**Quarterly** Report to Shareholders

# TC Energy reports strong third quarter 2022 results
## Increasing 2022 outlook based on solid execution across our North American portfolio

CALGARY, Alberta – November 9, 2022 – TC Energy Corporation (TSX, NYSE: TRP) (TC Energy or the Company) released its third quarter results today, reporting continued strong performance. “Our portfolio remains resilient despite the economic headwinds facing the broader market,” said TC Energy's President and Chief Executive Officer, François Poirier. “Demand for our services across our North American portfolio remains high and we continue to see strong utilization, availability, and overall asset performance. Comparable EBITDA[1] was 10 per cent higher and segmented earnings 16 per cent higher relative to third quarter 2021. As a result, we have increased our 2022 comparable EBITDA outlook which is now expected to be approximately four per cent higher than 2021."

“We remain opportunity rich with a portfolio of $34 billion in fully sanctioned secured capital projects that will support long-term sustainable comparable EBITDA growth and an expected annual dividend growth rate of three to five per cent. Along with increased cash flows, capital rotation will increase in its prominence to fund accretive growth opportunities, accelerate our deleveraging priorities and deliver incremental value to our shareholders."

## Highlights

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

- Revised 2022 comparable EBITDA outlook to be higher than 2021, with an expected year-over-year growth rate of approximately four per cent. 2022 comparable earnings per common share[1] are expected to be consistent with 2021
- Third quarter 2022 results were underpinned by solid utilization, safe operations and availability across our assets during peak demand. The continued need for energy security has placed renewed focus on the long-term role we believe our infrastructure will play in responsibly fulfilling North America's growing energy demand:
  - Louisiana XPress was phased into service during the quarter and has increased our market share from 25 to approximately 30 per cent of volumes destined for export from third-party U.S. LNG facilities
  - Total NGTL System deliveries averaged 12.4 Bcf/d, up four per cent compared to third quarter 2021
  - U.S. Natural Gas Pipelines flows averaged 25.8 Bcf/d, up six per cent compared to third quarter 2021
  - Bruce Power provided emission-less power with approximately 95 per cent availability during third quarter 2022
  - The Keystone Pipeline System safely reached a record month in September, delivering approximately 640,000 Bbl/d as we commercialized an incremental 10,000 Bbl/d of contracts from the 2019 Open Season
- Third quarter 2022 financial results:
  - Net income attributable to common shares of $0.8 billion or $0.84 per common share compared to net income of $0.8 billion or $0.80 per common share in 2021. Comparable earnings[1] of $1.1 billion or $1.07 per common share compared to $1.0 billion or $0.99 per common share in 2021
  - Segmented earnings of $1.8 billion compared to segmented earnings of $1.5 billion in 2021 and comparable EBITDA of $2.5 billion compared to $2.2 billion in 2021
  - Net cash provided by operations of $1.7 billion was consistent with 2021 results and comparable funds generated from operations[1] was $1.6 billion, consistent with 2021 results
- Declared a quarterly dividend of $0.90 per common share for the quarter ending December 31, 2022

[1] Comparable earnings, comparable earnings per common share, comparable funds generated from operations and comparable EBITDA are non-GAAP measures used throughout this news release. These measures do not have any standardized meaning under GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. The most directly comparable GAAP measures are Net income attributable to common shares, Net income per common share, Net cash provided by operations and Segmented earnings, respectively. For more information on non-GAAP measures, refer to the Non-GAAP section of this news release.

- Dividend Reinvestment Plan (DRP) participation rate amongst common shareholders was approximately 38 per cent resulting in $342 million reinvested in common equity from the dividends declared July 27, 2022, subsequently paid on October 31, 2022
- Continued to execute on our $34 billion secured capital program, with $2.6 billion invested in third quarter 2022
- Placed the Louisiana XPress, Elwood Power and Wisconsin Access projects into commercial service adding approximately 1 Bcf/d of U.S. natural gas capacity
- Sanctioned the US$0.4 billion Gillis Access project, a 1.5 Bcf/d header system that will connect growing supply from the Haynesville basin to Louisiana markets including the rapidly expanding Louisiana LNG export market. The project has an anticipated in-service date of 2024
- Sanctioned the $0.6 billion Valhalla North and Berland River (VNBR) project in November 2022 that will use non-emitting electric compression to connect migrating supply to key demand markets on our NGTL System with expected in-service in 2026
- Executed definitive agreements in July 2022 with LNG Canada that addressed and resolved disputes over certain incurred and anticipated costs of the Coastal GasLink pipeline project
- Established a strategic alliance with the Comisión Federal de Electricidad (CFE) in August 2022 for the completion and development of natural gas infrastructure in central and southeast Mexico
  - Placed the north section of the Villa de Reyes pipeline (VdR North) and the east section of the Tula pipeline (Tula East) into commercial service during the third quarter of 2022
  - Reached a final investment decision to proceed and build the US$4.5 billion Southeast Gateway pipeline, a 1.3 Bcf/d, 715 km offshore natural gas pipeline to serve the southeast region of Mexico with an expected in-service date by mid-2025
- Issued common equity for gross proceeds of approximately $1.8 billion in August 2022 to fund costs associated with the construction of the Southeast Gateway pipeline.

### 2022 Report on Sustainability, ESG Data Sheet and Reconciliation Action Plan Update and other energy transition highlights

- Reaffirmed our commitments and demonstrated progress against key targets:
  - Exceeded gender target for Board composition (38 per cent in 2022)
  - Increased number of women and visible minorities in leadership positions in corporate locations
  - Achieved annual target of restoring 100 per cent of sensitive habitat impacted by capital projects
- Formed an Indigenous Advisory Council to directly advise our senior leadership on Indigenous matters
- Signed a 10 per cent equity interest option agreement with 16 Indigenous communities along the Coastal GasLink project corridor
- On track to deliver 30 per cent emissions intensity reduction by 2030 and positioning to achieve net zero emissions by 2050:
  - Reached key milestone by obtaining independent third-party limited assurance over our 2021 Scope 1 and 2 GHG emissions and corporate emissions intensity data
- Continued to advance our investments in decarbonization and emission-less energy solutions:
  - Enhanced our renewable energy strategy with sanctioning of Saddlebrook Solar and Lynchburg Renewable Fuels
  - Advanced strategic partnerships in emerging technologies such as carbon capture utilization and storage (CCUS) with Pembina Pipeline Corporation to jointly develop the Alberta Carbon Grid (ACG), the development of hydrogen hubs with Hyzon Motors Inc. and Nikola Corporation and renewable natural gas (RNG) with GreenGas USA
  - Progressed decarbonization projects that are expected to lower our overall emissions intensity including; VNBR, Gillis Access, Wisconsin Access, Elwood Power, and the VR and WR projects.

| (millions of $, except per share amounts) | three months ended September 30 2022 | 2021 | nine months ended September 30 2022 | 2021 |
|---|---|---|---|---|
| **Income** | | | | |
| Net income attributable to common shares | **841** | 779 | **2,088** | 697 |
| per common share – basic | **$0.84** | $0.80 | **$2.11** | $0.72 |
| **Segmented earnings** | | | | |
| Canadian Natural Gas Pipelines | **409** | 343 | **1,152** | 1,060 |
| U.S. Natural Gas Pipelines | **714** | 692 | **1,735** | 2,253 |
| Mexico Natural Gas Pipelines | **113** | 144 | **395** | 434 |
| Liquids Pipelines | **268** | 285 | **801** | (1,973) |
| Power and Storage | **289** | 116 | **535** | 437 |
| Corporate | **(9)** | (36) | **12** | (40) |
| **Total segmented earnings** | **1,784** | 1,544 | **4,630** | 2,171 |
| **Comparable EBITDA** | | | | |
| Canadian Natural Gas Pipelines | **713** | 631 | **2,038** | 2,001 |
| U.S. Natural Gas Pipelines | **926** | 890 | **2,948** | 2,824 |
| Mexico Natural Gas Pipelines | **204** | 171 | **542** | 515 |
| Liquids Pipelines | **332** | 387 | **1,002** | 1,146 |
| Power and Storage | **295** | 166 | **704** | 501 |
| Corporate | **(9)** | (7) | **(16)** | (14) |
| **Comparable EBITDA** | **2,461** | 2,238 | **7,218** | 6,973 |
| Depreciation and amortization | **(653)** | (610) | **(1,914)** | (1,888) |
| Interest expense included in comparable earnings | **(666)** | (596) | **(1,866)** | (1,743) |
| Allowance for funds used during construction | **116** | 81 | **254** | 195 |
| Interest income and other included in comparable earnings | **41** | 91 | **125** | 341 |
| Income tax expense included in comparable earnings | **(202)** | (195) | **(554)** | (573) |
| Net income attributable to non-controlling interests | **(8)** | (8) | **(28)** | (83) |
| Preferred share dividends | **(21)** | (31) | **(85)** | (108) |
| **Comparable earnings** | **1,068** | 970 | **3,150** | 3,114 |
| **Comparable earnings per common share** | **$1.07** | $0.99 | **$3.19** | $3.21 |
| Net cash provided by operations | **1,701** | 1,712 | **4,350** | 5,089 |
| Comparable funds generated from operations | **1,637** | 1,556 | **5,068** | 5,333 |
| Capital spending[1] | **2,583** | 1,687 | **5,789** | 5,011 |
| **Dividends declared** | | | | |
| Per common share | **$0.90** | $0.87 | **$2.70** | $2.61 |
| **Basic common shares outstanding** (millions) | | | | |
| – weighted average for the period | **1,000** | 979 | **988** | 970 |
| – issued and outstanding at end of period | **1,012** | 979 | **1,012** | 979 |

1 Includes Capital expenditures and Contributions to equity investments.

## CEO Message

In the third quarter of 2022 we continued to demonstrate the resiliency of our business in the face of rising inflation, interest rates and commodity price volatility. As we have demonstrated through many economic cycles over the past two decades, the demand for our services remains high and is largely insulated from volatility given approximately 95 per cent of our business is either rate-regulated or underpinned by long-term contracts. As a result, our comparable EBITDA was 10 per cent higher than 2021 and we have increased our comparable EBITDA outlook for 2022. By utilizing our synergistic footprint, we continue to develop solutions to move, generate and store the energy North America relies on in a secure and increasingly sustainable way.

We expect our fully sanctioned secured capital program to deliver a 2021-2026 comparable EBITDA compounded annual growth rate of six per cent that will support our expected three to five per cent annual dividend growth, funding of capital commitments and reduction of our overall leverage metrics. Our sanctioned capital program will be funded through a combination of growing cash flows, incremental long-term debt and hybrid security capacity, commercial paper, and our DRP that is expected to be in place through the dividend declarations for the quarter ending June 30, 2023. Under our current outlook and without any proceeds from asset sales, we expect to achieve our deleveraging target by 2026.

Being opportunity rich means we expect to continue to sanction additional high-quality growth projects. Capital rotation will be utilized to fund these accretive opportunities and bring forward our deleveraging target from 2026. We intend to execute the divestiture program through 2023, with proceeds expected to be in excess of $5 billion through the potential sale of discrete assets and/or minority interests. We will consider a multitude of factors in determining where to rotate capital including valuation, pro forma impact on per share and credit metrics, longer-term portfolio migration, simplicity of corporate structure and the impact on our ability to achieve our sustainability goals. Any potential impact on our growth trajectory out to 2026 will be determined by the timing and proceeds of assets monetized, along with the contribution from projects yet to be sanctioned. However, the additional financial flexibility created through this process will enhance our strategic positioning to deliver shareholder value over the medium to long term. We expect this to further support our dividend growth guidance of three to five per cent per annum.

Our industry-leading secured capital program is now $34 billion and we expect to sanction approximately $5 billion of projects per year throughout the decade. We have added the US$0.4 billion Gillis Access Project, a 1.5 Bcf/d header system that will connect growing supply from the Haynesville basin to Louisiana markets including the rapidly expanding Louisiana LNG export market. The project has an anticipated in-service date of 2024. Additionally, we sanctioned the $0.6 billion VNBR project on our NGTL System that will use non-emitting electric compression to ensure connectivity between migrating supply in the WCSB and key demand markets. Importantly, our secured capital program is largely underpinned by long-term, take-or-pay contracts and/or regulated business models that support the resilience and sustainable growth of our future EBITDA.

Furthermore, we executed a first-of-its-kind strategic alliance with the CFE in Mexico to jointly develop the US$4.5 billion Southeast Gateway pipeline. The agreement further demonstrates how we are leveraging our differentiated North American strategy to deliver energy solutions across our extensive footprint. Once in service in mid-2025, the Southeast Gateway pipeline is expected to benefit millions of people through increased access to clean, reliable and affordable energy. In order to support execution of this accretive project, we issued $1.8 billion in common equity to provide certainty around our go-forward funding plan. In addition, we resolved international arbitrations with the CFE on the Villa de Reyes and Tula pipeline projects allowing us to earn a full return on and of all previous capital invested.

Looking forward, we will maintain our focus on safety, operational excellence, and executing our industry-leading growth portfolio. We intend to expand, extend and modernize our existing natural gas pipeline network while reducing our GHG emissions intensity and providing customer-driven low-carbon energy solutions. Our consistent strategy has proven resilient through multiple economic cycles delivering 22 consecutive years of dividend growth and we remain confident in our ability to do so going forward.

## OUTLOOK

### Comparable EBITDA and comparable earnings

- 2022 comparable EBITDA is expected to be higher than 2021 and 2022 comparable earnings per common share outlook is expected to be consistent with 2021. We continue to monitor the impact of changes in energy markets, our construction projects and regulatory proceedings as well as COVID-19 for any potential effect on our 2022 comparable EBITDA and comparable earnings per share.

### Consolidated capital spending and equity investments

- Our total capital expenditures for 2022 are now expected to be approximately $9.5 billion. The increase from the amount outlined in the 2021 Annual Report is primarily due to 2022 installments of approximately $1.3 billion for partner equity contributions to the Coastal GasLink Pipeline Limited Partnership (Coastal GasLink LP) in accordance with revised agreements with Coastal GasLink LP. In addition, approximately US$0.7 billion in capital expenditures are expected in 2022 related to the construction of the Southeast Gateway pipeline subsequent to the final investment decision (FID) reached with the CFE in August 2022. Refer to the Recent developments section for additional information on Coastal GasLink and the Southeast Gateway pipeline. Finally, higher project costs are expected for the NGTL System reflecting inflationary pressures on labour and materials, additional regulatory conditions and other factors. We continue to monitor developments on construction projects, focus on cost mitigation strategies and assess market conditions as well as the impact of COVID-19 for further changes to our overall 2022 capital program.

## NOTABLE RECENT DEVELOPMENTS INCLUDE:

### Canadian Natural Gas Pipelines

- **Coastal GasLink**: On July 28, 2022, Coastal GasLink LP executed definitive agreements with LNG Canada that addressed and resolved disputes over certain incurred and anticipated costs of the Coastal GasLink pipeline project.

  The revised project agreements incorporate a new cost estimate for the project of $11.2 billion, which reflects an increase from the original project cost estimate due to scope increases and the impacts of COVID-19, weather and other events outside of Coastal GasLink LP's control. Current market conditions, including inflationary impacts on labour costs, could result in final project costs that are higher than this new estimate. Mechanical in-service is expected to be reached by the end of 2023. Commercial in-service of the Coastal GasLink pipeline will occur after completion of commissioning the pipeline.

  The revised $11.2 billion project cost will be funded in part by existing project-level credit facilities with a revised total capacity of $8.4 billion following an expansion of $1.6 billion. Required project equity of $2.8 billion includes an additional $1.9 billion equity contribution from TC Energy, payable in monthly installments from August 2022 to February 2023 that does not result in a change to our 35 per cent ownership. Additional equity financing required to fund construction of the pipeline will initially be financed through a subordinated loan agreement between TC Energy and Coastal GasLink LP which was originally put in place in fourth quarter 2021 and was amended on July 28, 2022. Following these amendments, draws by Coastal GasLink LP will be provided through an interest-bearing loan, subject to a floating market-based interest rate, which will be repaid with funds from equity contributions to the partnership by the Coastal GasLink LP partners, including us, subsequent to the in-service date of the Coastal GasLink pipeline when final project costs are determined. Committed capacity under this subordinated loan agreement between TC Energy and Coastal GasLink LP has been and will continue to be stepped down over time. At September 30, 2022, total available capacity under the subordinated loan agreement was $1.8 billion with an outstanding balance of $250 million. We currently estimate our portion of the equity contributions to Coastal GasLink LP over the project life to be approximately $2.1 billion, including the $1.9 billion equity contribution noted above.

On March 9, 2022, we announced the signing of option agreements to sell a 10 per cent equity interest in Coastal GasLink LP to Indigenous communities across the project corridor. The opportunity to become business partners through equity ownership was made available to all 20 Nations holding existing agreements with Coastal GasLink LP. The Nations have established two entities that together currently represent 16 Indigenous communities that have confirmed their support for the option agreements. The equity option is exercisable after commercial in-service of the pipeline, subject to customary regulatory approvals and consents, including the consent of LNG Canada.

The Coastal GasLink pipeline project is approximately 75 per cent complete. The entire route has been cleared, grading is more than 84 per cent complete and approximately 400 km of pipeline has been backfilled with reclamation activities underway in many areas.

- **NGTL System**: In the nine months ended September 30, 2022, the NGTL System placed approximately $1.9 billion of capacity projects in service.
- **VNBR Project**: In November 2022, we sanctioned the VNBR project which will serve aggregate system requirements and connect migrating supply to key demand markets, providing incremental capacity on the NGTL System of approximately 527 TJ/d (500 MMcf/d) and contribute to lower GHG emission intensity for the overall system. With an estimated capital cost of $0.6 billion, the project consists of approximately 33 km (21 miles) of new pipeline, one new non-emitting electric compressor unit and associated facilities. An application for the project is expected to be submitted to CER in third quarter 2023, with an anticipated in-service date in 2026 subject to regulatory approval.

### U.S. Natural Gas Pipelines

- **Louisiana XPress Project**: The Louisiana XPress project, a Columbia Gulf project designed to connect natural gas supply to U.S. Gulf Coast LNG export facilities, was phased into service over the course of third quarter 2022.
- **Elwood Power and Wisconsin Access Projects**: The Elwood Power and Wisconsin Access projects, both including upgrade and reliability components, while reducing emissions along portions of the ANR pipeline system, were placed into commercial service on November 1, 2022.
- **Gillis Access Project**: In November 2022, we sanctioned development of the Gillis Access project, a 1.5 Bcf/d greenfield pipeline system that will connect supplies from the Haynesville basin at Gillis to markets elsewhere in Louisiana. The 42 mile Louisiana header system will also enable the rapidly growing Louisiana LNG export market to access Haynesville-sourced gas production as well as create a platform for further growth into the southeast Louisiana markets. The project has an anticipated in-service date in 2024 and a total estimated cost of US$0.4 billion.

### Mexico Natural Gas Pipelines

- **Strategic Alliance with the CFE:** On August 4, 2022, we announced a strategic alliance with Mexico's state-owned electric utility, the CFE, for the development of new natural gas infrastructure in central and southeast Mexico. This alliance consolidates previous TSAs executed between TC Energy's Mexico-based subsidiary Transportadora de Gas Natural de la Huasteca (TGNH) and the CFE in connection with our natural gas pipeline assets in central Mexico (including the Tamazunchale, Villa de Reyes and Tula pipelines) under a single, U.S. dollar-denominated take-or-pay contract that extends through 2055. This agreement also resolves and terminates previous international arbitrations with the CFE related to the Villa de Reyes and Tula pipelines.

  In connection with the strategic alliance, we reached an FID to proceed and build the Southeast Gateway pipeline, a 1.3 Bcf/d, 715 km offshore natural gas pipeline to serve the southeast region of Mexico with an expected in-service by mid-2025 and an estimated project cost of US$4.5 billion.

  The lateral section of the Villa de Reyes pipeline was mechanically completed in second quarter 2022, while VdR North and Tula East were placed into commercial service in third quarter 2022. We are working with the CFE, and expect the lateral and the south sections of the Villa de Reyes pipeline to begin commercial service in 2023. Additionally, we have agreed to jointly develop and complete the central segment of the Tula pipeline, subject to an FID.

Subject to regulatory approvals from Mexico's economic competition commission and the Regulatory Energy Commission, the strategic alliance provides the CFE with the ability to hold an equity interest in TGNH, which is conditional upon the CFE contributing capital, acquiring land and supporting permitting on the TGNH projects. Upon in-service of the Southeast Gateway pipeline, the CFE's equity interest in TGNH would equal 15 per cent, which would increase to approximately 35 per cent upon expiry of the contract in 2055. Regulatory approvals related to the CFE's equity participation in TGNH are expected to take up to 24 months.

### Power and Storage

- **Saddlebrook Solar Project**: On October 4, 2022, we announced that we have begun pre-construction activities on the Saddlebrook Solar project located near Aldersyde, Alberta. The expected capital cost of this 81 MW project is $146 million with the project partially supported by $10 million from Emissions Reduction Alberta. Construction is expected to be completed in 2023.

