity and notional amount or quantity outstanding related to the Company's derivative instruments excluding hedges of the net investment in foreign operations is as follows:

<b>at September 30, 2020</b>					
(unaudited)	<b>Power</b>	<b>Natural Gas</b>	<b>Liquids</b>	<b>Foreign Exchange</b>	<b>Interest Rate</b>
Purchases <sup>1</sup>	<b>181</b>	<b>14</b>	<b>36</b>	—	—
Sales <sup>1</sup>	<b>1,873</b>	<b>20</b>	<b>40</b>	—	—
Millions of U.S. dollars	—	—	—	<b>3,894</b>	<b>1,100</b>
Millions of Mexican pesos	—	—	—	<b>1,550</b>	—
Maturity dates	<b>2020-2024</b>	<b>2020-2027</b>	<b>2020-2021</b>	<b>2020-2022</b>	<b>2020-2026</b>

1 Volumes for power, natural gas and liquids derivatives are in GWh, Bcf and MMBbls, respectively.

<b>at December 31, 2019</b>					
(unaudited)	<b>Power</b>	<b>Natural Gas</b>	<b>Liquids</b>	<b>Foreign Exchange</b>	<b>Interest Rate</b>
Purchases <sup>1</sup>	492	14	39	—	—
Sales <sup>1</sup>	2,089	22	53	—	—
Millions of U.S. dollars	—	—	—	3,153	1,600
Millions of Mexican pesos	—	—	—	800	—
Maturity dates	2020-2024	2020-2027	2020	2020	2020-2030

1 Volumes for power, natural gas and liquids derivatives are in GWh, Bcf and MMBbls, respectively.

**Unrealized and realized gains/(losses) on derivative instruments**

The following summary does not include hedges of the net investment in foreign operations:

(unaudited - millions of Canadian \$)	<b>three months ended September 30</b>		<b>nine months ended September 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Derivative Instruments Held for Trading<sup>1</sup></b>				
Amount of unrealized (losses)/gains in the period				
Commodities	<b>(2)</b>	(69)	<b>14</b>	(98)
Foreign exchange	<b>78</b>	(31)	<b>(24)</b>	176
Amount of realized gains/(losses) in the period				
Commodities	<b>68</b>	132	<b>146</b>	319
Foreign exchange	<b>(11)</b>	(9)	<b>(62)</b>	(68)
<b>Derivative Instruments in Hedging Relationships<sup>2</sup></b>				
Amount of realized gains/(losses) in the period				
Commodities	<b>2</b>	1	<b>4</b>	(8)
Interest rate	<b>(6)</b>	1	<b>(10)</b>	1

1 Realized and unrealized gains and losses on held-for-trading derivative instruments used to purchase and sell commodities are included on a net basis in Revenues. Realized and unrealized gains and losses on foreign exchange held-for-trading derivative instruments are included on a net basis in Interest income and other.

2 In the three and nine months ended September 30, 2020 and 2019, there were no gains or losses included in Net income relating to discontinued cash flow hedges where it was probable that the anticipated transaction would not occur.



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**Derivatives in cash flow hedging relationships**

The components of OCI (Note 10) related to the change in fair value of derivatives in cash flow hedging relationships before tax and including the portion attributable to non-controlling interests are as follows:

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Change in fair value of derivative instruments recognized in OCI <sup>1</sup>				
Commodities	(1)	1	5	(13)
Interest rate	—	(35)	(771)	(95)
	(1)	(34)	(766)	(108)

1 No amounts have been excluded from the assessment of hedge effectiveness. Amounts in parentheses indicate losses recorded to OCI.

**Effect of fair value and cash flow hedging relationships**

The following table details amounts presented in the Condensed consolidated statement of income in which the effects of fair value or cash flow hedging relationships are recorded:

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
<b>Fair Value Hedges</b>				
Interest rate contracts <sup>1</sup>				
Hedged items	2	(5)	(3)	(16)
Derivatives designated as hedging instruments	—	1	1	—
<b>Cash Flow Hedges</b>				
Reclassification of losses on derivative instruments from AOCI to net income <sup>2,3</sup>				
Interest rate contracts <sup>1</sup>	(13)	(1)	(639)	(9)
Commodity contracts <sup>4</sup>	—	(4)	—	(4)

- 1 Presented within Interest expense in the Condensed consolidated statement of income, except for a loss of \$613 million related to a contractually required derivative instrument used to hedge the interest rate risk associated with project-level financing for the Coastal GasLink pipeline construction. The derivative instrument was derecognized as part of the sale of a 65 per cent equity interest in Coastal GasLink. The loss is included in Net (loss)/gain on assets sold/held for sale. Refer to Note 13, Dispositions, for additional information.
- 2 Refer to Note 10, Other comprehensive (loss)/income and accumulated other comprehensive loss, for the components of OCI related to derivatives in cash flow hedging relationships including the portion attributable to non-controlling interests.
- 3 There are no amounts recognized in earnings that were excluded from effectiveness testing.
- 4 Presented within Revenues (Power and Storage) in the Condensed consolidated statement of income.