### Other Energy Solutions

- **ACG**: In June 2021, we announced a partnership with Pembina Pipeline Corporation to jointly develop a world-scale carbon transportation and sequestration system which, when fully constructed, will be capable of transporting more than 20 million tonnes of carbon dioxide annually. On October 18, 2022, ACG announced that it has entered into a carbon sequestration evaluation agreement with the Government of Alberta to further evaluate one of the largest Areas of Interest (AOI) for safely storing carbon from industrial emissions in Alberta. This agreement will allow ACG to continue evaluating the suitability of our AOI and move forward into the next stage of the province's CCUS process to provide confidence to customers, Indigenous communities, stakeholders and the Government of Alberta in the project's carbon storage capabilities. Designed to be an open-access system, ACG proposes to leverage existing right of ways and/or pipelines to connect the Alberta Industrial Heartland emissions region to a key sequestration location.

- **Lynchburg Renewable Fuels**: On October 17, 2022, we announced a US$29 million investment for 30 per cent ownership in the Lynchburg Renewable Fuels project, a renewable natural gas production facility in Lynchburg, Tennessee being developed by 3 Rivers Energy Partners, LLC. Along with our ownership interest, we will market all RNG and environmental attributes generated from the facility once operational in 2024. We also have the option to jointly develop future RNG projects with 3 Rivers Energy Partners, LLC.

### Corporate

- **DRP**: To prudently fund our growth program that includes increased project costs on the NGTL System and following our obligation to make an equity contribution of $1.9 billion to Coastal GasLink LP, we reinstated the issuance of common shares from treasury at a two per cent discount under our DRP commencing with the dividends declared on July 27, 2022. With respect to the common share dividends declared on July 27, 2022, subsequently paid on October 31, 2022, the DRP participation rate amongst common shareholders was approximately 38 per cent resulting in $342 million reinvested in common equity. The discounted DRP is expected to be in place through the dividend declarations for the quarter ending June 30, 2023.

- **Common Shares Issued Under Public Offering**: On August 10, 2022 we issued 28.4 million common shares at a price of $63.50 each for gross proceeds of approximately $1.8 billion. We will use the proceeds of the offering, directly or indirectly, together with other financing sources and cash on hand, to fund costs associated with the construction of the Southeast Gateway pipeline.

## Teleconference and Webcast

We will hold a teleconference and webcast on **Wednesday, November 9, 2022** at **6:30 a.m. (MST) / 8:30 a.m. (EST)** to discuss our third quarter 2022 financial results and company developments. Presenters will include François Poirier, President and Chief Executive Officer; Joel Hunter, Executive Vice-President and Chief Financial Officer; and other members of the executive leadership team.

Members of the investment community and other interested parties are invited to participate by calling **1.800.319.4610**. 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 or via the following URL: http://www.gowebcasting.com/12255.

A replay of the teleconference will be available two hours after the conclusion of the call until midnight EST on November 16, 2022. Please call 1.855.669.9658 and enter pass code 9477.

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

## About TC Energy

We're a team of 7,000+ energy problem solvers working to move, generate and store the energy North America relies on. Today, we're taking action to make that energy more sustainable and more secure. We're innovating and modernizing to reduce emissions from our business. And, we're delivering new energy solutions – from natural gas and renewables to carbon capture and hydrogen – to help other businesses and industries decarbonize too. Along the way, we invest in communities and partner with our neighbours, customers and governments to build the energy system of the future.

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.

## Forward-Looking Information

This release contains certain information that is forward-looking, including the sustainability commitments and targets contained in our 2022 Report on Sustainability and our GHG Emissions Reduction Plan, 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 the 2021 Annual Report filed under TC Energy's profile on SEDAR at www.sedar.com and with the U.S. Securities and Exchange Commission at www.sec.gov and the "Forward-looking information" section of our 2022 Report on Sustainability and our GHG Emissions Reduction Plan which are available on our website at www.TCEnergy.com.

## Non-GAAP Measures

This release contains references to the following non-GAAP measures: comparable earnings, comparable earnings per common share, comparable EBITDA and comparable funds generated from operations. These non-GAAP measures do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. These non-GAAP measures are calculated by adjusting certain GAAP measures for specific items we believe are significant but not reflective of our underlying operations in the period. These comparable 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. Refer to: (i) each business segment for a reconciliation of comparable EBITDA to segmented earnings; (ii) Consolidated results section for reconciliations of comparable earnings and comparable earnings per common share to Net income attributable to common shares and Net income per common share, respectively; and (iii) Financial condition section for a reconciliation of comparable funds generated from operations to Net cash provided by operations. Refer to the Non-GAAP measures section of the MD&A in our most recent quarterly report for more information about the non-GAAP measures we use, which section of the MD&A is incorporated by reference herein. The MD&A can be found on SEDAR (www.sedar.com) under TC Energy's profile.

## Additional Information

This release should also be read in conjunction with our December 31, 2021 audited Consolidated financial statements and notes and the MD&A in our 2021 Annual Report. Capitalized abbreviated terms that are used but not otherwise defined herein are defined in our 2021 Annual Report. Certain comparative figures have been adjusted to reflect the current period's presentation.

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# Quarterly report to shareholders

## Third quarter 2022

### Financial highlights

| (millions of $, except per share amounts) | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Income** | | | | |
| Revenues | **3,799** | 3,240 | **10,936** | 9,803 |
| Net income attributable to common shares | **841** | 779 | **2,088** | 697 |
| per common share – basic | **$0.84** | $0.80 | **$2.11** | $0.72 |
| Comparable EBITDA[1] | **2,461** | 2,238 | **7,218** | 6,973 |
| Comparable earnings | **1,068** | 970 | **3,150** | 3,114 |
| per common share | **$1.07** | $0.99 | **$3.19** | $3.21 |
| **Cash flows** | | | | |
| Net cash provided by operations | **1,701** | 1,712 | **4,350** | 5,089 |
| Comparable funds generated from operations | **1,637** | 1,556 | **5,068** | 5,333 |
| Capital spending[2] | **2,583** | 1,687 | **5,789** | 5,011 |
| **Dividends declared** | | | | |
| Per common share | **$0.90** | $0.87 | **$2.70** | $2.61 |
| **Basic common shares outstanding** (millions) | | | | |
| – weighted average for the period | **1,000** | 979 | **988** | 970 |
| – issued and outstanding at end of period | **1,012** | 979 | **1,012** | 979 |

1 Additional information on Segmented earnings, the most directly comparable GAAP measure, can be found in the Consolidated results section.

2 Includes Capital expenditures and Contributions to equity investments. Refer to the Financial conditions – Cash used in investing activities section for additional information.

# Management’s discussion and analysis

November 8, 2022

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, 2022, and should be read with the accompanying unaudited Condensed consolidated financial statements for the three and nine months ended September 30, 2022, which have been prepared in accordance with U.S. GAAP.

This MD&A should also be read in conjunction with our December 31, 2021 audited Consolidated financial statements and notes and the MD&A in our 2021 Annual Report. Capitalized and abbreviated terms that are used but not otherwise defined herein are defined in our 2021 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, including acquisitions
- 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
- statements related to our GHG emissions reduction goals
- expected outcomes with respect to legal proceedings, including arbitration and insurance claims
- the expected impact of future tax and accounting changes
- expected industry, market and economic conditions, including the impact of these on our customers
- 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.

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

## Assumptions

- realization of expected benefits from acquisitions, divestitures and energy transition
- 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, including the impact of these on our customers
- inflation rates and commodity prices
- interest, tax and foreign exchange rates
- nature and scope of hedging
- expected impact of COVID-19.

## Risks and uncertainties

- realization of expected benefits from acquisitions and divestitures
- 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, and inflationary pressure on 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
- our ability to realize the value of tangible assets and contractual recoveries, including those specific to the Keystone XL pipeline project
- competition in the businesses in which we operate
- unexpected or unusual weather
- acts of civil disobedience
- cyber security and technological developments
- ESG-related risks
- impact of energy transition on our business
- economic conditions in North America as well as globally
- global health crises, such as pandemics and epidemics, 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 2021 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).

## 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. Discussions throughout this MD&A on the factors impacting comparable earnings, comparable earnings before interest, taxes, depreciation and amortization (comparable EBITDA) and comparable earnings before interest and taxes (comparable EBIT) are consistent with the factors that impact net income attributable to common shares and segmented earnings, respectively, except where noted otherwise.

### Comparable measures

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

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

- gains or losses on sales of assets or assets held for sale
- income tax refunds, valuation allowances and adjustments resulting from changes in legislation and enacted tax rates
- unrealized fair value adjustments related to risk management activities and Bruce Power funds invested for post-retirement benefits
- expected credit loss provisions on our net investment in leases
- legal, contractual, bankruptcy and other settlements
- impairment of goodwill, plant, property and equipment, investments and other assets
- acquisition and integration costs
- restructuring costs.

We exclude from comparable measures the unrealized gains and losses from changes in the fair value of derivatives related to financial and commodity price risk management activities. These derivatives generally provide effective economic hedges but do not meet the criteria for hedge accounting. Beginning in first quarter 2022, with retroactive restatement of prior periods, we exclude from comparable measures our proportionate share of the unrealized gains and losses from changes in the fair value of Bruce Power's investments held for post-retirement benefits and derivatives related to its risk management activities. These changes in fair value are recorded in net income. As these amounts do not accurately reflect the gains and losses that will be realized at settlement, we do not consider them reflective of our underlying operations.

In third quarter 2022, Transportadora de Gas Natural de la Huasteca (TGNH) and the CFE executed agreements which consolidate a number of operating and in-development natural gas pipelines in central and southeast Mexico under one TSA. This TSA contains a lease; therefore, we have recognized amounts in net investment in leases on our Condensed consolidated balance sheet. In accordance with the requirements of U.S. GAAP, we have recognized an expected credit loss provision related to net investment in leases. The amount of this provision will fluctuate from period to period based on changing economic assumptions and forward-looking information. The provision is an estimate of losses that may occur over the duration of the TSA through 2055. As this provision does not reflect losses or cash outflows that were incurred under this lease arrangement in the current period or from our underlying operations, we have excluded any unrealized changes from comparable measures. Refer to the Other information – Critical accounting estimates and accounting policy changes section for additional information.

We also excluded from comparable measures the unrealized foreign exchange gains and losses on the peso-denominated loan receivable from an affiliate as well as the corresponding proportionate share of Sur de Texas foreign exchange gains and losses, as the 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. This peso-denominated loan was fully repaid in first quarter 2022.

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 |
| funds generated from operations | net cash provided by operations |
| comparable funds generated from operations | net cash provided by operations |

### Comparable EBITDA and comparable EBIT

Comparable EBITDA represents 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 for a reconciliation to segmented earnings.

### Comparable earnings and comparable earnings per common share

Comparable earnings represents earnings 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. The components of changes in working capital are disclosed in our 2021 Consolidated financial statements. We believe funds generated from operations is a useful measure of our consolidated operating cash flows because it excludes fluctuations from working capital balances, which do not necessarily reflect underlying operations in the same period, and is used to provide a consistent measure of the cash generating ability of our businesses. 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.

## Consolidated results

| (millions of $, except per share amounts) | three months ended September 30 2022 | three months ended September 30 2021 | nine months ended September 30 2022 | nine months ended September 30 2021 |
|---|---|---|---|---|
| Canadian Natural Gas Pipelines | **409** | 343 | **1,152** | 1,060 |
| U.S. Natural Gas Pipelines | **714** | 692 | **1,735** | 2,253 |
| Mexico Natural Gas Pipelines | **113** | 144 | **395** | 434 |
| Liquids Pipelines | **268** | 285 | **801** | (1,973) |
| Power and Storage | **289** | 116 | **535** | 437 |
| Corporate | **(9)** | (36) | **12** | (40) |
| **Total segmented earnings** | **1,784** | 1,544 | **4,630** | 2,171 |
| Interest expense | **(666)** | (596) | **(1,866)** | (1,749) |
| Allowance for funds used during construction | **116** | 81 | **254** | 195 |
| Interest income and other | **(242)** | (76) | **(224)** | 113 |
| **Income before income taxes** | **992** | 953 | **2,794** | 730 |
| Income tax (expense)/recovery | **(122)** | (135) | **(593)** | 158 |
| **Net income** | **870** | 818 | **2,201** | 888 |
| Net income attributable to non-controlling interests | **(8)** | (8) | **(28)** | (83) |
| **Net income attributable to controlling interests** | **862** | 810 | **2,173** | 805 |
| Preferred share dividends | **(21)** | (31) | **(85)** | (108) |
| **Net income attributable to common shares** | **841** | 779 | **2,088** | 697 |
| **Net income per common share – basic** | **$0.84** | $0.80 | **$2.11** | $0.72 |

Net income attributable to common shares increased by $62 million or $0.04 per common share and increased by $1,391 million or $1.39 per common share for the three and nine months ended September 30, 2022 compared to the same periods in 2021. The significant increase for the nine months ended September 30, 2022 is primarily due to the net effect of specific items mentioned below. Net income per common share also reflects the impact of common shares issued for the acquisition of TC PipeLines, LP in first quarter 2021 and the common share issuance in August 2022.

The following specific items were recognized in Net income attributable to common shares and were excluded from comparable earnings:

**2022 results**

- an after-tax goodwill impairment charge of $531 million in first quarter 2022 related to Great Lakes. Refer to the Other information – Critical accounting estimates and accounting policy changes section for additional information
- a $195 million income tax expense incurred in the first half of 2022 for the settlement related to prior years' income tax assessments in Mexico
- a $50 million after-tax expected credit loss provision related to the TGNH net investment in leases recognized in third quarter 2022. Refer to the Other information – Critical accounting estimates and accounting policy changes section for additional information
- after-tax preservation and storage costs for Keystone XL pipeline project assets of $3 million and $11 million for the three and nine months ended September 30, 2022, which could not be accrued as part of the Keystone XL asset impairment charge.

**2021 results**

- a $2.2 billion after-tax asset impairment charge, predominantly in first quarter 2021, net of expected contractual recoveries and other contractual and legal obligations, related to the termination of the Keystone XL pipeline project following the January 2021 revocation of the Presidential Permit
- a $55 million after-tax expense with respect to transition payments incurred as part of the Voluntary Retirement Program
- after-tax preservation and storage costs for Keystone XL pipeline project assets of $11 million and $27 million for the three and nine months ended September 30, 2021, which could not be accrued as part of the Keystone XL asset impairment charge and interest expense on the Keystone XL project-level credit facility prior to its termination
- a $13 million after-tax recovery of certain costs from the IESO in second quarter 2021 associated with the Ontario natural gas-fired power plants sold in 2020.

Net income in both periods included unrealized gains and losses on our proportionate share of Bruce Power's fair value adjustment on funds invested for post-retirement benefits and derivatives related to its risk management activities, as well as unrealized gains and losses from changes in our risk management activities, all of which we exclude along with the above noted items, to arrive at comparable earnings. A reconciliation of Net income attributable to common shares to comparable earnings is shown in the following table.

## RECONCILIATION OF NET INCOME ATTRIBUTABLE TO COMMON SHARES TO COMPARABLE EARNINGS

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $, except per share amounts) | **2022** | **2021** | **2022** | **2021** |
| **Net income attributable to common shares** | **841** | 779 | **2,088** | 697 |
| **Specific items (net of tax):** | | | | |
| Great Lakes goodwill impairment charge | **—** | — | **531** | — |
| Settlement of Mexico prior years' income tax assessments | **—** | — | **195** | — |
| Expected credit loss provision for net investment in leases | **50** | — | **50** | — |
| Bruce Power unrealized fair value adjustments | **(2)** | (2) | **22** | (4) |
| Keystone XL preservation and other | **3** | 11 | **11** | 27 |
| Keystone XL asset impairment charge and other | **—** | — | **—** | 2,194 |
| Voluntary Retirement Program | **—** | 55 | **—** | 55 |
| Gain on sale of Ontario natural gas-fired power plants | **—** | — | **—** | (13) |
| Risk management activities[1] | **176** | 127 | **253** | 158 |
| **Comparable earnings** | **1,068** | 970 | **3,150** | 3,114 |
| **Net income per common share** | **$0.84** | $0.80 | **$2.11** | $0.72 |
| **Specific items (net of tax):** | | | | |
| Great Lakes goodwill impairment charge | **—** | — | **0.54** | — |
| Settlement of Mexico prior years' income tax assessments | **—** | — | **0.20** | — |
| Expected credit loss provision for net investment in leases | **0.05** | — | **0.05** | — |
| Bruce Power unrealized fair value adjustments | **—** | — | **0.02** | — |
| Keystone XL preservation and other | **—** | 0.01 | **0.01** | 0.03 |
| Keystone XL asset impairment charge and other | **—** | — | **—** | 2.27 |
| Voluntary Retirement Program | **—** | 0.05 | **—** | 0.05 |
| Gain on sale of Ontario natural gas-fired power plants | **—** | — | **—** | (0.01) |
| Risk management activities | **0.18** | 0.13 | **0.26** | 0.15 |
| **Comparable earnings per common share** | **$1.07** | $0.99 | **$3.19** | $3.21 |

| 1 Risk management activities | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | 2022 | 2021 | 2022 | 2021 |
| U.S. Natural Gas Pipelines | **15** | (3) | **13** | (1) |
| Liquids Pipelines | **23** | (8) | **58** | 2 |
| Canadian Power | **2** | 7 | **(26)** | 8 |
| U.S. Power | **(1)** | — | **(5)** | — |
| Natural Gas Storage | **9** | (39) | **(56)** | (36) |
| Foreign exchange | **(283)** | (125) | **(321)** | (183) |
| Income tax attributable to risk management activities | **59** | 41 | **84** | 52 |
| **Total unrealized losses from risk management activities** | **(176)** | (127) | **(253)** | (158) |

## 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. For further information on our reconciliation to comparable EBITDA refer to the business segment financial results sections.

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $, except per share amounts) | 2022 | 2021 | 2022 | 2021 |
| **Comparable EBITDA** | | | | |
| Canadian Natural Gas Pipelines | **713** | 631 | **2,038** | 2,001 |
| U.S. Natural Gas Pipelines | **926** | 890 | **2,948** | 2,824 |
| Mexico Natural Gas Pipelines | **204** | 171 | **542** | 515 |
| Liquids Pipelines | **332** | 387 | **1,002** | 1,146 |
| Power and Storage | **295** | 166 | **704** | 501 |
| Corporate | **(9)** | (7) | **(16)** | (14) |
| **Comparable EBITDA** | **2,461** | 2,238 | **7,218** | 6,973 |
| Depreciation and amortization | **(653)** | (610) | **(1,914)** | (1,888) |
| Interest expense included in comparable earnings | **(666)** | (596) | **(1,866)** | (1,743) |
| Allowance for funds used during construction | **116** | 81 | **254** | 195 |
| Interest income and other included in comparable earnings | **41** | 91 | **125** | 341 |
| Income tax expense included in comparable earnings | **(202)** | (195) | **(554)** | (573) |
| Net income attributable to non-controlling interests | **(8)** | (8) | **(28)** | (83) |
| Preferred share dividends | **(21)** | (31) | **(85)** | (108) |
| **Comparable earnings** | **1,068** | 970 | **3,150** | 3,114 |
| **Comparable earnings per common share** | **$1.07** | $0.99 | **$3.19** | $3.21 |

**Comparable EBITDA – 2022 versus 2021**

Comparable EBITDA increased by $223 million for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to the net effect of the following:

- increased Power and Storage EBITDA attributable to higher contributions from Bruce Power due to a higher contract price and greater plant output resulting from fewer planned outage days and from Canadian Power due to increased earnings from higher realized power prices and marketing activities, partially offset by decreased results from Natural Gas Storage and other
- increased EBITDA in Canadian Natural Gas Pipelines mainly due to the impact of higher flow-through costs on our Canadian rate-regulated pipelines and increased rate-base earnings on the NGTL System
- higher EBITDA in U.S. Natural Gas Pipelines primarily reflects a stronger U.S. dollar in 2022 with otherwise consistent EBITDA in third quarter 2022 versus the same period in 2021
- increased EBITDA from Mexico Natural Gas Pipelines primarily related to the north section of the Villa de Reyes pipeline (VdR North) and the east section of the Tula pipeline (Tula East) that were placed into commercial service in third quarter 2022
- lower EBITDA from Liquids Pipelines as a result of lower rates and volumes on the U.S. Gulf Coast section of the Keystone Pipeline System and decreased contributions from liquids marketing activities attributable to lower margins, partially offset by higher long-haul contracted volumes
- the positive foreign exchange impact of a stronger U.S. dollar on the Canadian dollar equivalent segmented earnings in our U.S. dollar-denominated operations. As detailed below, U.S. dollar-denominated comparable EBITDA decreased by US$35 million compared to 2021; however, this was translated at a rate of 1.31 in 2022 versus 1.26 in 2021. Refer to the Foreign exchange discussion below for additional information.

Comparable EBITDA increased by $245 million for the nine months ended September 30, 2022 compared to the same period in 2021 primarily due to the net effect of the following:

- increased Power and Storage EBITDA primarily attributable to higher contributions from Bruce Power due to a higher contract price and greater plant output resulting from fewer planned outage days as well as increased EBITDA from Canadian Power related to higher realized power prices and marketing activities
- higher EBITDA in U.S. Natural Gas Pipelines largely due to incremental earnings from growth projects placed in service, increased earnings from our mineral rights business as well as increased earnings on Columbia Gas following the FERC-approved settlement for higher transportation rates effective February 2021, partially offset by higher property taxes
- increased EBITDA from Canadian Natural Gas Pipelines largely attributable to the impact of higher flow-through costs and increased rate-base earnings on the NGTL System, partially offset by lower flow-through depreciation on the Canadian Mainline
- higher EBITDA from Mexico Natural Gas Pipelines primarily related to the operating segments of the TGNH pipeline, VdR North and Tula East, that were placed into commercial service in third quarter 2022
- decreased EBITDA from Liquids Pipelines as a result of lower rates and volumes on contracted volumes on the U.S. Gulf Coast section of the Keystone Pipeline System as well as lower contributions from liquids marketing activities due to lower margins
- the positive foreign exchange impact of a stronger U.S. dollar on the Canadian dollar equivalent segmented earnings in our U.S. dollar-denominated operations. As detailed below, U.S. dollar-denominated comparable EBITDA decreased by US$90 million compared to 2021; however, this was translated at a rate of 1.28 in 2022 versus 1.25 in 2021. Refer to the Foreign exchange discussion below for additional information.

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

**Comparable earnings – 2022 versus 2021**

Comparable earnings increased by $98 million or $0.08 per common share for the three months ended September 30, 2022 compared to the same period in 2021 and was primarily the net effect of:

- changes in comparable EBITDA described above
- increased Interest expense primarily due to higher interest rates on increased levels of short-term borrowings, long-term debt and junior subordinated note issuances, net of maturities, and the foreign exchange impact of a stronger U.S. dollar in 2022
- lower Interest income and other mainly attributable to realized losses in 2022 compared to realized gains in 2021 on derivatives used to manage our net exposure to foreign exchange rate fluctuations on U.S. dollar-denominated income and repayment of the inter-affiliate loan receivable by the Sur de Texas joint venture on July 29, 2022
- higher Depreciation and amortization on the NGTL System from expansion facilities that were placed in service and on U.S. Natural Gas Pipelines mainly due to timing of certain adjustments related to the Columbia Gas rate case settlement
- higher AFUDC primarily due to the reactivation of AFUDC on the TGNH assets under construction following the new TSA with the CFE in third quarter 2022.

Comparable earnings increased by $36 million and decreased by $0.02 per common share for the nine months ended September 30, 2022 compared to the same period in 2021 and was primarily the net effect of:

- changes in comparable EBITDA described above
- lower Interest income and other mainly attributable to lower realized gains in 2022 compared to 2021 on derivatives used to manage our net exposure to foreign exchange rate fluctuations on U.S. dollar-denominated income and repayment of the inter-affiliate loan receivable by the Sur de Texas joint venture on July 29, 2022
- increased Interest expense primarily due to higher interest rates on increased levels of short-term borrowings, long-term debt and junior subordinated note issuances, net of maturities, as well as the foreign exchange impact of a stronger U.S. dollar in 2022 and lower capitalized interest as a result of its cessation for the Keystone XL pipeline project following the revocation of the Presidential Permit in January 2021
- higher AFUDC primarily due to the reactivation of AFUDC on the TGNH assets under construction following the new TSA with the CFE in third quarter 2022 and expansion projects on the NGTL System
- lower Net income attributable to non-controlling interests following the March 2021 acquisition of all outstanding common units of TC PipeLines, LP not beneficially owned by TC Energy
- lower Preferred share dividends due to the redemption of preferred shares in 2022 and 2021
- decreased Income tax expense primarily due to lower flow-through income taxes.

Comparable earnings per common share for the three and nine months ended September 30, 2022 reflect the dilutive effect of issuing 28.4 million common shares in August 2022.

**Foreign exchange**

Certain of our businesses generate all or most of their earnings in U.S. dollars and, since we report our financial results in Canadian dollars, changes in the value of the U.S. dollar against the Canadian dollar directly affect our comparable EBITDA and may also impact comparable earnings. As our U.S. dollar-denominated operations continue to grow, this exposure increases. A portion of the U.S. dollar-denominated comparable EBITDA exposure is naturally offset by U.S. dollar-denominated amounts below comparable EBITDA within Depreciation and amortization, Interest expense and other income statement line items. The balance of the exposure is actively managed on a rolling forward basis up to three years using foreign exchange derivatives; however, the natural exposure beyond that period remains. The net impact of the U.S. dollar movements on comparable earnings after considering natural offsets and economic hedges was not significant.

The components of our financial results denominated in U.S. dollars are set out in the table below, including our U.S. and Mexico Natural Gas Pipelines operations along with the majority of our Liquids Pipelines business. Comparable EBITDA is a non-GAAP measure.

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

| (millions of US$) | three months ended September 30 2022 | three months ended September 30 2021 | nine months ended September 30 2022 | nine months ended September 30 2021 |
|---|---|---|---|---|
| **Comparable EBITDA** | | | | |
| U.S. Natural Gas Pipelines | **709** | 706 | **2,300** | 2,256 |
| Mexico Natural Gas Pipelines[1] | **158** | 152 | **446** | 462 |
| Liquids Pipelines | **179** | 223 | **550** | 668 |
| | **1,046** | 1,081 | **3,296** | 3,386 |
| Depreciation and amortization | **(238)** | (224) | **(715)** | (666) |
| Interest on long-term debt and junior subordinated notes | **(321)** | (315) | **(944)** | (945) |
| Allowance for funds used during construction | **58** | 33 | **106** | 73 |
| Non-controlling interests and other | **(29)** | (7) | **(57)** | (57) |
| | **516** | 568 | **1,686** | 1,791 |
| Average exchange rate - U.S. to Canadian dollars | **1.31** | 1.26 | **1.28** | 1.25 |

1 Excludes interest expense on our inter-affiliate loans related to the Sur de Texas joint venture which were fully offset in Interest income and other. These inter-affiliate loans were fully repaid in 2022.

## Outlook

### Comparable EBITDA and comparable earnings

While our comparable earnings per common share outlook for 2022 remains consistent with the 2021 Annual Report, we expect our 2022 comparable EBITDA to be higher than the outlook provided previously as a result of stronger EBITDA performance to date in 2022. We continue to monitor the impact of changes in energy markets, our construction projects and regulatory proceedings as well as COVID-19 for any potential effect on our 2022 comparable EBITDA and comparable earnings per share.

### Consolidated capital spending and equity investments

Our total capital expenditures for 2022 are now expected to be approximately $9.5 billion. The increase from the amount outlined in the 2021 Annual Report is primarily due to 2022 installments of approximately $1.3 billion for partner equity contributions to the Coastal GasLink Pipeline Limited Partnership (Coastal GasLink LP) in accordance with revised agreements with Coastal GasLink LP. In addition, approximately US$0.7 billion in capital expenditures are expected in 2022 related to the construction of the Southeast Gateway pipeline subsequent to the final investment decision (FID) reached with the CFE in August 2022. Refer to the Recent developments section for additional information on Coastal GasLink and the Southeast Gateway pipeline. Finally, higher project costs are expected for the NGTL System reflecting inflationary pressures on labour and materials, additional regulatory conditions and other factors. We continue to monitor developments on construction projects, focus on cost mitigation strategies and assess market conditions as well as the impact of COVID-19 for further changes to our overall 2022 capital program.

## 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. In addition, many of these projects advance our goals to reduce our own carbon footprint as well as that of our customers.

Our capital program consists of approximately $34 billion of secured projects that represent commercially supported, committed projects that are either under construction or are in, or preparing to commence, the permitting stage.

Three years of maintenance capital expenditures for our businesses are included in the secured projects table. 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.

During the nine months ended September 30, 2022, we placed approximately $4.4 billion of Canadian, U.S. and Mexico natural gas pipelines capacity capital projects into service. In addition, approximately $1.2 billion of maintenance capital expenditures were incurred.

All projects are subject to cost and timing adjustments due to factors including weather, market conditions, route refinement, permitting conditions, scheduling and timing of regulatory permits, as well as other potential restrictions and uncertainties, including the ongoing impact of COVID-19. Amounts exclude capitalized interest and AFUDC, where applicable.

## Secured projects

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

| (billions of $) | Expected in-service date | Estimated project cost | Project costs incurred as at September 30, 2022 |
|---|---|---|---|
| **Canadian Natural Gas Pipelines** | | | |
| NGTL System[1] | 2022 | 3.3 | 3.2 |
| | 2023 | 2.6 | 0.5 |
| | 2024+ | 1.2 | 0.1 |
| Canadian Mainline | 2022 | 0.2 | 0.2 |
| Coastal GasLink[2] | 2023 | 2.1 | 0.8 |
| Regulated maintenance capital expenditures | 2022-2024 | 2.2 | 0.4 |
| **U.S. Natural Gas Pipelines** | | | |
| Modernization III (Columbia Gas) | 2022-2024 | US 1.2 | US 0.5 |
| Delivery market projects | 2025 | US 1.5 | — |
| Other capital | 2022-2028 | US 1.2 | US 0.2 |
| Regulated maintenance capital expenditures | 2022-2024 | US 2.4 | US 0.5 |
| **Mexico Natural Gas Pipelines** | | | |
| Villa de Reyes – lateral and south sections[3] | 2023 | US 0.5 | US 0.4 |
| Tula – central and west sections[4] | 2024 | US 0.5 | US 0.3 |
| Southeast Gateway | 2025 | US 4.5 | US 0.4 |
| **Liquids Pipelines** | | | |
| Other capacity capital | 2022 | US 0.1 | US 0.1 |
| Recoverable maintenance capital expenditures | 2022-2024 | 0.3 | — |
| **Power and Storage** | | | |
| Bruce Power – life extension[5] | 2022-2027 | 4.5 | 2.3 |
| Other capacity capital | 2023 | 0.1 | — |
| **Other** | | | |
| Non-recoverable maintenance capital expenditures[6] | 2022-2024 | 0.7 | 0.1 |
| | | **29.1** | **10.0** |
| Foreign exchange impact on secured projects[7] | | **4.5** | **0.9** |
| **Total secured projects** (Cdn$) | | **33.6** | **10.9** |

1 Estimated project costs for 2022 and 2023 include $0.7 billion for Foothills related to the West Path Delivery Program.

2 Subsequent to revised project agreements executed between Coastal GasLink LP and LNG Canada and amended agreements with our partners in Coastal GasLink LP, the estimated project cost noted above represents our share of anticipated partner equity contributions to the project. Mechanical in-service is expected to be reached by the end of 2023. Commercial in-service of the Coastal GasLink pipeline will occur after completion of commissioning the pipeline. Refer to the Recent developments – Canadian Natural Gas Pipelines section for additional information.

3 VdR North was placed into commercial service in third quarter 2022. We are currently working with the CFE on the remaining sections of the Villa de Reyes pipeline, expecting commercial in-service in 2023. Refer to the Recent developments – Mexico Natural Gas Pipelines section for additional information.

4 Tula East was placed into commercial service in third quarter 2022. With the CFE, we are assessing the completion of the central section of the Tula pipeline, subject to an FID. Refer to the Recent developments – Mexico Natural Gas Pipelines section for additional information.

5 Reflects our expected share of cash contributions for the Bruce Power Unit 6 Major Component Replacement (MCR) program, expected to be in service in 2023, and the Unit 3 MCR, expected to be in service in 2026, as well as amounts to be invested under the Asset Management program through 2027 and the incremental uprate initiative. Refer to the Recent developments – Power and Storage section for additional information.

6 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.

7 Reflects U.S./Canada foreign exchange rate of 1.38 at September 30, 2022.

## Projects under development

In addition to our secured projects, we have a portfolio of projects that we are currently pursuing that are in varying stages of development. Projects under development have greater uncertainty with respect to timing and estimated project costs and are subject to corporate and regulatory approvals, unless otherwise noted. Each business segment has also outlined additional areas of focus for further ongoing business development activities and growth opportunities. As these projects are advanced and reach necessary milestones they will be included in the secured projects table.

**Canadian Natural Gas Pipelines**

We continue to focus on optimizing the utilization and value of our existing Canadian Natural Gas Pipelines assets, including in-corridor expansions, providing connectivity to LNG export terminals and connections to growing shale gas supplies. Sustainability development projects are expected to include additional compressor station electrification and waste heat capture power generation on our systems as well as other GHG abatement initiatives.

**U.S. Natural Gas Pipelines**

***Delivery Market Projects***

Projects are in development that are expected to replace, upgrade and modernize certain U.S. Natural Gas Pipelines facilities while reducing emissions along portions of our pipeline systems in principal delivery markets. The enhanced facilities are expected to improve reliability of our systems and allow for additional transportation services under long-term contracts to address growing demand in the U.S. Midwest and the Mid-Atlantic regions, while reducing direct carbon dioxide equivalent emissions. Included in our secured projects are the US$0.7 billion VR Project on Columbia Gas and the US$0.8 billion WR Project on ANR, two delivery market projects that were approved in 2021 with expected in-service dates in the second half of 2025.

***Renewable Natural Gas Hub Development***

In April 2022, we announced a strategic collaboration with GreenGasUSA to explore development of a network of renewable natural gas (RNG) transportation hubs. These hubs would provide centralized access to existing energy transportation infrastructure for RNG sources, such as farms, wastewater treatment facilities and landfills. We believe that this collaboration, which targets 10 transportation hubs nationally, will rapidly expand and provide incremental capability to the already existing RNG interconnects across our U.S. natural gas footprint. The development of these hubs is an important step towards the acceleration of methane capture projects and the concurrent reduction of GHG emissions.

***Other Opportunities***

We are currently pursuing a variety of projects, including compression replacement, while furthering the electrification of our fleet, power generation and LDCs, expanding our modernization programs and in-corridor expansion opportunities on our existing systems. These projects are expected to improve the reliability of our systems with an environmental focus on cleaner energy.

We are also developing multiple transmission projects to link gas supply to the facilities that will serve the growing global demand for North American LNG.

**Mexico Natural Gas Pipelines**

On August 4, 2022, we announced a strategic alliance with the CFE, Mexico's state-owned electric utility, to accelerate the development of natural gas infrastructure in the central and southeast regions of Mexico. Along with the assets in service or currently under construction, we are assessing the completion of the central section of Tula, subject to an FID.

**Liquids Pipelines**

***Grand Rapids Phase II***

Regulatory approvals have been obtained for Phase II of Grand Rapids, which consists of completing the 36-inch pipeline for crude oil service and converting the 20-inch pipeline from crude oil to diluent service. Commercial support is being pursued with prospective customers.

***Terminals Projects***

We continue to pursue projects associated with our terminals in Alberta and the U.S. to expand our core business and add operational flexibility for our customers.

***Other Opportunities***

We remain focused on maximizing the value of our liquids assets by expanding and leveraging our existing infrastructure and enhancing connectivity and service offerings to our customers. We are pursuing selective growth opportunities to add incremental value to our business and expansions that leverage available capacity on our existing infrastructure. We remain disciplined in our approach and will position our business development activities strategically to capture opportunities within our risk preferences.

**Power and Storage**

***Bruce Power***

*Life Extension Program*

The continuation of Bruce Power's life extension program through to 2033 will require the investment of our proportionate share of Major Component Replacement (MCR) program costs on Units 4, 5, 7 and 8, as well as the remaining Asset Management program costs which continue beyond 2033, extending the life of Units 3 to 8 and the Bruce Power site to 2064. Preparation work for the Unit 4 MCR is well underway and work for the Unit 5, 7 and 8 MCRs has also begun. Future MCR investments will be subject to discrete decisions for each unit with specified off-ramps available to Bruce Power and the IESO. We expect to spend approximately $4.8 billion for our proportionate share of the Bruce Power MCR program costs for Units 4, 5, 7 and 8 and the remaining Asset Management program costs beyond 2027, as well as the incremental uprate initiative discussed below.

*Uprate Initiative*

Bruce Power's Project 2030 has a goal of achieving a site peak output of 7,000 MW by 2033 in support of climate change targets and future clean energy needs. Project 2030 is focused on continued asset optimization, innovation and leveraging new technology, which could include integration with storage and other forms of energy, to increase the site peak output. Project 2030 is arranged in three stages with the first two stages fully approved for execution. Stage 1 started in 2019 and is expected to add 150 MW of output and Stage 2, which began in early 2022, is targeting another 200 MW.

***Development-Stage Projects***

*Ontario Pumped Storage*

We continue to progress the development of the Ontario Pumped Storage project (OPSP), an energy storage facility located near Meaford, Ontario that would provide 1,000 MW of flexible, clean energy to Ontario's electricity system using a process known as pumped hydro storage.

The OPSP has been granted long-term land access to the fourth Canadian Division Training Centre for development of the project on this site from the Federal Minister of National Defence and has been included in Gate 2 of the IESO's Unsolicited Proposals Process. Once in service, this project would store emission-free energy when available and provide that energy to Ontario during periods of peak demand, thereby maximizing the value of existing emission-free generation in the province.

*Canyon Creek Pumped Storage*

We are utilizing the existing site infrastructure from a decommissioned coal mine, located near Hinton, Alberta, to develop a pumped hydro storage project that is expected to have an initial generating capacity of 75 MW, expandable through future development to 400 MW. The facility is expected to provide up to 37 hours of on-demand, flexible, clean energy and ancillary services to the Alberta electricity grid. The project has received the approval of the Alberta Utilities Commission and the required approval of the Government of Alberta for hydro projects under the Dunvegan Hydro Development Act (Alberta).

The Canyon Creek Pumped Storage project is part of a larger product offering by us, a 24-by-7 carbon-free power product in the Province of Alberta and includes output from other projects currently under construction or being developed, thereby positioning our customers to manage hourly power needs with cost certainty and achieve decarbonization goals by sourcing power from emission-free assets.

*Renewable Energy Contracts and/or Investment Opportunities*

Through a Request for Information (RFI) process conducted in 2021, we are seeking potential contracts and/or investment opportunities in wind, solar and storage energy projects to meet the electricity needs of the U.S. portion of the Keystone Pipeline System and supply renewable energy products and services to industrial and oil and gas sectors proximate to our in-corridor demand. To date in 2022, we have finalized contracts for approximately 580 MW and 240 MW from wind energy and solar projects, respectively. We continue to evaluate the proposals received through the RFI process and expect to finalize additional contracts and/or investment opportunities in 2022.

*Other Opportunities*

We are actively building our customer-focused origination platform across North America, providing commodity products and energy services to help customers address the challenges of energy transition. Our existing network of assets, customers and suppliers provide a mutual opportunity in which we can tailor solutions to meet their clean energy needs. Although we may adopt custom-tailored strategies, the core underpinning remains consistent, which is that every opportunity we undertake will ultimately be driven by customer needs allowing us to complement each other's capabilities, diversify risk and share learnings as we navigate the energy transition.

**Other Energy Solutions**

Our vision is to be the premier energy infrastructure company in North America today and in the future. That future includes embracing the energy transition that is underway and contributing to a lower-carbon energy world. As energy transition continues to evolve, we recognize a significant opportunity to reduce our emissions footprint, in addition to being a partner to our customers and other industries that are also looking for low-carbon solutions. Currently, it is uncertain how the energy mix will evolve and at what pace. We continue to observe a reliance on the existing sources of natural gas, crude oil and electricity, for which we currently provide services to our customers.

We are targeting five focus areas to reduce the emissions intensity of our operations, while also capturing growth opportunities that meet the energy needs of the future:

- modernize our existing system and assets
- decarbonize our energy consumption
- drive digital solutions and technologies
- leverage carbon credits and offsets
- invest in low-carbon energy and infrastructure, such as renewables along with emerging fuels and technology.

***Alberta Carbon Grid (ACG)***

In June 2021, we announced a partnership with Pembina Pipeline Corporation to jointly develop a world-scale system which, when fully constructed, is expected to be capable of transporting and sequestering more than 20 million tonnes of carbon dioxide annually. As an open-access system, ACG is intended to serve as the backbone for Alberta's emerging carbon capture utilization and storage (CCUS) industry. On October 18, 2022, ACG announced that it has entered into a carbon sequestration evaluation agreement with the Government of Alberta to further evaluate one of the largest Areas of Interest (AOI) for safely storing carbon from industrial emissions in Alberta. This agreement will allow ACG to continue evaluating the suitability of our AOI and move forward into the next phase of the province's CCUS process to provide confidence to customers, Indigenous communities, stakeholders, and the Government of Alberta in the project's carbon storage capabilities. ACG proposes to leverage existing right of ways and/or pipelines to connect the Alberta Industrial Heartland emissions region to a key sequestration location.

***Irving Oil Decarbonization***

We have signed an MOU to explore the joint development of a series of proposed energy projects focused on reducing GHG emissions and creating new economic opportunities in New Brunswick and Atlantic Canada. Together with Irving Oil Ltd. (Irving Oil), we have identified a series of potential projects focused on decarbonizing existing assets and deploying emerging technologies to reduce overall emissions over the medium and long term. The partnership's initial focus will consider a suite of upgrade projects at Irving Oil's refinery in Saint John, New Brunswick, with the goal of significantly reducing emissions through the production and use of low-carbon power generation.

***Hydrogen Hubs***

We have entered into two Joint Development Agreements (JDA) to support customer-driven hydrogen production for long-haul transportation, power generation, large industrials and heating customers across the U.S. and Canada. The first opportunity is a partnership with Nikola Corporation (Nikola), a designer and manufacturer of zero-emission battery-electric and hydrogen-electric vehicles and related equipment, where Nikola will be a long-term anchor customer for hydrogen production infrastructure supporting hydrogen-fueled, zero-emission, heavy-duty trucks. The JDA with Nikola supports co-development of large-scale green and blue hydrogen production hubs, utilizing our power and natural gas infrastructure. On April 26, 2022, we announced a plan to evaluate a hydrogen production hub on 140 acres in Crossfield, Alberta, where we currently operate a natural gas storage facility. We expect an FID by the end of 2023, subject to customary regulatory approvals.