## THIRD QUARTER 2020

**Offsetting of derivative instruments**

The Company enters into derivative contracts with the right to offset in the normal course of business as well as in the event of default. TC Energy has no master netting agreements, however, similar contracts are entered into containing rights to offset. The Company has elected to present the fair value of derivative instruments with the right to offset on a gross basis on the Condensed consolidated balance sheet. The following table shows 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:

<b>at September 30, 2020</b> (unaudited - millions of Canadian \$)	<b>Gross derivative instruments</b>	<b>Amounts available for offset</b>	<b>Net amounts</b>
Derivative instrument assets			
Commodities	248	(220)	28
Foreign exchange	82	(29)	53
	<b>330</b>	<b>(249)</b>	<b>81</b>
Derivative instrument liabilities			
Commodities	(239)	220	(19)
Foreign exchange	(35)	29	(6)
Interest rate	(81)	—	(81)
	<b>(355)</b>	<b>249</b>	<b>(106)</b>

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

<b>at December 31, 2019</b> (unaudited - millions of Canadian \$)	<b>Gross derivative instruments</b>	<b>Amounts available for offset<sup>1</sup></b>	<b>Net amounts</b>
Derivative instrument assets			
Commodities	118	(76)	42
Foreign exchange	76	(5)	71
Interest rate	3	(1)	2
	<b>197</b>	<b>(82)</b>	<b>115</b>
Derivative instrument liabilities			
Commodities	(125)	76	(49)
Foreign exchange	(5)	5	—
Interest rate	(66)	1	(65)
	<b>(196)</b>	<b>82</b>	<b>(114)</b>

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 \$27 million and letters of credit of \$15 million at September 30, 2020 (December 31, 2019 – \$58 million and \$25 million, respectively) to its counterparties. At September 30, 2020 and December 31, 2019, the Company held no cash collateral and no letters of credit from counterparties on asset exposures.

## THIRD QUARTER 2020

**Credit-risk-related contingent features of derivative instruments**

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

Based on contracts in place and market prices at September 30, 2020, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was \$4 million (December 31, 2019 – \$4 million), for which the Company has provided no collateral in the normal course of business. If the credit-risk-related contingent features in these agreements were triggered on September 30, 2020, the Company would have been required to provide collateral equal to the fair value of the related derivative instruments discussed above. Collateral may also need to be provided should the fair value of derivative instruments exceed pre-defined contractual exposure limit thresholds.

The Company has sufficient liquidity in the form of cash and undrawn committed revolving credit facilities to meet these contingent obligations should they arise.

**FAIR VALUE HIERARCHY**

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

<b>Levels</b>	<b>How fair value has been determined</b>
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 interest rate and foreign exchange derivative assets and liabilities where fair value is determined using the income approach and commodity derivatives where fair value is determined using the market approach.  Inputs include published exchange rates, interest rates, interest rate swap curves, yield curves and broker quotes from external data service providers.
Level III	This category mainly includes long-dated commodity transactions in certain markets where liquidity is low and the Company uses the most observable inputs available or, if not available, long-term broker quotes to estimate the fair value for these transactions.  There is uncertainty caused by using unobservable market data which may not accurately reflect possible future changes in fair value.

## THIRD QUARTER 2020

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

<b>at September 30, 2020</b>				
(unaudited - millions of Canadian \$)	Quoted prices in active markets (Level I)	Significant other observable inputs (Level II) <sup>1</sup>	Significant unobservable inputs (Level III) <sup>1</sup>	Total
Derivative instrument assets				
Commodities	222	26	—	248
Foreign exchange	—	82	—	82
Derivative instrument liabilities				
Commodities	(212)	(23)	(4)	(239)
Foreign exchange	—	(35)	—	(35)
Interest rate	—	(81)	—	(81)
	10	(31)	(4)	(25)

<sup>1</sup> There were no transfers from Level II to Level III for the nine months ended September 30, 2020.