Our second customer-driven opportunity is a partnership with Hyzon Motors Inc. (Hyzon), a leader in fuel cell electric mobility for commercial vehicles, to develop hydrogen production facilities focused on zero-to-negative carbon intensity hydrogen from renewable natural gas, biogas and other sustainable sources. The facilities would be located close to demand, supporting Hyzon's back-to-base vehicle deployments. Our significant pipeline, storage and power assets can potentially be leveraged to lower the cost and increase the speed of development of these hubs. This may include exploring the integration of pipeline assets to enable hydrogen distribution and storage via pipeline and/or to deliver carbon dioxide to permanent sequestration sites to decarbonize the hydrogen production process.

## 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).

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| NGTL System | **473** | 409 | **1,351** | 1,214 |
| Canadian Mainline | **198** | 183 | **556** | 648 |
| Other Canadian pipelines[1] | **42** | 39 | **131** | 139 |
| **Comparable EBITDA** | **713** | 631 | **2,038** | 2,001 |
| Depreciation and amortization | **(304)** | (288) | **(886)** | (941) |
| **Comparable EBIT and segmented earnings** | **409** | 343 | **1,152** | 1,060 |

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

Canadian Natural Gas Pipelines comparable EBIT and segmented earnings increased by $66 million and $92 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021.

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

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| **Net income** | | | | |
| NGTL System | **177** | 160 | **523** | 467 |
| Canadian Mainline | **58** | 52 | **162** | 156 |
| **Average investment base** | | | | |
| NGTL System | | | **17,281** | 15,345 |
| Canadian Mainline | | | **3,712** | 3,700 |

Net income for the NGTL System increased by $17 million and $56 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 mainly due to a higher average investment base resulting from continued system expansions. The NGTL System is operating under the 2020-2024 Revenue Requirement Settlement which includes an ROE of 10.1 per cent on 40 per cent deemed common equity. This settlement provides the NGTL System the opportunity to increase depreciation rates if tolls fall below specified levels and an incentive mechanism for certain operating costs where variances from projected amounts are shared with our customers.

Net income for the Canadian Mainline for the three and nine months ended September 30, 2022 increased by $6 million compared to the same periods in 2021 mainly due to higher incentive earnings. The Canadian Mainline is operating under the 2021-2026 Mainline Settlement which includes an approved ROE of 10.1 per cent on 40 per cent deemed common equity and an incentive to decrease costs and increase revenues on the pipeline under a beneficial sharing mechanism with our customers.

## COMPARABLE EBITDA

Comparable EBITDA for Canadian Natural Gas Pipelines increased by $82 million and $37 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 due to the net effect of:

- higher rate-base earnings and flow-through financial charges on the NGTL System
- higher flow-through depreciation on the NGTL System net of lower depreciation on the Canadian Mainline, as noted below
- higher flow-through income taxes and incentive earnings on the Canadian Mainline
- lower Coastal GasLink development fee revenue due to timing of revenue recognition.

## DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $16 million and decreased by $55 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021. The increase in third quarter 2022 compared to the same period in 2021 reflects incremental depreciation on the NGTL System resulting from expansion facilities that were placed in service, partially offset by lower depreciation on the Canadian Mainline mainly due to one section of the Canadian Mainline being fully depreciated in third quarter 2021. The decrease for the nine months ended September 30, 2022 compared to the same period in 2021 reflects lower depreciation on the Canadian Mainline as described above, partially offset by incremental depreciation on the NGTL System from expansion facilities that were placed in service.

## U.S. Natural Gas Pipelines

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

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of US$, unless otherwise noted) | **2022** | 2021 | **2022** | 2021 |
| Columbia Gas | **352** | 359 | **1,118** | 1,122 |
| ANR | **128** | 135 | **440** | 436 |
| Columbia Gulf | **50** | 52 | **155** | 161 |
| Great Lakes[1,2] | **37** | 35 | **129** | 112 |
| GTN[2,3] | **42** | 40 | **136** | 95 |
| Other U.S. pipelines[2,4] | **91** | 78 | **293** | 215 |
| TC PipeLines, LP[2,5] | **—** | — | **—** | 24 |
| Non-controlling interests[5] | **9** | 7 | **29** | 91 |
| **Comparable EBITDA** | **709** | 706 | **2,300** | 2,256 |
| Depreciation and amortization | **(174)** | (154) | **(510)** | (455) |
| **Comparable EBIT** | **535** | 552 | **1,790** | 1,801 |
| Foreign exchange impact | **164** | 143 | **503** | 453 |
| **Comparable EBIT** (Cdn$) | **699** | 695 | **2,293** | 2,254 |
| Specific items: | | | | |
| Great Lakes goodwill impairment charge | **—** | — | **(571)** | — |
| Risk management activities | **15** | (3) | **13** | (1) |
| **Segmented earnings** (Cdn$) | **714** | 692 | **1,735** | 2,253 |

1 Results reflect our 53.55 per cent direct interest in Great Lakes until March 2021 and our 100 per cent ownership interest subsequent to the March 2021 acquisition of all outstanding common units of TC PipeLines, LP not beneficially owned by us.

2 Our ownership interest in TC PipeLines, LP was 25.5 per cent prior to the acquisition in March 2021, at which time it became 100 per cent. Prior to March 2021, results reflected TC PipeLines, LP's 46.45 per cent interest in Great Lakes, its ownership of GTN, Bison, North Baja, Portland and Tuscarora as well as its share of equity income from Northern Border and Iroquois.

3 Reflects 100 per cent of GTN's comparable EBITDA subsequent to the TC PipeLines, LP acquisition in March 2021.

4 Reflects comparable EBITDA from our ownership in our mineral rights business (CEVCO), Crossroads and our share of equity income from Millennium and Hardy Storage, our U.S. natural gas marketing business as well as general and administrative and business development costs related to our U.S. Natural Gas Pipelines. For the period subsequent to our March 2021 acquisition of TC PipeLines, LP, results also include 100 per cent of Bison, North Baja and Tuscarora, 61.7 per cent of Portland plus our equity income from Northern Border and Iroquois.

5 Reflects comparable EBITDA attributable to portions of TC PipeLines, LP and Portland that we did not own prior to our March 2021 acquisition of TC PipeLines, LP and subsequently reflects earnings attributable to the remaining 38.3 per cent interest in Portland we do not own.

U.S. Natural Gas Pipelines segmented earnings increased by $22 million and decreased by $518 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 and included the following specific items which have been excluded from our calculation of comparable EBITDA and comparable EBIT:

- a pre-tax goodwill impairment charge of $571 million related to Great Lakes in first quarter 2022. Refer to the Other information – Critical accounting estimates and accounting policy changes section for additional information
- unrealized gains and losses from changes in the fair value of derivatives related to our U.S. natural gas marketing business.

A stronger U.S. dollar for the three and nine months ended September 30, 2022 had a positive impact on the Canadian dollar equivalent segmented earnings from our U.S. operations compared to the same periods in 2021. Refer to the Consolidated results – Foreign exchange section for additional information.

Comparable EBITDA for U.S. Natural Gas Pipelines increased by US$3 million and US$44 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 and was primarily due to the net effect of:

- incremental earnings from growth projects placed in service
- increased earnings from our mineral rights business due to higher commodity prices
- consistent earnings for the nine months ended September 30, 2022 on Columbia Gas following the FERC-approved settlement for higher transportation rates effective February 2021, partially offset by higher property taxes as a result of projects placed into service
- decreased earnings in 2022 across a number of the pipelines due to the impact of cold weather events and other discrete items recognized in 2021.

## DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by US$20 million and US$55 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 mainly due to new projects placed in service and the timing of certain depreciation adjustments related to the Columbia Gas rate case settlement.

## 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).

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of US$, unless otherwise noted) | **2022** | 2021 | **2022** | 2021 |
| Topolobampo | **41** | 40 | **121** | 121 |
| Sur de Texas[1] | **34** | 31 | **88** | 92 |
| TGNH[2] | **47** | 29 | **107** | 91 |
| Guadalajara | **18** | 17 | **55** | 54 |
| Mazatlán | **15** | 18 | **50** | 53 |
| **Comparable EBITDA** | **155** | 135 | **421** | 411 |
| Depreciation and amortization | **(15)** | (21) | **(59)** | (65) |
| **Comparable EBIT** | **140** | 114 | **362** | 346 |
| Foreign exchange impact | **44** | 30 | **104** | 88 |
| **Comparable EBIT** (Cdn$) | **184** | 144 | **466** | 434 |
| Specific item: | | | | |
| Expected credit loss provision for net investment in leases | **(71)** | — | **(71)** | — |
| **Segmented earnings** (Cdn$) | **113** | 144 | **395** | 434 |

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

2 TGNH includes the operating sections of the Tamazunchale, Villa de Reyes and Tula pipelines. Refer to the Recent Developments – Mexico Natural Gas Pipelines section for additional information.

Mexico Natural Gas Pipelines segmented earnings decreased by $31 million and $39 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021. This decrease is due to the impact of an expected credit loss provision of US$53 million related to the new TSA with the CFE that commenced in third quarter 2022. In accordance with the requirements of U.S. GAAP, an expected credit loss provision must be recognized on the TGNH net investment in leases. The provision is an estimate of losses that may occur over the duration of the TSA through 2055. As this provision does not reflect losses or cash outflows that were incurred under this lease arrangement in the current period or from our underlying operations, we have excluded any unrealized changes from our calculation of comparable EBITDA and comparable EBIT. Refer to the Other information – Critical accounting estimates and accounting policy changes section for additional information.

A stronger U.S. dollar for the three and nine months ended September 30, 2022 had a positive impact on the Canadian dollar equivalent segmented earnings compared to the same periods in 2021. Refer to the Consolidated results – Foreign exchange section for additional information.

Comparable EBITDA for Mexico Natural Gas Pipelines increased by US$20 million and US$10 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021. The increase is primarily due to higher revenues related to the commercial in-service of VdR North and Tula East in third quarter 2022.

### DEPRECIATION AND AMORTIZATION

The decrease in depreciation and amortization of US$6 million for both the three and nine months ended September 30, 2022 compared to the same periods in 2021 is due to the change in accounting for Tamazunchale subsequent to execution of the new TGNH TSA with the CFE in third quarter 2022. Under sales-type lease accounting, our in-service TGNH pipeline assets are reflected on our Condensed consolidated balance sheet within Net investment in leases with no depreciation expense being recognized.

## Liquids Pipelines

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

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | 2021 | **2022** | 2021 |
| Keystone Pipeline System | **292** | 327 | **886** | 956 |
| Intra-Alberta pipelines[1] | **17** | 22 | **53** | 67 |
| Liquids marketing and other | **23** | 38 | **63** | 123 |
| **Comparable EBITDA** | **332** | 387 | **1,002** | 1,146 |
| Depreciation and amortization | **(83)** | (80) | **(244)** | (238) |
| **Comparable EBIT** | **249** | 307 | **758** | 908 |
| Specific items: | | | | |
| Keystone XL asset impairment charge and other | **—** | — | **—** | (2,854) |
| Keystone XL preservation and other | **(4)** | (14) | **(15)** | (29) |
| Risk management activities | **23** | (8) | **58** | 2 |
| **Segmented earnings/(losses)** | **268** | 285 | **801** | (1,973) |
| **Comparable EBITDA denominated as follows:** | | | | |
| Canadian dollars | **98** | 106 | **296** | 310 |
| U.S. dollars | **179** | 223 | **550** | 668 |
| Foreign exchange impact | **55** | 58 | **156** | 168 |
| **Comparable EBITDA** | **332** | 387 | **1,002** | 1,146 |

1 Intra-Alberta pipelines include Grand Rapids, White Spruce and Northern Courier. In November 2021, we sold our remaining 15 per cent interest in Northern Courier.

Liquids Pipelines segmented earnings decreased by $17 million and increased by $2.8 billion for the three and nine months ended September 30, 2022 compared to the same periods in 2021 and included the following specific items which have been excluded from our calculation of comparable EBITDA and comparable EBIT:

- a $2,854 million pre-tax asset impairment charge, net of expected contractual recoveries and other contractual and legal obligations, for the nine months ended September 30, 2021, associated with the termination of the Keystone XL pipeline project following the revocation of the Presidential Permit in January 2021
- pre-tax preservation and storage costs for Keystone XL pipeline project assets of $4 million and $15 million for the three and nine months ended September 30, 2022 ($14 million and $29 million for the three and nine months ended September 30, 2021), which could not be accrued as part of the Keystone XL asset impairment charge
- unrealized gains and losses from changes in the fair value of derivatives related to our liquids marketing business.

A stronger U.S. dollar in 2022 relative to 2021 had a positive impact on the Canadian dollar equivalent segmented earnings from our U.S. operations; however, comparable EBITDA from our U.S. dollar-denominated operations has decreased for the three and nine months ended September 30, 2022. Refer to the Consolidated results – Foreign exchange section for additional information.

Comparable EBITDA for Liquids Pipelines decreased by $55 million and $144 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 primarily due to the net effect of:

- lower rates and volumes on the U.S. Gulf Coast section of the Keystone Pipeline System, partially offset by higher long-haul contracted volumes as we placed approximately 20,000 Bbl/d of new contracts from the 2019 Open Season into service effective April 1, 2022 and an incremental 10,000 Bbl/d effective September 1, 2022
- Liquids marketing earnings for the three months ended September 30, 2022 decreased relative to 2021 due to lower margins. Earnings for the nine months ended September 30, 2022 decreased relative to 2021 due to steep backwardation, combined with low inventory at key supply and trading hubs in first quarter 2022, which contributed to lower margins and market volatility negatively impacting marketing margins and the timing of earnings
- a stronger U.S. dollar as described above.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by $3 million and $6 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 primarily as a result of a stronger U.S. dollar.

## 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).

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | 2021 | **2022** | 2021 |
| Bruce Power[1] | **199** | 110 | **412** | 291 |
| Canadian Power | **115** | 50 | **250** | 176 |
| Natural Gas Storage and other | **(19)** | 6 | **42** | 34 |
| **Comparable EBITDA** | **295** | 166 | **704** | 501 |
| Depreciation and amortization | **(19)** | (20) | **(53)** | (58) |
| **Comparable EBIT** | **276** | 146 | **651** | 443 |
| Specific items: | | | | |
| Gain on sale of Ontario natural gas-fired power plants | **—** | — | **—** | 17 |
| Bruce Power unrealized fair value adjustments | **3** | 2 | **(29)** | 5 |
| Risk management activities | **10** | (32) | **(87)** | (28) |
| **Segmented earnings** | **289** | 116 | **535** | 437 |

1 Includes our share of equity income from Bruce Power.

Power and Storage segmented earnings increased by $173 million and $98 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 and included the following specific items which have been excluded from our calculations of comparable EBITDA and comparable EBIT:

- a $17 million pre-tax recovery of certain costs from the IESO in second quarter 2021 associated with the Ontario natural gas-fired power plants sold in 2020
- our proportionate share of Bruce Power's unrealized gains and losses on funds invested for post-retirement benefits and risk management activities
- unrealized gains and losses from changes in the fair value of derivatives used to reduce commodity exposures in our Power and Storage business.

Comparable EBITDA for Power and Storage increased by $129 million and $203 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 primarily due to the net effect of:

- higher contributions from Bruce Power primarily due to a higher contract price and greater plant output resulting from fewer planned outage days
- improved Canadian Power earnings as a result of increased contributions from higher realized power prices and related marketing activities
- decreased Natural Gas Storage and other results in the third quarter and higher year-to-date results reflect the active management of our natural gas positions to capture favourable Alberta natural gas spreads. Gains realized in second quarter 2022 were partially offset in third quarter 2022 and are expected to be further offset in fourth quarter 2022. Both of these periods also include increased business development activities across the segment.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the three months ended September 30, 2022 was consistent with the same period in 2021. Lower depreciation and amortization for the nine months ended September 30, 2022 compared to the same period in 2021 was the result of certain adjustments in 2022.

## BRUCE POWER

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

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $, unless otherwise noted) | **2022** | 2021 | **2022** | 2021 |
| **Items included in comparable EBITDA and EBIT comprised of:** | | | | |
| Revenues[1] | **518** | 409 | **1,365** | 1,215 |
| Operating expenses | **(227)** | (214) | **(684)** | (677) |
| Depreciation and other | **(92)** | (85) | **(269)** | (247) |
| **Comparable EBITDA and comparable EBIT[2]** | **199** | 110 | **412** | 291 |
| **Bruce Power – other information** | | | | |
| Plant availability[3,4] | **95%** | 86% | **86%** | 86% |
| Planned outage days[4] | **28** | 92 | **232** | 257 |
| Unplanned outage days | **2** | — | **19** | 22 |
| Sales volumes (GWh)[5] | **5,684** | 5,101 | **15,361** | 15,197 |
| Realized power price per MWh[6] | **$91** | $80 | **$88** | $80 |

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

2 Represents our 48.3 per cent ownership interest and internal costs supporting our investment in Bruce Power. Excludes unrealized gains and losses on funds invested for post-retirement benefits and risk management activities.

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 Sales volumes include deemed generation.

6 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, which began in January 2020, is now in the installation phase. In third quarter 2022, a second planned outage on Unit 4 began with expected completion in late 2022. The average 2022 plant availability, excluding the Unit 6 MCR, is now expected to be in the mid-80 per cent range.

## Corporate

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

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | 2021 | **2022** | 2021 |
| **Comparable EBITDA and comparable EBIT** | **(9)** | (7) | **(16)** | (14) |
| Specific items: | | | | |
| Voluntary Retirement Program | **—** | (71) | **—** | (71) |
| Foreign exchange gains – inter-affiliate loans[1] | **—** | 42 | **28** | 45 |
| **Segmented (losses)/earnings** | **(9)** | (36) | **12** | (40) |

1 Reported in Income from equity investments in the Condensed consolidated statement of income.

Corporate segmented losses decreased by $27 million for the three months ended September 30, 2022, and Corporate segmented earnings increased by $52 million for the nine months ended September 30, 2022 compared to the same periods in 2021. Corporate segmented (losses)/earnings included accrued pre-tax costs for the Voluntary Retirement Program offered in mid-2021 and foreign exchange gains on our proportionate share of peso-denominated inter-affiliate loans to the Sur de Texas joint venture from its partners up to March 15, 2022 when the peso-denominated inter-affiliate loans were fully repaid upon maturity. These foreign exchange gains were recorded in Income from equity investments in the Corporate segment and were excluded from our calculation of comparable EBITDA and comparable EBIT as they were fully offset by corresponding foreign exchange losses on the inter-affiliate loan receivable included in Interest income and other. Refer to the Financial risks and financial instruments – Related party transactions section for additional information.

### INTEREST EXPENSE

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | 2021 | **2022** | 2021 |
| **Interest on long-term debt and junior subordinated notes** | | | | |
| Canadian dollar-denominated | **(203)** | (183) | **(570)** | (530) |
| U.S. dollar-denominated | **(321)** | (315) | **(944)** | (945) |
| Foreign exchange impact | **(98)** | (81) | **(267)** | (238) |
| | **(622)** | (579) | **(1,781)** | (1,713) |
| Other interest and amortization expense | **(49)** | (19) | **(96)** | (50) |
| Capitalized interest | **5** | 2 | **11** | 20 |
| **Interest expense included in comparable earnings** | **(666)** | (596) | **(1,866)** | (1,743) |
| Specific item: | | | | |
| Keystone XL preservation and other | **—** | — | **—** | (6) |
| **Interest expense** | **(666)** | (596) | **(1,866)** | (1,749) |

Interest expense increased by $70 million and $117 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 and included $6 million in second quarter 2021 related to the Keystone XL project-level credit facility for the period following the January 2021 revocation of the Presidential Permit for the Keystone XL pipeline. This has been removed from our calculation of Interest expense included in comparable earnings.

Interest expense included in comparable earnings increased by $70 million and $123 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 primarily due to the net effect of:

- higher interest rates on increased levels of short-term borrowings
- long-term debt and junior subordinated note issuances, net of maturities. Refer to the Financial condition section for additional information
- reduced capitalized interest due to its cessation for the Keystone XL pipeline project following the revocation of the Presidential Permit in January 2021
- the foreign exchange impact from a stronger U.S. dollar on translation of U.S. dollar-denominated interest.

## ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| Canadian dollar-denominated | **40** | 40 | **117** | 104 |
| U.S. dollar-denominated | **58** | 33 | **106** | 73 |
| Foreign exchange impact | **18** | 8 | **31** | 18 |
| **Allowance for funds used during construction** | **116** | 81 | **254** | 195 |

AFUDC increased by $35 million and $59 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021. The increase in U.S. dollar-denominated AFUDC is mainly the result of the reactivation of AFUDC on the TGNH assets under construction following the new TSA with the CFE. Refer to the Recent developments – Mexico Natural Gas Pipelines section for additional information. The increase in Canadian dollar-denominated AFUDC for the nine months ended September 30, 2022 is primarily related to increased capital expenditures on the NGTL System.

## INTEREST INCOME AND OTHER

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| **Interest income and other included in comparable earnings** | **41** | 91 | **125** | 341 |
| Specific items: | | | | |
| Foreign exchange losses – inter-affiliate loan | **—** | (42) | **(28)** | (45) |
| Risk management activities | **(283)** | (125) | **(321)** | (183) |
| **Interest income and other** | **(242)** | (76) | **(224)** | 113 |

Interest income and other decreased by $166 million and $337 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 and included the following specific items which have been removed from our calculation of Interest income and other included in comparable earnings:

- foreign exchange losses on the peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture until March 15, 2022, when it was fully repaid upon maturity
- unrealized net losses from changes in the fair value of derivatives used to manage our foreign exchange risk. These losses increased in 2022 due to significant strengthening of the U.S. dollar. Refer to the Financial risks and financial instruments section for additional information.

Our proportionate share of the corresponding foreign exchange gains and interest expense on the peso-denominated inter-affiliate loans to the Sur de Texas joint venture from its partners were reflected in Income from equity investments in the Corporate and Mexico Natural Gas Pipelines segments, respectively. The foreign exchange gains and losses on these inter-affiliate loans were removed from comparable earnings. As part of refinancing activities with the Sur de Texas joint venture, on March 15, 2022, the peso-denominated loan discussed above was replaced with a new U.S. dollar-denominated loan of an equivalent $1.2 billion (US$938 million). On July 29, 2022, the U.S. dollar-denominated loan was fully repaid. The interest income and interest expense on both the peso-denominated and U.S. dollar-denominated loans were included in comparable earnings with all amounts offsetting and resulting in no impact in net income. Refer to the Financial risks and financial instruments – Related party transactions section for additional information.

Interest income and other included in comparable earnings decreased by $50 million for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to:

- realized losses in third quarter 2022 compared to realized gains for the same period in 2021 on derivatives used to manage our net exposure to foreign exchange rate fluctuation on U.S. dollar-denominated income
- lower interest income due to the repayment of the above inter-affiliate loan receivable by the Sur de Texas joint venture on July 29, 2022.

Interest income and other included in comparable earnings decreased by $216 million for the nine months ended September 30, 2022 compared to the same period in 2021 due to:

- lower realized gains in 2022 on derivatives used to manage our net exposure to foreign exchange rate fluctuation on U.S. dollar-denominated income
- lower interest income due to the refinancing of the inter-affiliate loan receivable and subsequent repayment.

## INCOME TAX (EXPENSE)/RECOVERY

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| **Income tax expense included in comparable earnings** | **(202)** | (195) | **(554)** | (573) |
| Specific items: | | | | |
| Great Lakes goodwill impairment charge | **—** | — | **40** | — |
| Settlement of Mexico prior years' income tax assessments | **—** | — | **(195)** | — |
| Expected credit loss provision for net investment in leases | **21** | — | **21** | — |
| Bruce Power unrealized fair value adjustments | **(1)** | — | **7** | (1) |
| Keystone XL preservation and other | **1** | 3 | **4** | 8 |
| Keystone XL asset impairment charge and other | **—** | — | **—** | 660 |
| Voluntary Retirement Program | **—** | 16 | **—** | 16 |
| Gain on sale of Ontario natural gas-fired power plants | **—** | — | **—** | (4) |
| Risk management activities | **59** | 41 | **84** | 52 |
| **Income tax (expense)/recovery** | **(122)** | (135) | **(593)** | 158 |

Income tax expense decreased by $13 million and increased by $751 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 and included the following specific items which have been removed from our calculation of Income tax expense included in comparable earnings, in addition to the income tax impacts on other specific items referenced elsewhere in this MD&A:

- settlement of prior years' income tax assessments related to our operations in Mexico. Refer to the Recent developments – Corporate section for additional information
- the income tax impact of the Keystone XL pipeline project asset impairment charge and other in 2021.

Income tax expense included in comparable earnings increased by $7 million for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to higher comparable earnings and higher Mexico inflation adjustments, partially offset by favourable U.S. state rate adjustments and lower flow-through income taxes.

Income tax expense included in comparable earnings decreased by $19 million for the nine months ended September 30, 2022 compared to the same period in 2021 primarily due to lower comparable earnings and lower flow-through income taxes, partially offset by higher Mexico inflation adjustments.

## NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| **Net income attributable to non-controlling interests** | **(8)** | (8) | **(28)** | (83) |

Net income attributable to non-controlling interests remained consistent for three months ended September 30, 2022 and decreased by $55 million for the nine months ended September 30, 2022 compared to the same periods in 2021. The decrease is primarily the result of the March 2021 acquisition of all outstanding common units of TC PipeLines, LP not beneficially owned by TC Energy. Subsequent to the acquisition, TC PipeLines, LP became an indirect, wholly-owned subsidiary of TC Energy.

## PREFERRED SHARE DIVIDENDS

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| **Preferred share dividends** | **(21)** | (31) | **(85)** | (108) |

Preferred share dividends decreased by $10 million and $23 million for the three and nine months ended September 30, 2022 compared to the same periods in 2021 primarily due to the redemption of preferred shares in 2022 and 2021.

# Recent developments

## CANADIAN NATURAL GAS PIPELINES

### Coastal GasLink

On July 28, 2022, Coastal GasLink LP executed definitive agreements with LNG Canada that addressed and resolved disputes over certain incurred and anticipated costs of the Coastal GasLink pipeline project.

The revised project agreements incorporate a new cost estimate for the project of $11.2 billion, which reflects an increase from the original project cost estimate due to scope increases and the impacts of COVID-19, weather and other events outside of Coastal GasLink LP's control. Current market conditions, including inflationary impacts on labour costs, could result in final project costs that are higher than this new estimate. Mechanical in-service is expected to be reached by the end of 2023. Commercial in-service of the Coastal GasLink pipeline will occur after completion of commissioning the pipeline.

The revised $11.2 billion project cost will be funded in part by existing project-level credit facilities with a revised total capacity of $8.4 billion following an expansion of $1.6 billion. Required project equity of $2.8 billion includes an additional $1.9 billion equity contribution from TC Energy, payable in monthly installments from August 2022 to February 2023 that does not result in a change to our 35 per cent ownership. Additional equity financing required to fund construction of the pipeline will initially be financed through a subordinated loan agreement between TC Energy and Coastal GasLink LP which was originally put in place in fourth quarter 2021 and was amended on July 28, 2022. Following these amendments, draws by Coastal GasLink LP will be provided through an interest-bearing loan, subject to a floating market-based interest rate, which will be repaid with funds from equity contributions to the partnership by the Coastal GasLink LP partners, including us, subsequent to the in-service date of the Coastal GasLink pipeline when final project costs are determined. Committed capacity under this subordinated loan agreement between TC Energy and Coastal GasLink LP has been and will continue to be stepped down over time. At September 30, 2022, total available capacity under the subordinated loan agreement was $1.8 billion with an outstanding balance of $250 million. We currently estimate our portion of the equity contributions to Coastal GasLink LP over the project life to be approximately $2.1 billion, including the $1.9 billion equity contribution noted above.

On March 9, 2022, we announced the signing of option agreements to sell a 10 per cent equity interest in Coastal GasLink LP to Indigenous communities across the project corridor. The opportunity to become business partners through equity ownership was made available to all 20 Nations holding existing agreements with Coastal GasLink LP. The Nations have established two entities that together currently represent 16 Indigenous communities that have confirmed their support for the option agreements. The equity option is exercisable after commercial in-service of the pipeline, subject to customary regulatory approvals and consents, including the consent of LNG Canada.

The Coastal GasLink pipeline project is approximately 75 per cent complete. The entire route has been cleared, grading is more than 84 per cent complete and approximately 400 km of pipeline has been backfilled with reclamation activities underway in many areas.

### NGTL System

In the nine months ended September 30, 2022, the NGTL System placed approximately $1.9 billion of capacity projects in service.

**2021 NGTL System Expansion Program**

Construction of the 2021 NGTL System Expansion Program continues and, due to current market conditions as well as regulatory and weather delays, the estimated capital cost of the program is $3.5 billion. As of September 30, 2022, $2.7 billion of facilities have been placed into service, with the remaining facilities expected to be placed in service in fourth quarter 2022 and first quarter 2023. The program consists of 344 km (214 miles) of new pipeline, three compressor units and associated facilities and will add 1.6 PJ/d (1.5 Bcf/d) of incremental capacity to the NGTL System.

**2022 NGTL System Expansion Program**

We continue to advance construction of the 2022 NGTL System Expansion Program. As a result of current market conditions, material prices and regulatory delays, the estimated capital cost of the program is $1.5 billion with in-service dates anticipated in fourth quarter 2022 and second quarter 2023. The program consists of approximately 166 km (103 miles) of new pipeline, one new compressor unit and associated facilities and is underpinned by approximately 773 TJ/d (722 MMcf/d) of firm-service contracts with eight-year minimum terms.

**NGTL System/Foothills West Path Delivery Program**

On March 2, 2022, we received further regulatory approvals related to $0.5 billion of facilities, with the remaining approval anticipated in fourth quarter 2022. As a result of terrain complexity, current market conditions, material and labour cost increases and additional permitting conditions, the Canadian portion of the West Path Delivery Program has an estimated capital cost of $1.5 billion, with the first of the facilities' in-service dates anticipated in fourth quarter 2022 and the remaining facilities throughout 2023. The program consists of approximately 107 km (66 miles) of pipelines and associated facilities and is underpinned by 275 TJ/d (258 MMcf/d) of new firm-service contracts with terms that exceed 30 years.

**Valhalla North and Berland River Project (VNBR)**

In November 2022, we sanctioned the VNBR project which will serve aggregate system requirements and connect migrating supply to key demand markets, providing incremental capacity on the NGTL System of approximately 527 TJ/d (500 MMcf/d) and contribute to lower GHG emission intensity for the overall system. With an estimated capital cost of $0.6 billion, the project consists of approximately 33 km (21 miles) of new pipeline, one new non-emitting electric compressor unit and associated facilities. An application for the project is expected to be submitted to CER in third quarter 2023, with an anticipated in-service date in 2026 subject to regulatory approval.

## U.S. NATURAL GAS PIPELINES

### Columbia Gas Section 4 Rate Case

Columbia Gas reached a settlement with its customers effective February 2021 and received FERC approval on February 25, 2022. As part of the settlement, there is a moratorium on any further rate changes until April 1, 2025. Columbia Gas must file for new rates with an effective date no later than April 1, 2026. Previously accrued rate refund liabilities were refunded to customers, including interest, in second quarter 2022.

### ANR Section 4 Rate Case

ANR filed a Section 4 rate case with FERC on January 28, 2022 requesting an increase to ANR's maximum transportation rates effective August 1, 2022, subject to refund upon completion of the rate proceeding. The rate case is progressing and we continue to pursue a collaborative process to find a mutually beneficial outcome with our customers, FERC and other stakeholders through settlement negotiations.

### Great Lakes Rate Settlement

On April 26, 2022, FERC approved Great Lakes' unopposed rate case settlement with its customers by which Great Lakes and the settling parties agreed to maintain existing recourse rates through October 31, 2025.

While the settlement created short-term rate certainty, it prompted a re-evaluation of Great Lakes' long-term free cash flows which resulted in a US$451 million goodwill impairment charge being recorded in first quarter 2022. Refer to the Other information – Critical accounting estimates and accounting policy changes section for additional information.

### KO Transmission Enhancement Acquisition

On April 28, 2022, we approved the approximately US$80 million acquisition of KO Transmission assets to be integrated into our Columbia Gas pipeline. After filing for and receiving FERC approval of Columbia Gas' acquisition of KO Transmission assets, which is expected by the end of 2022, this expanded footprint is expected to provide additional last-mile connectivity of Columbia Gas into northern Kentucky and southern Ohio to growing LDC markets. It is also expected to provide a platform for future capital investments including future conversions of coal-fueled power plants in the region.

### Renewable Natural Gas Hub Development

In April 2022, we announced a strategic collaboration with GreenGasUSA to explore development of a network of RNG transportation hubs. These hubs would provide centralized access to existing energy transportation infrastructure for RNG sources, such as farms, wastewater treatment facilities and landfills. We believe that this collaboration, which targets 10 transportation hubs nationally, will rapidly expand and provide incremental capability to the already existing RNG interconnects across our U.S. natural gas footprint. The development of these hubs is an important step towards the acceleration of methane capture projects and the concurrent reduction of GHG emissions.

### Alberta XPress and North Baja XPress Projects

In April 2022, FERC provided certificate orders approving our Alberta XPress and North Baja XPress projects. The Alberta XPress project is an expansion of ANR that utilizes existing capacity on Great Lakes and the Canadian Mainline to connect growing supply from the WCSB to U.S. Gulf Coast LNG export markets. The anticipated in-service date is late 2022 or early 2023 with an estimated project cost of US$0.3 billion. The North Baja XPress project is designed to expand capacity on North Baja to meet increased customer demand by upgrading one existing compressor station and two existing meter stations in Arizona and California with a mid-2023 expected in-service date and total anticipated cost of US$0.1 billion. All the upgrades required for North Baja XPress will occur on property and within facilities currently owned and/or operated by North Baja.

### Louisiana XPress Project

The Louisiana XPress project, a Columbia Gulf project designed to connect natural gas supply to U.S. Gulf Coast LNG export facilities, was phased into service over the course of third quarter 2022.

### Elwood Power and Wisconsin Access Projects

The Elwood Power and Wisconsin Access projects, both including upgrade and reliability components, while reducing emissions along portions of the ANR pipeline system, were placed into commercial service on November 1, 2022.

### Gillis Access Project

In November 2022, we sanctioned development of the Gillis Access project, a 1.5 Bcf/d greenfield pipeline system that will connect supplies from the Haynesville basin at Gillis to markets elsewhere in Louisiana. The 42 mile Louisiana header system will also enable the rapidly growing Louisiana LNG export market to access Haynesville-sourced gas production as well as create a platform for further growth into the southeast Louisiana markets. The project has an anticipated in-service date in 2024 and a total estimated cost of US$0.4 billion.

## MEXICO NATURAL GAS PIPELINES

### Strategic Alliance with the CFE

On August 4, 2022, we announced a strategic alliance with Mexico's state-owned electric utility, the CFE, for the development of new natural gas infrastructure in central and southeast Mexico. This alliance consolidates previous TSAs executed between TC Energy's Mexico-based subsidiary TGNH and the CFE in connection with our natural gas pipeline assets in central Mexico (including the Tamazunchale, Villa de Reyes and Tula pipelines) under a single, U.S. dollar-denominated take-or-pay contract that extends through 2055. This agreement also resolves and terminates previous international arbitrations with the CFE related to the Villa de Reyes and Tula pipelines.

In connection with the strategic alliance, we reached an FID to proceed and build the Southeast Gateway pipeline, a 1.3 Bcf/d, 715 km offshore natural gas pipeline to serve the southeast region of Mexico with an expected in-service by mid-2025 and an estimated project cost of US$4.5 billion.

The lateral section of the Villa de Reyes pipeline was mechanically completed in second quarter 2022, while VdR North and Tula East were placed into commercial service in third quarter 2022. We are working with the CFE, and expect the lateral and the south sections of the Villa de Reyes pipeline to begin commercial service in 2023. Additionally, we have agreed to jointly develop and complete the central segment of the Tula pipeline, subject to an FID.

Subject to regulatory approvals from Mexico's economic competition commission and the Regulatory Energy Commission, the strategic alliance provides the CFE with the ability to hold an equity interest in TGNH, which is conditional upon the CFE contributing capital, acquiring land and supporting permitting on the TGNH projects. Upon in-service of the Southeast Gateway pipeline, the CFE's equity interest in TGNH would equal 15 per cent, which would increase to approximately 35 per cent upon expiry of the contract in 2055. Regulatory approvals related to the CFE's equity participation in TGNH are expected to take up to 24 months.

## POWER AND STORAGE

### Bruce Power Life Extension

On March 7, 2022, the IESO verified Bruce Power's Unit 3 MCR program final cost and schedule duration estimate submitted in December 2021. The Unit 3 MCR program is scheduled to begin in first quarter 2023 with expected completion in 2026.

Bruce Power's contract price increased by approximately $10 per MWh on April 1, 2022, in accordance with contract terms, reflecting capital to be invested under the Unit 3 MCR program and the 2022 to 2024 Asset Management program plus normal annual inflation adjustments.

Bruce Power's Unit 4 is the third unit in their MCR program. The Unit 4 MCR definition phase was completed in June 2022 and is now in the preparation phase leading up to an FID expected in fourth quarter 2023. A preliminary basis of estimate (including an initial cost and schedule duration estimate) is expected to be submitted to the IESO in fourth quarter 2022.

### Renewable Energy Contracts and/or Investment Opportunities

Through an RFI process conducted in 2021, we are seeking potential contracts and/or investment opportunities in wind, solar and energy storage projects to meet the electricity needs of the U.S. portion of the Keystone Pipeline System and supply renewable energy products and services to industrial and oil and gas sectors proximate to our in-corridor demand. To date in 2022, we have finalized contracts for approximately 580 MW and 240 MW from wind energy and solar projects, respectively. We continue to evaluate the proposals received through the RFI process and expect to finalize additional contracts and/or investment opportunities in 2022.

### Saddlebrook Solar Project

On October 4, 2022, we announced that we have begun pre-construction activities on the Saddlebrook Solar project located near Aldersyde, Alberta. The expected capital cost of this 81 MW project is $146 million with the project partially supported by $10 million from Emissions Reduction Alberta. Construction is expected to be completed in 2023.

## OTHER ENERGY SOLUTIONS

### Hydrogen Hubs

As part of our JDA with Nikola, on April 26, 2022, we announced a plan to evaluate a hydrogen production hub on 140 acres in Crossfield, Alberta, where we currently operate our natural gas storage facility. We expect an FID by the end of 2023, subject to customary regulatory approvals.

### Alberta Carbon Grid

In June 2021, we announced a partnership with Pembina Pipeline Corporation to jointly develop a world-scale carbon transportation and sequestration system which, when fully constructed, will be capable of transporting more than 20 million tonnes of carbon dioxide annually. On October 18, 2022, ACG announced that it has entered into a carbon sequestration evaluation agreement with the Government of Alberta to further evaluate one of the largest AOI for safely storing carbon from industrial emissions in Alberta. This agreement will allow ACG to continue evaluating the suitability of our AOI and move forward into the next stage of the province's CCUS process to provide confidence to customers, Indigenous communities, stakeholders and the Government of Alberta in the project's carbon storage capabilities. Designed to be an open-access system, ACG proposes to leverage existing right of ways and/or pipelines to connect the Alberta Industrial Heartland emissions region to a key sequestration location.

### Lynchburg Renewable Fuels

On October 17, 2022, we announced a US$29 million investment for 30 per cent ownership in the Lynchburg Renewable Fuels project, a renewable natural gas production facility in Lynchburg, Tennessee being developed by 3 Rivers Energy Partners, LLC. Along with our ownership interest, we will market all RNG and environmental attributes generated from the facility once operational in 2024. We also have the option to jointly develop future RNG projects with 3 Rivers Energy Partners, LLC.

## CORPORATE

### Mexico Tax Audit

In 2019, the Mexican tax authority, the Tax Administration Services (SAT), completed an audit of the 2013 tax return of one of our subsidiaries in Mexico. The audit resulted in a tax assessment that denied the deduction for all interest expense and an assessment of additional tax, penalties and financial charges totaling less than US$1 million. We disagreed with this assessment and commenced litigation to challenge it. In January 2022, we received the tax court's ruling on the 2013 tax return, which upheld the SAT assessment. From September 2021 to February 2022, the SAT issued assessments for tax years 2014 through 2017 which denied the deduction of all interest expense as well as assessed incremental withholding tax on the interest. These assessments totaled approximately US$490 million in income and withholding taxes, interest, penalties and other financial charges.

On April 27, 2022, we settled with the SAT on all of the above matters for the tax years 2013 through 2021. In the nine months ended September 30, 2022, we recorded US$152 million of income tax expense (inclusive of withholding taxes, interest, penalties and other financial charges).

## Dividend Reinvestment Plan

To prudently fund our growth program that includes increased project costs on the NGTL System and following our obligation to make an equity contribution of $1.9 billion to Coastal GasLink LP, we reinstated the issuance of common shares from treasury at a two per cent discount under our Dividend Reinvestment Plan (DRP) commencing with the dividends declared on July 27, 2022. With respect to the common share dividends declared on July 27, 2022, subsequently paid on October 31, 2022, the DRP participation rate amongst common shareholders was approximately 38 per cent resulting in $342 million reinvested in common equity. The discounted DRP is expected to be in place through the dividend declarations for the quarter ending June 30, 2023.

## Common Shares Issued Under Public Offering

On August 10, 2022 we issued 28.4 million common shares at a price of $63.50 each for gross proceeds of approximately $1.8 billion. We will use the proceeds of the offering, directly or indirectly, together with other financing sources and cash on hand, to fund costs associated with the construction of the Southeast Gateway pipeline.

## 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 believe we have the financial capacity to fund our existing capital program through predictable and growing cash flows from operations, access to capital markets, portfolio management, joint ventures, asset-level financing, cash on hand and substantial committed credit facilities. Annually, in fourth quarter, we renew and extend our credit facilities as required.