<b>at December 31, 2019</b>				
(unaudited - millions of Canadian \$)	Quoted prices in active markets (Level I)	Significant other observable inputs (Level II) <sup>1</sup>	Significant unobservable inputs (Level III) <sup>1</sup>	Total
Derivative instrument assets				
Commodities	81	37	—	118
Foreign exchange	—	76	—	76
Interest rate	—	3	—	3
Derivative instrument liabilities				
Commodities	(77)	(41)	(7)	(125)
Foreign exchange	—	(5)	—	(5)
Interest rate	—	(66)	—	(66)
	4	4	(7)	1

<sup>1</sup> There were no transfers from Level II to Level III for the year ended December 31, 2019.

The following table presents the net change in fair value of derivative assets and liabilities classified as Level III of the fair value hierarchy:

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2020	2019	2020	2019
Balance at beginning of period	(4)	(7)	(7)	(4)
Total gains/(losses) included in Net income	1	—	4	(3)
Total losses included in OCI	(1)	—	(1)	—
<b>Balance at end of period<sup>1</sup></b>	<b>(4)</b>	<b>(7)</b>	<b>(4)</b>	<b>(7)</b>

<sup>1</sup> For the three and nine months ended September 30, 2020, Revenues included unrealized gains of \$1 million and \$4 million, respectively, attributed to derivatives in the Level III category that were still held at September 30, 2020 (2019 – unrealized gains of less than \$1 million and losses of \$3 million, respectively).

THIRD QUARTER 2020

## 13. Dispositions

### Ontario Natural Gas-Fired Power Plants

On April 29, 2020, the Company completed the sale of the Halton Hills and Napanee power plants as well as its 50 per cent interest in Portlands Energy Centre to a subsidiary of Ontario Power Generation Inc. for net proceeds of approximately \$2.8 billion before post-closing adjustments. Pre-tax losses of \$60 million (\$45 million after tax) and \$321 million (\$202 million after tax) were recognized in the three and nine months ended September 30, 2020, respectively. The total pre-tax loss of \$600 million (\$396 million after tax) on this transaction includes losses accrued during 2019 while classified as an asset held for sale while the after-tax loss also reflects the utilization of previously unrecognized tax loss benefits. The increase in the total loss from that disclosed at December 31, 2019 is primarily the result of higher than expected costs to achieve Napanee's March 13, 2020 in-service and the accrual of post-closing obligations estimated on close as well as their subsequent revision recorded in the three months ended September 30, 2020. Along with post-closing adjustments, this loss may also be further amended in the future as current estimates are revised and for items that could not be estimated on close, including the settlement of existing insurance claims. The pre-tax loss is included in Net (loss)/gain on assets sold/held for sale in the Condensed consolidated statement of income.

### Coastal GasLink

On May 22, 2020, TC Energy completed the sale of a 65 per cent equity interest in Coastal GasLink to third parties for net proceeds of \$656 million before post-closing adjustments. A \$6 million reduction to both the pre-tax and after-tax gain was recorded in the three months ended September 30, 2020 resulting in a pre-tax gain of \$364 million (\$402 million after tax) recorded in the nine months ended September 30, 2020. The pre-tax gain includes \$231 million related to the required remeasurement of the Company's retained 35 per cent equity interest to fair value which was based on the proceeds realized for the 65 per cent equity interest, and also incorporates the reclassification from AOCI to income the fair value of a derivative instrument used to hedge the interest rate risk associated with project-level financing for the Coastal GasLink pipeline construction. The \$402 million after-tax gain reflects the utilization of previously unrecognized tax loss benefits. The pre-tax gain is included in Net (loss)/gain on assets sold/held for sale in the Condensed consolidated statement of income.

In conjunction with the equity sale, Coastal GasLink entered into secured long-term project financing credit facilities with a current total capacity of \$6.8 billion to fund the majority of the construction costs of the Coastal GasLink pipeline. Immediately preceding the equity sale, Coastal GasLink drew down \$1.6 billion on the facilities, of which approximately \$1.5 billion was paid to TC Energy.

TC Energy has been contracted by Coastal GasLink to construct and operate the pipeline and is using the equity method to account for its remaining 35 per cent equity interest in the Company's consolidated financial statements.

Along with this sale, TC Energy has provided an option to the 20 First Nations that have executed agreements with Coastal GasLink to acquire a 10 per cent equity interest in Coastal GasLink on similar terms.