At September 30, 2022, our current assets totaled $8.9 billion and current liabilities amounted to $16.8 billion, leaving us with a working capital deficit of $7.9 billion compared to $5.6 billion at December 31, 2021. 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 $10.6 billion of committed revolving credit facilities, of which $4.6 billion of short-term borrowing capacity remains available, net of $6.0 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 remained available as at September 30, 2022
- our access to capital markets, including through securities issuances, incremental credit facilities, portfolio management activities, DRP and Corporate ATM programs, if deemed appropriate.

### CASH PROVIDED BY OPERATING ACTIVITIES

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| **Net cash provided by operations** | **1,701** | 1,712 | **4,350** | 5,089 |
| (Decrease)/increase in operating working capital | **(67)** | (227) | **511** | 32 |
| Funds generated from operations | **1,634** | 1,485 | **4,861** | 5,121 |
| Specific items: | | | | |
| Settlement of Mexico prior years' income tax assessments | **—** | — | **195** | — |
| Keystone XL preservation and other | **4** | 14 | **15** | 35 |
| Current income tax (recovery)/expense on Keystone XL asset impairment charge, preservation and other | **(1)** | — | **(3)** | 120 |
| Voluntary Retirement Program | **—** | 71 | **—** | 71 |
| Current income tax recovery on Voluntary Retirement Program | **—** | (14) | **—** | (14) |
| **Comparable funds generated from operations** | **1,637** | 1,556 | **5,068** | 5,333 |

### Net cash provided by operations

Net cash provided by operations decreased by $11 million for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to the amount and timing of working capital changes, partially offset by higher funds generated from operations. Net cash provided by operations decreased $739 million for the nine months ended September 30, 2022 compared to the same period in 2021 primarily due to the amount and timing of working capital changes as well as lower funds generated from 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 increased by $81 million for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to increased EBITDA. This was partially offset by higher interest expense, the impact of derivatives used to manage our net exposure to foreign exchange fluctuations on U.S. dollar-denominated income and the refinancing of the inter-affiliate loan receivable and its subsequent repayment in 2022. Comparable funds generated from operations decreased by $265 million for the nine months ended September 30, 2022 compared to the same period in 2021 as a result of the items listed above, partially offset by increased EBITDA.

## CASH USED IN INVESTING ACTIVITIES

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | 2021 | **2022** | 2021 |
| **Capital spending** | | | | |
| Capital expenditures | **(1,837)** | (1,446) | **(4,608)** | (4,305) |
| Contributions to equity investments | **(746)** | (241) | **(1,181)** | (706) |
| | **(2,583)** | (1,687) | **(5,789)** | (5,011) |
| Keystone XL contractual recoveries | **95** | — | **568** | — |
| Loans to affiliate repaid/(issued), net | **101** | (620) | **(11)** | (840) |
| Other distributions from equity investments | **1,205** | — | **1,237** | — |
| Deferred amounts and other | **49** | (66) | **(4)** | (470) |
| **Net cash used in investing activities** | **(1,133)** | (2,373) | **(3,999)** | (6,321) |

Capital expenditures in 2022 were incurred primarily for the expansion of the NGTL System, Columbia Gas and ANR projects, and development of the Southeast Gateway pipeline, as well as maintenance capital expenditures. Higher capital expenditures in 2022 compared to 2021 reflected spending for the development of the Southeast Gateway pipeline and expansion of the NGTL System, partially offset by the termination of the Keystone XL pipeline project following the revocation of the Presidential Permit in January 2021 as well as reduced spending on ANR projects.

Contributions to equity investments increased in 2022 compared to 2021 mainly due to equity contributions to Coastal GasLink LP, in accordance with the July 2022 definitive agreements, partially offset by reduced cash calls from Bruce Power. Refer to the Financial risks and financial instruments – Related party transactions section for additional information.

As part of refinancing activities with the Sur de Texas joint venture, on March 15, 2022, our peso-denominated loan was fully repaid upon maturity in the amount of $1.2 billion and was subsequently replaced with a new U.S. dollar-denominated loan of an equivalent $1.2 billion. On July 29, 2022, the Sur de Texas joint venture entered into an unsecured term loan agreement with third parties, the proceeds of which were used to fully repay the U.S. dollar-denominated inter-affiliate loan with TC Energy. The Contributions to equity investments and Other distributions from equity investments with respect to the refinancing activities are presented above on a net basis, although they are reported on a gross basis in our Condensed consolidated statement of cash flows. Refer to the Financial risks and financial instruments – Related party transactions section for additional information.

For the three and nine months ended September 30, 2022, we received $95 million and $568 million, respectively, of contractual recoveries related to the Keystone XL pipeline project termination in 2021.

Loans to affiliate represent issuances and repayments on the subordinated demand revolving credit facility and the subordinated loan agreement that we entered into with Coastal GasLink LP to provide additional liquidity and funding to the project. Refer to the Financial risks and financial instruments – Related party transactions section for additional information.

## CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (millions of $) | **2022** | **2021** | **2022** | **2021** |
| Notes payable issued/(repaid), net | **458** | 1,448 | **672** | (1,012) |
| Long-term debt issued, net of issue costs | **(2)** | 47 | **2,508** | 7,798 |
| Long-term debt repaid | **(1,287)** | — | **(1,313)** | (980) |
| Junior subordinated notes issued, net of issue costs | **—** | — | **1,008** | 495 |
| Redeemable non-controlling interest repurchased | **—** | — | **—** | (633) |
| Dividends and distributions paid | **(923)** | (903) | **(2,770)** | (2,652) |
| Common shares issued, net of issue costs | **1,742** | 4 | **1,900** | 64 |
| Preferred shares redeemed | **—** | — | **(1,000)** | (500) |
| Other | **6** | — | **23** | (15) |
| **Net cash (used in)/provided by financing activities** | **(6)** | 596 | **1,028** | 2,565 |

### Long-term debt issued

The following table outlines significant long-term debt issuances in the nine months ended September 30, 2022:

| (millions of Canadian $, unless otherwise noted) | | | | | |
|---|---|---|---|---|---|
| **Company** | **Issue date** | **Type** | **Maturity date** | **Amount** | **Interest rate** |
| TRANSCANADA PIPELINES LIMITED | | | | | |
| | May 2022 | Medium Term Notes | May 2032 | 800 | 5.33% |
| | May 2022 | Medium Term Notes | May 2026 | 400 | 4.35% |
| | May 2022 | Medium Term Notes | May 2052 | 300 | 5.92% |
| ANR PIPELINE COMPANY | | | | | |
| | May 2022 | Senior Unsecured Notes | May 2032 | US 300 | 3.43% |
| | May 2022 | Senior Unsecured Notes | May 2034 | US 200 | 3.58% |
| | May 2022 | Senior Unsecured Notes | May 2037 | US 200 | 3.73% |
| | May 2022 | Senior Unsecured Notes | May 2029 | US 100 | 3.26% |

### Long-term debt retired

On August 1, 2022, TCPL retired US$1.0 billion of senior unsecured notes bearing interest at a fixed rate of 2.50 per cent.

### Junior subordinated notes issued

In March 2022, we issued US$800 million of junior subordinated notes through TransCanada Trust, a wholly-owned financing trust subsidiary of TCPL. We used the proceeds from the issuance to redeem all issued and outstanding TC Energy Series 15 preferred shares on May 31, 2022 pursuant to their terms. Refer to Note 10, Junior subordinated notes issued, of our Condensed consolidated financial statements for additional information.

## DIVIDENDS

On November 8, 2022, we declared quarterly dividends on our common shares of $0.90 per share payable on January 31, 2023 to shareholders of record at the close of business on December 30, 2022.

## DIVIDEND REINVESTMENT PLAN

To prudently fund our growth program that includes increased project costs on the NGTL System and following our obligation to make an equity contribution of $1.9 billion to Coastal GasLink LP, we reinstated the issuance of common shares from treasury at a two per cent discount under our DRP commencing with the dividends declared on July 27, 2022. With respect to the common share dividends declared on July 27, 2022, subsequently paid on October 31, 2022, the DRP participation rate amongst common shareholders was approximately 38 per cent resulting in $342 million reinvested in common equity. The discounted DRP is expected to be in place through the dividend declarations for the quarter ending June 30, 2023.

## SHARE INFORMATION

At November 3, 2022, we had 1.0 billion issued and outstanding common shares and 6 million outstanding options to buy common shares, of which 3 million were exercisable.

On August 10, 2022 we issued 28.4 million common shares at a price of $63.50 each for gross proceeds of approximately $1.8 billion. We will use the proceeds of the issuance, directly or indirectly, together with other financing sources and cash on hand, to fund costs associated with the construction of the Southeast Gateway pipeline.

On May 31, 2022, we redeemed all of the 40 million issued and outstanding Series 15 preferred shares at a redemption price of $25.00 per share and paid the final quarterly dividend of $0.30625 per Series 15 preferred share for the period up to but excluding May 31, 2022, as previously announced on April 1, 2022.

## CREDIT FACILITIES

At November 3, 2022, we had a total of $10.5 billion of committed revolving credit facilities of which $3.6 billion of short-term borrowing capacity remains available, net of $6.9 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.

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

## CONTRACTUAL OBLIGATIONS

Capital expenditure commitments are largely consistent with December 31, 2021, reflecting the net effect of normal course fulfillment of commitments related to construction, partially offset by new commitments on capital projects.

There were no material changes to our contractual obligations in third quarter 2022 or to payments due in the next five years or after. Refer to our 2021 Annual Report for more information about our contractual obligations.

## 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 2021 Annual Report for more information about the risks we face in our business which have not changed substantially since December 31, 2021, other than as noted within this MD&A.

### INTEREST RATE RISK

We utilize both short- and long-term debt to finance our operations which exposes us to interest rate risk. We typically pay fixed rates of interest on our long-term debt and floating rates on short-term debt including 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 U.S. dollar London Interbank Offered Rate (LIBOR), of which certain rate settings have ceased to be published at the end of 2021 with full cessation by mid-2023. We expect to use practical expedients available in the guidance to treat contract modifications as events that do not require contract remeasurement or reassessment of previous accounting determinations. As such, these changes are not expected to have a material impact on our consolidated financial statements. In the nine months ended September 30, 2022, we have not identified any applicable contract modifications as a result of reference rate reform. We continue to monitor any new developments with respect to this guidance.

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited, the administrator of the Canadian Dollar Offered Rate (CDOR), announced that the calculation and publication of all tenors of CDOR will permanently cease following a final publication on June 28, 2024. We are currently evaluating the impact of this guidance on contracts and financial instruments with variable rate components that reference CDOR and have not yet determined the effect on our consolidated financial statements.

### FOREIGN EXCHANGE RISK

Certain of our businesses generate all or most of their earnings in U.S. dollars and, since we report our financial results in Canadian dollars, changes in the value of the U.S. dollar against the Canadian dollar can affect our comparable EBITDA and comparable earnings. Refer to the Consolidated results – Foreign exchange section for additional information.

A small portion of our Mexico Natural Gas Pipelines monetary assets and liabilities are peso-denominated, while the functional currency for our Mexico operations is U.S. dollars. These peso-denominated balances are revalued to U.S. dollars and, as a result, changes in the value of the Mexican peso against the U.S. dollar can affect our net income. In addition, foreign exchange gains or losses calculated for Mexico income tax purposes on the revaluation of the Sur de Texas U.S. dollar-denominated loans payable result in peso-denominated deferred income tax expense or recovery for Sur de Texas, leading to fluctuations in comparable EBITDA. These exposures are managed using foreign exchange derivatives, with the hedging gains and losses recorded in Interest income and other.

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

## COUNTERPARTY CREDIT RISK

We have exposure to counterparty credit risk in a number of areas including:

- cash and cash equivalents
- accounts receivable and certain contractual recoveries
- available-for-sale assets
- fair value of derivative assets
- loans receivable
- net investment in leases.

Market events causing disruptions in global energy demand and supply may contribute to economic uncertainties impacting a number of our customers. While the majority of our credit exposure is to large creditworthy entities, we maintain close monitoring and communication with those counterparties experiencing greater financial pressures. Refer to our 2021 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 reasonable and supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other. At September 30, 2022, we had no significant credit risk concentrations and no significant amounts past due or impaired. As discussed in Note 8, TGNH strategic alliance with the CFE, a $71 million (US$53 million) expected credit loss provision before tax was recognized on the TGNH net investment in leases, as required by U.S. GAAP.

We have significant credit and performance exposure to financial institutions that 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.

## LIQUIDITY RISK

Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due. 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.

## RELATED PARTY TRANSACTIONS

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.

**Sur de Texas**

We hold a 60 per cent equity interest in a joint venture with IEnova to own the Sur de Texas pipeline, for which we are the operator. In 2017, we entered into a MXN$21.3 billion unsecured revolving credit facility with the joint venture, which bore interest at a floating rate and was fully repaid upon maturity on March 15, 2022 in the amount of approximately $1.2 billion.

Our Condensed consolidated statement of income reflected the related interest income and foreign exchange impact on this loan which were fully offset upon consolidation with corresponding amounts included in our proportionate share of Sur de Texas' equity earnings as follows:

| | three months ended September 30 | | nine months ended September 30 | | Affected line item in the Condensed consolidated statement of income |
|---|---|---|---|---|---|
| (millions of $) | 2022 | 2021 | 2022 | 2021 | |
| Interest income[1] | **—** | 22 | **19** | 64 | Interest income and other |
| Interest expense[2] | **—** | (22) | **(19)** | (64) | Income from equity investments |
| Foreign exchange losses[1] | **—** | (42) | **(28)** | (45) | Interest income and other |
| Foreign exchange gains[1] | **—** | 42 | **28** | 45 | Income from equity investments |

1 Included in our Corporate segment.
2 Included in our Mexico Natural Gas Pipelines segment.

As part of refinancing activities with the Sur de Texas joint venture, on March 15, 2022, the peso-denominated loan discussed above was replaced with a new U.S. dollar-denominated loan of an equivalent $1.2 billion (US$938 million) with a floating interest rate. On July 29, 2022, the Sur de Texas joint venture entered into an unsecured term loan agreement with third parties and used the proceeds to fully repay the U.S. dollar-denominated inter-affiliate loan with TC Energy.

**Coastal GasLink LP**

We hold a 35 per cent equity interest in Coastal GasLink LP and have been contracted to develop and operate the Coastal GasLink pipeline.

***TC Energy Equity Contributions and Subordinated Loan Agreement***

In July 2022, in accordance with definitive agreements with the Coastal GasLink LP partners, we entered into an obligation to make an equity contribution to Coastal GasLink LP of $1.9 billion, payable in monthly installments from August 2022 to February 2023, with no resulting change to our 35 per cent ownership. At September 30, 2022, the remaining $1.3 billion of the equity contribution had been accrued and was reflected in Accounts payable and other on our Condensed consolidated balance sheet.

In 2021, we entered into a subordinated loan agreement with Coastal GasLink LP to provide interim temporary financing to fund incremental project costs as a bridge to a required increase in project-level financing. Under this agreement, financing was provided through a combination of interest-bearing loans subject to floating market-based interest rates and non-interest-bearing loans. Following amendments to this loan agreement on July 28, 2022, draws on this loan by Coastal GasLink LP will be provided through an interest-bearing loan, subject to a floating market-based interest rate, which will be repaid by the Coastal GasLink LP partners, including us, subsequent to the in-service date of the Coastal GasLink pipeline when final project costs are determined. The total capacity committed under this subordinated loan agreement was $2.1 billion of which $1.3 billion reflects the accrued equity contribution described above. An outstanding balance of $250 million as at September 30, 2022 (December 31, 2021 – $238 million) is reflected in Long-term loans receivable from affiliate on our Condensed consolidated balance sheet.

***Subordinated Demand Revolving Credit Facility***

We have a subordinated demand revolving credit facility with Coastal GasLink LP to provide additional short-term liquidity and funding flexibility to the project. The facility bears interest at a floating market-based rate and had a capacity of $100 million with an outstanding balance of nil at September 30, 2022 (December 31, 2021 – $1 million) reflected in Loans receivable from affiliates under Current assets on our Condensed consolidated balance sheet.

## 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.

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.

The recognition of gains and losses on derivatives for Canadian natural gas regulated pipeline exposures is determined through the regulatory process. Gains and losses arising from changes in the fair value of derivatives accounted for as part of RRA, including those that qualify for hedge accounting treatment, are expected to be recovered or refunded through the tolls charged by us. As a result, these gains and losses are deferred as regulatory assets or regulatory liabilities and are collected from or refunded to the ratepayers in subsequent years when the derivative settles.

**Balance sheet presentation of derivative instruments**

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

| (millions of $) | **September 30, 2022** | **December 31, 2021** |
|---|---|---|
| Other current assets | **702** | 169 |
| Other long-term assets | **69** | 48 |
| Accounts payable and other | **(1,080)** | (221) |
| Other long-term liabilities | **(239)** | (47) |
| | **(548)** | (51) |

**Unrealized and realized gains and 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 | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Derivative Instruments Held-for-Trading**[1] | | | | |
| Amount of unrealized gains/(losses) in the period | | | | |
| Commodities | **42** | (43) | **(16)** | (27) |
| Foreign exchange | **(283)** | (125) | **(321)** | (183) |
| Amount of realized gains/(losses) in the period | | | | |
| Commodities | **165** | 58 | **561** | 167 |
| Foreign exchange | **(1)** | 37 | **27** | 195 |
| **Derivative Instruments in Hedging Relationships** | | | | |
| Amount of realized (losses)/gains in the period | | | | |
| Commodities | **(21)** | (9) | **(39)** | (32) |
| Interest rate | **2** | (6) | **—** | (18) |

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.

For further details on our non-derivative and derivative financial instruments, including classification assumptions made in the calculation of fair value and additional discussion of exposure to risks and mitigation activities, refer to Note 14, Risk management and financial instruments, of our Condensed consolidated financial statements.

# 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, 2022, 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 2022 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 affect the timing and amounts we record for our assets, liabilities, revenues and expenses because these items may be affected by future events. We base the estimates and assumptions on the most current information available, using our best judgment. We also regularly assess the assets and liabilities themselves. In addition to the items discussed below, refer to our 2021 Annual Report for a listing of critical accounting estimates.

### Strategic alliance with the CFE

On August 4, 2022, we announced a strategic alliance with Mexico's state-owned electric utility, the CFE, for the development of new natural gas infrastructure in central and southeast Mexico. This alliance consolidates previous TSAs executed between TC Energy's Mexico-based subsidiary TGNH and the CFE in connection with our natural gas pipeline assets in central Mexico (including the Tamazunchale, Villa de Reyes and Tula pipelines) under a single, U.S. dollar-denominated take-or-pay contract that extends through 2055. This agreement also resolves and terminates previous international arbitrations with the CFE related to the Villa de Reyes and Tula pipelines.

**Lease accounting policy**

We determine if a contract contains a lease, as determined by U.S. GAAP at inception of a contract, by using judgment in assessing the following aspects: 1) the contract specifies an identified asset which is physically distinct or, if not physically distinct, represents substantially all of the capacity of the asset; 2) the contract provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset and 3) the customer has the right to direct how and for what purpose the identified asset is used throughout the period of the contract.

If the contract is determined to contain a lease, further judgment is required to identify separate lease components of the arrangement by assessing whether the lessee can benefit from the right of use either on its own or together with other resources that are readily available to the lessee, as well as if the right of use is neither highly dependent on nor highly interrelated with the other rights to use the underlying assets in the contract.

We consider non-lease components as distinct elements of a contract that are not related to the use of the leased asset. A good or service that is promised to a customer is distinct if: 1) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and 2) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The TSA executed between TC Energy and the CFE contains a lease under U.S. GAAP with multiple lease and non-lease components. The lease components represent the capacity available to the CFE provided by the pipelines in service which, at September 30, 2022, included the Tamazunchale, VdR North and Tula East pipelines. The non-lease components represent our services with respect to operation and maintenance of the TGNH pipelines in service.

The contract consideration consisting of fixed toll payments is allocated to lease and non-lease components based on the standalone selling price for each distinct good or service within the contract using a combination of expected cost plus a margin and residual approach. In order to establish the expected cost plus a margin approach, we applied judgment to determine reasonable estimates of the expected future cost of satisfying the non-lease performance obligations.

The TGNH pipelines are regulated and tolls are designed to recover the cost of providing service. On this basis, we applied judgment to determine that, at the inception of the lease arrangement, the fair value of the underlying assets approximates the carrying value and the residual value approximates the remaining carrying value at the end of the lease term. There is no guaranteed residual value for the underlying assets; however, TC Energy expects to continue to operate the TGNH pipelines following the lease term expiration as long as there is supply and demand for natural gas in Mexico. At the inception of the lease arrangement, we determined that the present value of the sum of the future lease payments over the lease term exceeds substantially all of the fair value of the underlying TGNH pipelines in service and as such are classified as sales-type leases.

**Sales-type leases and expected credit loss provision**

At September 30, 2022, we recognized an aggregate net investment in sales-type leases amounting to $2,393 million with no gains or losses recorded upon derecognition of the respective Plant, property and equipment on our Condensed consolidated balance sheet.

The net investment in leases arising from sales-type leases is a financial asset subject to impairment using a lifetime expected loss approach at initial recognition and throughout the life of the financial asset. Expected credit losses are calculated using a model and methodology based on assumptions and judgment considering historical data, current counterparty information as well as reasonable and supportable forecasts of future economic conditions. As required under U.S. GAAP, our methodology includes consideration of the probability of default (the probability that the lessee will default during the lease term), the loss given default (the economic loss as a proportion of the net investment in leases balance in the event of a default) and the exposure at default (the net investment in leases balance at the time of a hypothetical default) with one-year forward-looking information that includes assumptions for future macroeconomic conditions under three probability-weighted future scenarios. The macroeconomic factors considered most relevant to the lessee's ability to settle the net investment in leases include Mexico's GDP, government debt to GDP and inflation.

The expected credit loss amount is updated at each reporting date to reflect changes in assumptions and forecasts for future economic conditions. With respect to net investment in leases, for the three and nine months ended September 30, 2022, we recorded a $71 million (US$53 million) expected credit loss provision before tax in Plant operating costs and other in the Condensed consolidated statement of income.

## Equity investment in Coastal GasLink LP

Our non-consolidated Variable Interest Entities (VIEs) consist of legal entities where TC Energy 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 assessment of whether an entity is a VIE and, if so, whether TC Energy is the primary beneficiary, is completed at the inception of the entity or at a reconsideration event. We examine specific criteria and use judgment when determining if we are the primary beneficiary of a VIE.

In third quarter 2022, there was a reconsideration event for our investment in Coastal GasLink LP as a result of revised project agreements and a further $1.9 billion equity contribution from TC Energy. We exercised judgment in performing the primary beneficiary analysis and determined that power continues to be shared with our partners; therefore, TC Energy is not the primary beneficiary. In addition, we evaluated our investment in Coastal GasLink LP and concluded there was no indication of impairment as at September 30, 2022.

## Impairment of long-lived assets and goodwill

Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate it might be impaired. We can initially make this assessment based on qualitative factors. If we conclude that it is more likely than not that the fair value of the reporting unit is less than its carrying value, we will then perform a quantitative goodwill impairment test.

During first quarter 2022, we elected to pursue an unanticipated opportunity to extend the existing recourse rates on Great Lakes. This prompted us to re-evaluate the impact of maintaining recourse rates at the current level as opposed to moving forward with the previously presumed Great Lakes rate case process in 2022.

On March 18, 2022, Great Lakes reached a pre-filing settlement with its customers and filed an unopposed rate case settlement with FERC by which Great Lakes and the settling parties agreed to maintain existing recourse rates through October 31, 2025. While the settlement created short-term rate certainty, it prompted a re-evaluation of Great Lakes' long-term free cash flows. With recourse rates maintained at the current level for the next three years, the expectation of increased contracting, growth and other near-term commercial and regulatory opportunities were negatively impacted.

Management performed a quantitative impairment test that evaluated a range of assumptions through a discounted cash flow analysis using a risk-adjusted discount rate. It was determined that the estimated fair value of the Great Lakes reporting unit no longer exceeded its carrying value, including goodwill, and that an impairment charge was necessary. As a result, we recorded a pre-tax goodwill impairment charge of $571 million ($531 million after tax) within the U.S. Natural Gas Pipelines segment that is included in Goodwill and asset impairment charges and other in the Condensed consolidated statement of income and was excluded from comparable earnings. The remaining goodwill balance related to Great Lakes is US$122 million at September 30, 2022 (December 31, 2021 – US$573 million). There is a risk that continued reductions in future cash flow forecasts and adverse changes in other key assumptions could result in a future impairment of the goodwill balance relating to Great Lakes.

We have elected to allocate goodwill impairment charges first to goodwill that is non-deductible for income tax purposes, with any remaining charge allocated to tax-deductible goodwill. The majority of the Great Lakes goodwill impairment charge was allocated to non-deductible goodwill and the income tax recovery of $40 million was attributable to the portion of the goodwill that was deductible for income tax purposes.

## Accounting changes

Our significant accounting policies have remained unchanged since December 31, 2021 other than as described in Note 2, Accounting changes, of our Condensed consolidated financial statements. A summary of our significant accounting policies is included in our 2021 Annual Report.

## Quarterly results

### SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

| | 2022 | | | 2021 | | | | 2020 |
|---|---|---|---|---|---|---|---|---|
| (millions of $, except per share amounts) | **Third** | **Second** | **First** | **Fourth** | **Third** | **Second** | **First** | **Fourth** |
| Revenues | **3,799** | 3,637 | 3,500 | 3,584 | 3,240 | 3,182 | 3,381 | 3,297 |
| Net income/(loss) attributable to common shares | **841** | 889 | 358 | 1,118 | 779 | 975 | (1,057) | 1,124 |
| Comparable earnings | **1,068** | 979 | 1,103 | 1,028 | 970 | 1,038 | 1,106 | 1,069 |
| Per share statistics: | | | | | | | | |
| Net income/(loss) per common share – basic | **$0.84** | $0.90 | $0.36 | $1.14 | $0.80 | $1.00 | ($1.11) | $1.20 |
| Comparable earnings per common share | **$1.07** | $1.00 | $1.12 | $1.05 | $0.99 | $1.06 | $1.16 | $1.14 |
| Dividends declared per common share | **$0.90** | $0.90 | $0.90 | $0.87 | $0.87 | $0.87 | $0.87 | $0.81 |

### 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 segmented earnings generally remain relatively stable during any fiscal year. Over the long term, however, they fluctuate because of:

- regulatory decisions
- negotiated settlements with customers
- newly constructed assets being placed in service
- acquisitions and divestitures
- developments outside of the normal course of operations
- certain fair value adjustments, and provisions for expected credit losses on net investment in leases.

In Liquids Pipelines, annual revenues and segmented earnings are based on contracted and uncontracted spot transportation, as well as liquids marketing activities. Quarter-over-quarter revenues and segmented earnings 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 segmented earnings 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.

## 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.

We exclude from comparable measures the unrealized gains and losses from changes in the fair value of derivatives related to financial and commodity price risk management activities. These derivatives generally provide effective economic hedges but do not meet the criteria for hedge accounting. Beginning in first quarter 2022, with retroactive restatement of prior periods, we exclude from comparable measures our proportionate share of the unrealized gains and losses from changes in the fair value of Bruce Power's investments held for post-retirement benefits and derivatives related to its risk management activities. These changes in fair value are recorded in net income. As these amounts do not accurately reflect the gains and losses that will be realized at settlement, we do not consider them reflective of our underlying operations.

In third quarter 2022, TGNH and the CFE executed agreements which consolidate a number of operating and in-development natural gas pipelines in central and southeast Mexico under one TSA. This TSA contains a lease; therefore, we have recognized amounts in net investment in leases on our Condensed consolidated balance sheet. In accordance with the requirements of U.S. GAAP, we have recognized an expected credit loss provision related to net investment in leases. The amount of this provision will fluctuate from period to period based on changing economic assumptions and forward-looking information. The provision is an estimate of losses that may occur over the duration of the TSA through 2055. As this provision does not reflect losses or cash outflows that were incurred under this lease arrangement in the current period or from our underlying operations, we have excluded any unrealized changes from comparable measures. Refer to the Other information – Critical accounting estimates and accounting policy changes section for additional information.

We also exclude from comparable measures the unrealized foreign exchange gains and losses on the peso-denominated loan receivable from an affiliate as well as the corresponding proportionate share of Sur de Texas foreign exchange gains and losses, as the 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. This peso-denominated loan was fully repaid in first quarter 2022.

In third quarter 2022, comparable earnings also excluded:

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

In second quarter 2022, comparable earnings also excluded:

- preservation and storage costs for Keystone XL pipeline project assets of $3 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge
- a $2 million income tax expense for the settlement related to prior years' income tax assessments in Mexico.

In first quarter 2022, comparable earnings also excluded:

- an after-tax goodwill impairment charge of $531 million related to Great Lakes
- a $193 million income tax expense for the settlement-in-principle of matters related to prior years' income tax assessments in Mexico
- preservation and storage costs for Keystone XL pipeline project assets of $5 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge.

In fourth quarter 2021, comparable earnings also excluded:

- an incremental $60 million after-tax reduction to the Keystone XL asset impairment charge, net of expected contractual recoveries and other contractual and legal obligations, related to the termination of the Keystone XL pipeline project
- an after-tax gain of $19 million related to the sale of the remaining interest in Northern Courier
- preservation and storage costs for Keystone XL pipeline project assets of $10 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge
- a $7 million after-tax gain related to pension adjustments as part of the Voluntary Retirement Program
- an incremental $6 million income tax expense related to the sale of our Ontario natural gas-fired power plants sold in 2020.

In third quarter 2021, comparable earnings also excluded:

- a $55 million after-tax expense with respect to transition payments incurred as part of the Voluntary Retirement Program
- preservation and other costs of $11 million after tax primarily related to the preservation and storage of Keystone XL pipeline project assets.

In second quarter 2021, comparable earnings also excluded:

- preservation and other costs of $16 million after tax, which could not be accrued as part of the Keystone XL asset impairment charge and interest expense on the Keystone XL project-level credit facility prior to its termination
- a $13 million after-tax recovery of certain costs from the IESO associated with the Ontario natural gas-fired power plants sold in 2020
- an incremental $2 million after-tax asset impairment charge, net of expected contractual recoveries and other contractual and legal obligations, related to the termination of the Keystone XL pipeline project.

In first quarter 2021, comparable earnings also excluded:

- an after-tax asset impairment charge, net of expected contractual recoveries and other contractual and legal obligations, of $2.2 billion related to the formal suspension of the Keystone XL pipeline project following the January 2021 revocation of the Presidential Permit.

In fourth quarter 2020, comparable earnings also excluded:

- an incremental after-tax loss of $81 million related to the sale of our Ontario natural gas-fired power plants
- an income tax valuation allowance release of $18 million related to certain prior years' U.S. income tax losses resulting from our reassessment of deferred tax assets that are more likely than not to be realized
- an additional $18 million income tax recovery related to state income taxes on the sale of certain Columbia Midstream assets in 2019.

## Condensed consolidated statement of income

| (unaudited - millions of Canadian $, except per share amounts) | three months ended September 30 2022 | three months ended September 30 2021 | nine months ended September 30 2022 | nine months ended September 30 2021 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Canadian Natural Gas Pipelines | **1,234** | 1,129 | **3,497** | 3,374 |
| U.S. Natural Gas Pipelines | **1,449** | 1,275 | **4,295** | 3,832 |
| Mexico Natural Gas Pipelines | **179** | 153 | **487** | 456 |
| Liquids Pipelines | **691** | 563 | **2,051** | 1,652 |
| Power and Storage | **246** | 120 | **606** | 489 |
| | **3,799** | 3,240 | **10,936** | 9,803 |
| **Income from Equity Investments** | **322** | 265 | **763** | 681 |
| **Operating and Other Expenses** | | | | |
| Plant operating costs and other | **1,342** | 1,160 | **3,521** | 3,005 |
| Commodity purchases resold | **128** | — | **429** | — |
| Property taxes | **214** | 191 | **634** | 583 |
| Depreciation and amortization | **653** | 610 | **1,914** | 1,888 |
| Goodwill and asset impairment charges and other | **—** | — | **571** | 2,854 |
| | **2,337** | 1,961 | **7,069** | 8,330 |
| **Gain on Sale of Assets** | **—** | — | **—** | 17 |
| **Financial Charges** | | | | |
| Interest expense | **666** | 596 | **1,866** | 1,749 |
| Allowance for funds used during construction | **(116)** | (81) | **(254)** | (195) |
| Interest income and other | **242** | 76 | **224** | (113) |
| | **792** | 591 | **1,836** | 1,441 |
| **Income before Income Taxes** | **992** | 953 | **2,794** | 730 |
| **Income Tax Expense/(Recovery)** | | | | |
| Current | **110** | 152 | **479** | 419 |
| Deferred | **12** | (17) | **114** | (577) |
| | **122** | 135 | **593** | (158) |
| **Net Income** | **870** | 818 | **2,201** | 888 |
| Net income attributable to non-controlling interests | **8** | 8 | **28** | 83 |
| **Net Income Attributable to Controlling Interests** | **862** | 810 | **2,173** | 805 |
| Preferred share dividends | **21** | 31 | **85** | 108 |
| **Net Income Attributable to Common Shares** | **841** | 779 | **2,088** | 697 |
| **Net Income per Common Share** | | | | |
| Basic and diluted | **$0.84** | $0.80 | **$2.11** | $0.72 |
| **Weighted Average Number of Common Shares** (millions) | | | | |
| Basic | **1,000** | 979 | **988** | 970 |
| Diluted | **1,000** | 979 | **989** | 970 |

See accompanying Notes to the Condensed consolidated financial statements.

## Condensed consolidated statement of comprehensive income

| (unaudited - millions of Canadian $) | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Net Income** | **870** | 818 | **2,201** | 888 |
| **Other Comprehensive Income, Net of Income Taxes** | | | | |
| Foreign currency translation gains and losses on net investment in foreign operations | **1,510** | 450 | **1,872** | (81) |
| Change in fair value of net investment hedges | **(67)** | (27) | **(75)** | (3) |
| Change in fair value of cash flow hedges | **(20)** | (15) | **(8)** | (15) |
| Reclassification to net income of gains and losses on cash flow hedges | **15** | 15 | **30** | 33 |
| Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans | **2** | 5 | **6** | 12 |
| Other comprehensive (loss)/income on equity investments | **(2)** | 25 | **343** | 155 |
| Other comprehensive income | **1,438** | 453 | **2,168** | 101 |
| **Comprehensive Income** | **2,308** | 1,271 | **4,369** | 989 |
| Comprehensive income attributable to non-controlling interests | **16** | 10 | **38** | 73 |
| **Comprehensive Income Attributable to Controlling Interests** | **2,292** | 1,261 | **4,331** | 916 |
| Preferred share dividends | **21** | 31 | **85** | 108 |
| **Comprehensive Income Attributable to Common Shares** | **2,271** | 1,230 | **4,246** | 808 |

See accompanying Notes to the Condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | **2022** | 2021 | **2022** | 2021 |
| **Cash Generated from Operations** | | | | |
| Net income | **870** | 818 | **2,201** | 888 |
| Depreciation and amortization | **653** | 610 | **1,914** | 1,888 |
| Goodwill and asset impairment charges and other | **—** | — | **571** | 2,854 |
| Deferred income taxes | **12** | (17) | **114** | (577) |
| Income from equity investments | **(322)** | (265) | **(763)** | (681) |
| Distributions received from operating activities of equity investments | **267** | 238 | **709** | 740 |
| Employee post-retirement benefits funding, net of expense | **(11)** | 8 | **(22)** | 14 |
| Gain on sale of assets | **—** | — | **—** | (17) |
| Equity allowance for funds used during construction | **(78)** | (59) | **(176)** | (138) |
| Unrealized losses on financial instruments | **241** | 168 | **337** | 210 |
| Foreign exchange losses on loan receivable from affiliate | **—** | 42 | **28** | 45 |
| Other | **2** | (58) | **(52)** | (105) |
| Decrease/(increase) in operating working capital | **67** | 227 | **(511)** | (32) |
| Net cash provided by operations | **1,701** | 1,712 | **4,350** | 5,089 |
| **Investing Activities** | | | | |
| Capital expenditures | **(1,837)** | (1,446) | **(4,608)** | (4,305) |
| Contributions to equity investments | **(746)** | (241) | **(2,380)** | (706) |
| Keystone XL contractual recoveries | **95** | — | **568** | — |
| Loans to affiliate repaid/(issued), net | **101** | (620) | **(11)** | (840) |
| Other distributions from equity investments | **1,205** | — | **2,436** | — |
| Deferred amounts and other | **49** | (66) | **(4)** | (470) |
| Net cash used in investing activities | **(1,133)** | (2,373) | **(3,999)** | (6,321) |
| **Financing Activities** | | | | |
| Notes payable issued/(repaid), net | **458** | 1,448 | **672** | (1,012) |
| Long-term debt issued, net of issue costs | **(2)** | 47 | **2,508** | 7,798 |
| Long-term debt repaid | **(1,287)** | — | **(1,313)** | (980) |
| Junior subordinated notes issued, net of issue costs | **—** | — | **1,008** | 495 |
| Redeemable non-controlling interest repurchased | **—** | — | **—** | (633) |
| Dividends on common shares | **(885)** | (852) | **(2,623)** | (2,465) |
| Dividends on preferred shares | **(21)** | (32) | **(84)** | (109) |
| Distributions to non-controlling interests | **(10)** | (8) | **(33)** | (67) |
| Distributions on Class C Interests | **(7)** | (11) | **(30)** | (11) |
| Common shares issued, net of issue costs | **1,742** | 4 | **1,900** | 64 |
| Preferred shares redeemed | **—** | — | **(1,000)** | (500) |
| Other | **6** | — | **23** | (15) |
| Net cash (used in)/provided by financing activities | **(6)** | 596 | **1,028** | 2,565 |
| **Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents** | **94** | 34 | **108** | (6) |
| **Increase/(Decrease) in Cash and Cash Equivalents** | **656** | (31) | **1,487** | 1,327 |
| **Cash and Cash Equivalents** | | | | |
| Beginning of period | **1,504** | 2,888 | **673** | 1,530 |
| **Cash and Cash Equivalents** | | | | |
| End of period | **2,160** | 2,857 | **2,160** | 2,857 |

See accompanying Notes to the Condensed consolidated financial statements.

# Condensed consolidated balance sheet

| (unaudited - millions of Canadian $) | | September 30, 2022 | December 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | **2,160** | 673 |
| Accounts receivable | | **3,557** | 3,092 |
| Loans receivable from affiliates | | **—** | 1,217 |
| Inventories | | **1,080** | 724 |
| Other current assets | | **2,103** | 1,717 |
| | | **8,900** | 7,423 |
| **Plant, Property and Equipment** | net of accumulated depreciation of $34,262 and $31,930, respectively | **75,030** | 70,182 |
| **Equity Investments** | | **11,664** | 8,441 |
| **Long-Term Loans Receivable from Affiliate** | | **250** | 238 |
| **Restricted Investments** | | **1,997** | 2,182 |
| **Regulatory Assets** | | **2,019** | 1,767 |
| **Net Investment in Leases** | | **2,097** | — |
| **Goodwill** | | **13,050** | 12,582 |
| **Other Long-Term Assets** | | **1,795** | 1,403 |
| | | **116,802** | 104,218 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Notes payable | | **6,238** | 5,166 |
| Accounts payable and other | | **7,835** | 5,099 |
| Dividends payable | | **923** | 879 |
| Accrued interest | | **687** | 577 |
| Current portion of long-term debt | | **1,082** | 1,320 |
| | | **16,765** | 13,041 |
| **Regulatory Liabilities** | | **4,397** | 4,300 |
| **Other Long-Term Liabilities** | | **1,236** | 1,059 |
| **Deferred Income Tax Liabilities** | | **6,949** | 6,142 |
| **Long-Term Debt** | | **40,918** | 37,341 |
| **Junior Subordinated Notes** | | **10,634** | 8,939 |
| | | **80,899** | 70,822 |
| **EQUITY** | | | |
| Common shares, no par value | | **28,647** | 26,716 |
| Issued and outstanding: | September 30, 2022 – 1,012 million shares<br>December 31, 2021 – 981 million shares | | |
| Preferred shares | | **2,499** | 3,487 |
| Additional paid-in capital | | **720** | 729 |
| Retained earnings | | **3,183** | 3,773 |
| Accumulated other comprehensive income/(loss) | | **724** | (1,434) |
| **Controlling Interests** | | **35,773** | 33,271 |
| **Non-Controlling Interests** | | **130** | 125 |
| | | **35,903** | 33,396 |
| | | **116,802** | 104,218 |

**Contingencies and Guarantees** (Note 15)

**Variable Interest Entities** (Note 16)

See accompanying Notes to the Condensed consolidated financial statements.