THIRD QUARTER 2020

## 14. Commitments, contingencies and guarantees

### COMMITMENTS

TC Energy's capital expenditure commitments at December 31, 2019 included 100 per cent of the construction costs associated with the Coastal GasLink pipeline. As a result of the completed sale of a 65 per cent equity interest in Coastal GasLink on May 22, 2020, the capital commitments for the Company's Canadian natural gas pipelines have been reduced by approximately \$3.3 billion. Subsequent to the sale, construction of the Coastal GasLink pipeline is expected to be predominantly funded by project-level financing, recovery of cash payments through construction for carrying charges on costs incurred, and equity partners' contributions. Refer to Note 13, Dispositions, for additional information.

### CONTINGENCIES

TC Energy and its subsidiaries are subject to various legal proceedings, arbitrations and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated financial position or results of operations.

### GUARANTEES

As part of its role as operator of the Northern Courier pipeline, TC Energy has guaranteed the financial performance of the pipeline related to delivery and terminalling of bitumen and diluent and contingent financial obligations under sub-lease agreements.

TC Energy and its partner on the Sur de Texas pipeline, IEnova, have jointly guaranteed the financial performance of the entity which owns the pipeline. Such agreements include a guarantee and a letter of credit which are primarily related to the delivery of natural gas.

TC Energy and its joint venture partner on Bruce Power, BPC Generation Infrastructure Trust, have each severally guaranteed certain contingent financial obligations of Bruce Power related to a lease agreement and contractor and supplier services.

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

The carrying value of these guarantees has been included in Accounts payable and other and Other long-term liabilities on the Condensed consolidated balance sheet. Information regarding the Company's guarantees is as follows:

(unaudited - millions of Canadian \$)	Term	September 30, 2020		December 31, 2019	
		Potential exposure <sup>1</sup>	Carrying value	Potential exposure	Carrying value
Northern Courier	to 2055	300	26	300	27
Sur de Texas	to 2021	112	—	109	—
Bruce Power	to 2021	88	—	88	—
Other jointly-owned entities	to 2043	79	4	100	10
		<b>579</b>	<b>30</b>	597	37

1 TC Energy's share of the potential estimated current or contingent exposure.

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## 15. Variable interest entities

A 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.

In the normal course of business, the Company consolidates VIEs in which it has a variable interest and for which it is considered to be the primary beneficiary. VIEs in which the Company has a variable interest but is not the primary beneficiary are considered non-consolidated VIEs and are accounted for as equity investments.

### Consolidated VIEs

The Company's consolidated VIEs consist of legal entities where the Company is 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.

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

(unaudited - millions of Canadian \$)	September 30, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	337	106
Accounts receivable	55	88
Inventories	28	27
Other	7	8
	427	229
<b>Plant, Property and Equipment</b>	<b>3,396</b>	<b>3,050</b>
<b>Equity Investments</b>	<b>751</b>	<b>785</b>
<b>Goodwill</b>	<b>443</b>	<b>431</b>
	<b>5,017</b>	<b>4,495</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and other	144	70
Accrued interest	28	21
Current portion of long-term debt	538	187
	710	278
<b>Regulatory Liabilities</b>	<b>60</b>	<b>45</b>
<b>Other Long-Term Liabilities</b>	<b>15</b>	<b>9</b>
<b>Deferred Income Tax Liabilities</b>	<b>8</b>	<b>9</b>
<b>Long-Term Debt</b>	<b>2,590</b>	<b>2,694</b>
	<b>3,383</b>	<b>3,035</b>

## THIRD QUARTER 2020

Certain consolidated VIEs have a redeemable non-controlling interest that ranks above the Company's equity interest. Refer to Note 8, Redeemable non-controlling interest, for additional information.

**Non-Consolidated VIEs**

The Company's non-consolidated VIEs consist of legal entities where the Company is not the primary beneficiary as it does not have the power 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.

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

(unaudited - millions of Canadian \$)	September 30, 2020	December 31, 2019
<b>Balance sheet</b>		
Equity investments <sup>1</sup>	4,919	4,720
Current loan receivable from affiliate <sup>2</sup>	250	—
<b>Off-balance sheet exposure<sup>3</sup></b>	<b>1,681</b>	<b>1,946</b>
<b>Maximum exposure to loss</b>	<b>6,850</b>	<b>6,666</b>

1 Includes equity investment in Portlands Energy Centre classified as Assets held for sale as at December 31, 2019. Refer to Note 13, Dispositions, for additional information.

2 Refer to Note 6, Loans receivable from affiliates, for additional information.

3 Includes maximum potential exposure to guarantees and future funding commitments.