# Condensed consolidated statement of equity

| (unaudited - millions of Canadian $) | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| **Common Shares** | | | | |
| Balance at beginning of period | **26,891** | 26,618 | **26,716** | 24,488 |
| Shares issued: | | | | |
| Under public offering, net of issue costs | **1,754** | — | **1,754** | — |
| Exercise of stock options | **2** | 4 | **177** | 71 |
| Acquisition of TC PipeLines, LP, net of transaction costs | **—** | — | **—** | 2,063 |
| Balance at end of period | **28,647** | 26,622 | **28,647** | 26,622 |
| **Preferred Shares** | | | | |
| Balance at beginning of period | **2,499** | 3,487 | **3,487** | 3,980 |
| Redemption of shares | **—** | — | **(988)** | (493) |
| Balance at end of period | **2,499** | 3,487 | **2,499** | 3,487 |
| **Additional Paid-In Capital** | | | | |
| Balance at beginning of period | **717** | 734 | **729** | 2 |
| Keystone XL project-level credit facility retirement and issuance of Class C Interests | **—** | — | **—** | 737 |
| Acquisition of TC PipeLines, LP | **—** | — | **—** | (398) |
| Repurchase of redeemable non-controlling interest | **—** | — | **—** | 394 |
| Issuance of stock options, net of exercises | **3** | 2 | **(9)** | 1 |
| Balance at end of period | **720** | 736 | **720** | 736 |
| **Retained Earnings** | | | | |
| Balance at beginning of period | **3,254** | 3,596 | **3,773** | 5,367 |
| Net income attributable to controlling interests | **862** | 810 | **2,173** | 805 |
| Common share dividends | **(912)** | (851) | **(2,681)** | (2,555) |
| Preferred share dividends | **(21)** | (32) | **(70)** | (87) |
| Redemption of preferred shares | **—** | — | **(12)** | (7) |
| Balance at end of period | **3,183** | 3,523 | **3,183** | 3,523 |
| **Accumulated Other Comprehensive Income/(Loss)** | | | | |
| Balance at beginning of period | **(706)** | (2,426) | **(1,434)** | (2,439) |
| Other comprehensive income attributable to controlling interests | **1,430** | 451 | **2,158** | 111 |
| Acquisition of TC PipeLines, LP | **—** | — | **—** | 353 |
| Balance at end of period | **724** | (1,975) | **724** | (1,975) |
| **Equity Attributable to Controlling Interests** | **35,773** | 32,393 | **35,773** | 32,393 |
| **Equity Attributable to Non-Controlling Interests** | | | | |
| Balance at beginning of period | **123** | 122 | **125** | 1,682 |
| Net income attributable to non-controlling interests | **8** | 8 | **28** | 82 |
| Other comprehensive income/(loss) attributable to non-controlling interests | **8** | 2 | **10** | (10) |
| Distributions declared to non-controlling interests | **(9)** | (8) | **(33)** | (67) |
| Acquisition of TC PipeLines, LP | **—** | — | **—** | (1,563) |
| Balance at end of period | **130** | 124 | **130** | 124 |
| **Total Equity** | **35,903** | 32,517 | **35,903** | 32,517 |

See accompanying Notes to the Condensed consolidated financial statements.

# 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, 2021, except as described in Note 2, Accounting changes. Capitalized and abbreviated terms that are used but not otherwise defined herein are identified in the 2021 audited Consolidated financial statements included in TC Energy's 2021 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 2021 audited Consolidated financial statements included in TC Energy's 2021 Annual Report. Certain comparative figures have been adjusted to reflect 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 negotiated rate case settlements as well as 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 impacts of seasonal weather conditions on customer demand, market supply and prices of natural gas and power as well as maintenance outages 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, 2021, except as described in Note 2, Accounting changes.

**Net Investment in Sales-Type Leases**

In August 2022, TC Energy announced a strategic alliance with the Comisión Federal de Electricidad (CFE) for the development of new natural gas infrastructure in central and southeast Mexico under a single, U.S. dollar-denominated take-or-pay contract that extends through 2055. The new Transportation Service Agreement (TSA) between the Company's Mexico-based subsidiary Transportadora de Gas Natural de la Huasteca (TGNH) and the CFE was determined to contain a lease with multiple sales-type lease components, as a result of which the Company recorded a net investment in sales-type leases adjusted for the amount of related expected credit losses. Refer to Note 8, TGNH strategic alliance with the CFE, for the accounting policy as well as critical accounting estimates and judgments with respect to the sales-type leases and related expected credit losses.

**Variable Interest Entities**

In third quarter 2022, there was a reconsideration event with respect to performing the primary beneficiary analysis for the Company's investment in Coastal GasLink Pipeline Limited Partnership (Coastal GasLink LP) as a result of revised project agreements and TC Energy's equity contribution. Refer to Note 16, Variable Interest Entities, for further information.

## 2. ACCOUNTING CHANGES

### Reference Rate Reform

In March 2020, FASB issued optional guidance with respect to the expected cessation of the U.S. dollar London Interbank Offered Rate (LIBOR), for which certain rate settings ceased to be published at the end of 2021 with full cessation by mid-2023. The guidance provides optional practical expedients for contracts and hedging relationships that are affected by reference rate reform if certain criteria are met. The Company expects to use practical expedients available in the guidance to treat contract modifications as events that do not require contract remeasurement or reassessment of previous accounting determinations. As such, these changes are not expected to have a material impact on the Company's consolidated financial statements.

To date, the Company has completed its analysis of contracts impacted by reference rate reform as well as the necessary system changes to facilitate the adoption of the proposed standard market reference rates. For the nine months ended September 30, 2022, the Company has not identified any applicable contract modifications as a result of reference rate reform. TC Energy continues to monitor any new developments with respect to this guidance.

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited, the administrator of the Canadian Dollar Offered Rate (CDOR), announced that the calculation and publication of all tenors of CDOR will permanently cease following a final publication on June 28, 2024. The Company is currently evaluating the impact of this guidance on contracts and financial instruments with variable rate components that reference CDOR and has not yet determined the effect on its consolidated financial statements.

### Changes in Accounting Policies for 2022

**Government Assistance**

In November 2021, the FASB issued new guidance that expands annual disclosure requirements for entities that account for a transaction with a government by applying a grant or contribution accounting model by analogy to other accounting guidance. Entities are required to disclose the nature of the transactions, the related accounting policies used to account for the transactions, the effect of the transactions on an entity’s financial statements and any significant terms and conditions of the transaction. This new guidance is effective for annual disclosure requirements at December 31, 2022 and can be applied either prospectively or retrospectively, with early application permitted. The Company adopted the guidance effective January 1, 2022 on a prospective basis and it did not have a material impact on the Company's consolidated financial statements.

**Contract Assets and Liabilities from Contracts with Customers**

In October 2021, the FASB issued new guidance that amends the accounting for contract assets and liabilities from contracts with customers acquired in a business combination. At the acquisition date, an acquirer should account for the contract assets and liabilities in accordance with guidance on revenue from contracts with customers. This new guidance is effective January 1, 2023 and is applied prospectively with early adoption permitted. Early adoption requires the application of the amendments retrospectively to all business combinations with an acquisition date in the year of early adoption. The Company elected to adopt the new guidance effective January 1, 2022 and it did not have any impact on the Company's consolidated financial statements.

## 3. SEGMENTED INFORMATION

| three months ended September 30, 2022 (unaudited - millions of Canadian $) | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Corporate[1] | Total |
|---|---|---|---|---|---|---|---|
| Revenues | 1,234 | 1,449 | 179 | 691 | 246 | — | 3,799 |
| Intersegment revenues | — | 35 | — | — | — | (35) [2] | — |
| | 1,234 | 1,484 | 179 | 691 | 246 | (35) | 3,799 |
| Income from equity investments | 5 | 61 | 39 | 14 | 203 | — | 322 |
| Plant operating costs and other[3] | (450) | (497) | (85) | (201) | (135) | 26 [2] | (1,342) |
| Commodity purchase resold | — | — | — | (123) | (5) | — | (128) |
| Property taxes | (76) | (107) | — | (30) | (1) | — | (214) |
| Depreciation and amortization | (304) | (227) | (20) | (83) | (19) | — | (653) |
| **Segmented Earnings/(Losses)** | 409 | 714 | 113 | 268 | 289 | (9) | 1,784 |
| Interest expense | | | | | | | (666) |
| Allowance for funds used during construction | | | | | | | 116 |
| Interest income and other | | | | | | | (242) |
| **Income before Income Taxes** | | | | | | | 992 |
| Income tax expense | | | | | | | (122) |
| **Net Income** | | | | | | | 870 |
| Net income attributable to non-controlling interests | | | | | | | (8) |
| **Net Income Attributable to Controlling Interests** | | | | | | | 862 |
| Preferred share dividends | | | | | | | (21) |
| **Net Income Attributable to Common Shares** | | | | | | | 841 |

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 The Mexico Natural Gas Pipelines segment includes a $71 million (US$53 million) expected credit loss provision with respect to net investment in leases recognized with the commencement of the new TGNH TSA. Refer to Note 8, TGNH strategic alliance with the CFE, for additional information.

| three months ended September 30, 2021 (unaudited - millions of Canadian $) | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Corporate[1] | Total |
|---|---|---|---|---|---|---|---|
| Revenues | 1,129 | 1,275 | 153 | 563 | 120 | — | 3,240 |
| Intersegment revenues | — | 36 | — | — | 1 | (37) [2] | — |
| | 1,129 | 1,311 | 153 | 563 | 121 | (37) | 3,240 |
| Income from equity investments | 4 | 54 | 34 | 18 | 113 | 42 [3] | 265 |
| Plant operating costs and other[4] | (427) | (385) | (16) | (194) | (97) | (41) [2] | (1,160) |
| Property taxes | (75) | (93) | — | (22) | (1) | — | (191) |
| Depreciation and amortization | (288) | (195) | (27) | (80) | (20) | — | (610) |
| **Segmented Earnings/(Losses)** | 343 | 692 | 144 | 285 | 116 | (36) | 1,544 |
| Interest expense | | | | | | | (596) |
| Allowance for funds used during construction | | | | | | | 81 |
| Interest income and other[3] | | | | | | | (76) |
| **Income before Income Taxes** | | | | | | | 953 |
| Income tax expense | | | | | | | (135) |
| **Net Income** | | | | | | | 818 |
| Net income attributable to non-controlling interests | | | | | | | (8) |
| **Net Income Attributable to Controlling Interests** | | | | | | | 810 |
| Preferred share dividends | | | | | | | (31) |
| **Net Income Attributable to Common Shares** | | | | | | | 779 |

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 and losses on the peso-denominated loans from affiliates which are fully offset in Interest income and other by the corresponding foreign exchange losses and gains on the affiliate receivable balance. Refer to Note 7, Loans receivable from affiliates, for additional information.

4 Includes an $89 million expense with respect to transition payments incurred as part of the Voluntary Retirement Program.

| nine months ended September 30, 2022 (unaudited - millions of Canadian $) | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Corporate[1] | Total |
|---|---|---|---|---|---|---|---|
| Revenues | **3,497** | **4,295** | **487** | **2,051** | **606** | **—** | **10,936** |
| Intersegment revenues | **—** | **103** | **—** | **—** | **12** | **(115)** [2] | **—** |
| | **3,497** | **4,398** | **487** | **2,051** | **618** | **(115)** | **10,936** |
| Income from equity investments | **14** | **199** | **96** | **41** | **385** | **28** [3] | **763** |
| Plant operating costs and other[4] | **(1,246)** | **(1,320)** | **(112)** | **(545)** | **(397)** | **99** [2] | **(3,521)** |
| Commodity purchase resold | **—** | **—** | **—** | **(414)** | **(15)** | **—** | **(429)** |
| Property taxes | **(227)** | **(316)** | **—** | **(88)** | **(3)** | **—** | **(634)** |
| Depreciation and amortization | **(886)** | **(655)** | **(76)** | **(244)** | **(53)** | **—** | **(1,914)** |
| Goodwill impairment charge | **—** | **(571)** | **—** | **—** | **—** | **—** | **(571)** |
| **Segmented Earnings** | **1,152** | **1,735** | **395** | **801** | **535** | **12** | **4,630** |
| Interest expense | | | | | | | **(1,866)** |
| Allowance for funds used during construction | | | | | | | **254** |
| Interest income and other[3] | | | | | | | **(224)** |
| **Income before Income Taxes** | | | | | | | **2,794** |
| Income tax expense | | | | | | | **(593)** |
| **Net Income** | | | | | | | **2,201** |
| Net income attributable to non-controlling interests | | | | | | | **(28)** |
| **Net Income Attributable to Controlling Interests** | | | | | | | **2,173** |
| Preferred share dividends | | | | | | | **(85)** |
| **Net Income Attributable to Common Shares** | | | | | | | **2,088** |

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 and losses on the peso-denominated loans from affiliates which are fully offset in Interest income and other by the corresponding foreign exchange losses and gains on the affiliate receivable balance until March 15, 2022, when it was fully repaid upon maturity. Refer to Note 7, Loans receivable from affiliates, for additional information.

4 The Mexico Natural Gas Pipelines segment includes a $71 million (US$53 million) expected credit loss provision with respect to net investment in leases recognized with the commencement of the new TGNH TSA. Refer to Note 8, TGNH strategic alliance with the CFE, for additional information.

| nine months ended September 30, 2021 (unaudited - millions of Canadian $) | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Corporate[1] | Total |
|---|---|---|---|---|---|---|---|
| Revenues | 3,374 | 3,832 | 456 | 1,652 | 489 | — | 9,803 |
| Intersegment revenues | — | 110 | — | — | 14 | (124) [2] | — |
| | 3,374 | 3,942 | 456 | 1,652 | 503 | (124) | 9,803 |
| Income from equity investments | 8 | 176 | 100 | 54 | 298 | 45 [3] | 681 |
| Plant operating costs and other[4] | (1,156) | (1,019) | (41) | (509) | (319) | 39 [2] | (3,005) |
| Property taxes | (225) | (276) | — | (78) | (4) | — | (583) |
| Depreciation and amortization | (941) | (570) | (81) | (238) | (58) | — | (1,888) |
| Asset impairment charge and other | — | — | — | (2,854) | — | — | (2,854) |
| Gain on sale of assets | — | — | — | — | 17 | — | 17 |
| **Segmented Earnings/(Losses)** | 1,060 | 2,253 | 434 | (1,973) | 437 | (40) | 2,171 |
| Interest expense | | | | | | | (1,749) |
| Allowance for funds used during construction | | | | | | | 195 |
| Interest income and other[3] | | | | | | | 113 |
| **Income before Income Taxes** | | | | | | | 730 |
| Income tax recovery | | | | | | | 158 |
| **Net Income** | | | | | | | 888 |
| Net income attributable to non-controlling interests | | | | | | | (83) |
| **Net Income Attributable to Controlling Interests** | | | | | | | 805 |
| Preferred share dividends | | | | | | | (108) |
| **Net Income Attributable to Common Shares** | | | | | | | 697 |

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 and losses on the peso-denominated loans from affiliates which are fully offset in Interest income and other by the corresponding foreign exchange losses and gains on the affiliate receivable balance. Refer to Note 7, Loans receivable from affiliates, for additional information.
4 Includes an $89 million expense with respect to transition payments incurred as part of the Voluntary Retirement Program.

## Total Assets by Segment

| (unaudited - millions of Canadian $) | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Canadian Natural Gas Pipelines | **29,321** | 25,213 |
| U.S. Natural Gas Pipelines | **50,411** | 45,502 |
| Mexico Natural Gas Pipelines | **8,963** | 7,547 |
| Liquids Pipelines | **15,659** | 14,951 |
| Power and Storage | **7,412** | 6,563 |
| Corporate | **5,036** | 4,442 |
| | **116,802** | 104,218 |

# 4. REVENUES

## Disaggregation of Revenues

The following tables summarize total Revenues for the three and nine months ended September 30, 2022 and 2021:

| **three months ended September 30, 2022**<br>(unaudited - millions of Canadian $) | **Canadian Natural Gas Pipelines** | **U.S. Natural Gas Pipelines** | **Mexico Natural Gas Pipelines** | **Liquids Pipelines** | **Power and Storage** | **Total** |
|---|---|---|---|---|---|---|
| Revenues from contracts with customers | | | | | | |
| Capacity arrangements and transportation | **1,220** | **1,072** | **103** | **515** | **—** | **2,910** |
| Power generation | **—** | **—** | **—** | **—** | **140** | **140** |
| Natural gas storage and other[1] | **14** | **357** | **21** | **—** | **69** | **461** |
| | **1,234** | **1,429** | **124** | **515** | **209** | **3,511** |
| Sales-type lease income[2] | **—** | **—** | **55** | **—** | **—** | **55** |
| Other revenues[3] | **—** | **20** | **—** | **176** | **37** | **233** |
| | **1,234** | **1,449** | **179** | **691** | **246** | **3,799** |

1 The Canadian Natural Gas Pipelines segment includes $14 million of fee revenues from an affiliate related to development and construction of the Coastal GasLink pipeline project which is 35 per cent owned by TC Energy.

2 Represents sales-type lease income with respect to the new TGNH TSA. Refer to Note 8, TGNH strategic alliance with the CFE, for additional information.

3 Other revenues include income from the Company's marketing activities and financial instruments. Refer to Note 14, Risk management and financial instruments, for additional information on financial instruments. Additionally, other revenues include $29 million of operating lease income.

| **three months ended September 30, 2021**<br>(unaudited - millions of Canadian $) | **Canadian Natural Gas Pipelines** | **U.S. Natural Gas Pipelines** | **Mexico Natural Gas Pipelines** | **Liquids Pipelines** | **Power and Storage** | **Total** |
|---|---|---|---|---|---|---|
| Revenues from contracts with customers | | | | | | |
| Capacity arrangements and transportation | 1,109 | 967 | 146 | 520 | — | 2,742 |
| Power generation | — | — | — | — | 72 | 72 |
| Natural gas storage and other[1] | 20 | 296 | 7 | 1 | 59 | 383 |
| | 1,129 | 1,263 | 153 | 521 | 131 | 3,197 |
| Other revenues[2] | — | 12 | — | 42 | (11) | 43 |
| | 1,129 | 1,275 | 153 | 563 | 120 | 3,240 |

1 The Canadian Natural Gas Pipelines segment includes $20 million of fee revenues from an affiliate related to development and construction of the Coastal GasLink pipeline project which is 35 per cent owned by TC Energy.

2 Other revenues include income from the Company's marketing activities and financial instruments. Refer to Note 14, Risk management and financial instruments, for additional information on financial instruments. Additionally, other revenues include $31 million of operating lease income.

| **nine months ended September 30, 2022**<br>(unaudited - millions of Canadian $) | **Canadian Natural Gas Pipelines** | **U.S. Natural Gas Pipelines** | **Mexico Natural Gas Pipelines** | **Liquids Pipelines** | **Power and Storage** | **Total** |
|---|---|---|---|---|---|---|
| Revenues from contracts with customers | | | | | | |
| Capacity arrangements and transportation | **3,444** | **3,303** | **396** | **1,488** | **—** | **8,631** |
| Power generation | **—** | **—** | **—** | **—** | **330** | **330** |
| Natural gas storage and other[1] | **53** | **980** | **36** | **3** | **274** | **1,346** |
| | **3,497** | **4,283** | **432** | **1,491** | **604** | **10,307** |
| Sales-type lease income[2] | **—** | **—** | **55** | **—** | **—** | **55** |
| Other revenues[3] | **—** | **12** | **—** | **560** | **2** | **574** |
| | **3,497** | **4,295** | **487** | **2,051** | **606** | **10,936** |

1 The Canadian Natural Gas Pipelines segment includes $53 million of fee revenues from an affiliate related to development and construction of the Coastal GasLink pipeline project which is 35 per cent owned by TC Energy.

2 Represents sales-type lease income with respect to the new TGNH TSA. Refer to Note 8, TGNH strategic alliance with the CFE, for additional information.

3 Other revenues include income from the Company's marketing activities and financial instruments. Refer to Note 14, Risk management and financial instruments, for additional information on financial instruments. Additionally, other revenues include $90 million of operating lease income.

| **nine months ended September 30, 2021**<br>(unaudited - millions of Canadian $) | **Canadian Natural Gas Pipelines** | **U.S. Natural Gas Pipelines** | **Mexico Natural Gas Pipelines** | **Liquids Pipelines** | **Power and Storage** | **Total** |
|---|---|---|---|---|---|---|
| Revenues from contracts with customers | | | | | | |
| Capacity arrangements and transportation | 3,304 | 3,034 | 433 | 1,491 | — | 8,262 |
| Power generation | — | — | — | — | 230 | 230 |
| Natural gas storage and other[1] | 70 | 753 | 23 | 3 | 217 | 1,066 |
| | 3,374 | 3,787 | 456 | 1,494 | 447 | 9,558 |
| Other revenues[2] | — | 45 | — | 158 | 42 | 245 |
| | 3,374 | 3,832 | 456 | 1,652 | 489 | 9,803 |

1 The Canadian Natural Gas Pipelines segment includes $70 million of fee revenues from an affiliate related to development and construction of the Coastal GasLink pipeline project which is 35 per cent owned by TC Energy.

2 Other revenues include income from the Company's marketing activities and financial instruments. Refer to Note 14, Risk management and financial instruments, for additional information on financial instruments. Additionally, other revenues include $95 million of operating lease income.

## Contract Balances

| (unaudited - millions of Canadian $) | **September 30, 2022** | **December 31, 2021** | **Affected line item on the Condensed consolidated balance sheet** |
|---|---|---|---|
| Receivables from contracts with customers | **1,737** | 1,627 | Accounts receivable |
| Contract assets | **214** | 202 | Other current assets |
| Long-term contract assets | **358** | 249 | Other long-term assets |
| Contract liabilities[1] | **64** | 90 | Accounts payable and other |
| Long-term contract liabilities | **106** | 184 | Other long-term liabilities |

1 During the nine months ended September 30, 2022, $11 million (2021 – $12 million) of revenues were recognized that were included in contract liabilities at the beginning of the period.

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 previously received on long-term capacity arrangements in Mexico against which certain contract asset balances were netted in accordance with the terms of the new TGNH TSA.

### Future Revenues from Remaining Performance Obligations

As at September 30, 2022, future revenues from long-term pipeline capacity arrangements and transportation as well as natural gas storage and other contracts extending through 2055 are approximately $23.6 billion, of which approximately $1.7 billion is expected to be recognized during the remainder of 2022.

## 5. GOODWILL

Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate it might be impaired. The Company can initially make this assessment based on qualitative factors. If the Company concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying value, it will then perform a quantitative goodwill impairment test.

### Great Lakes

During first quarter 2022, TC Energy elected to pursue an unanticipated opportunity to extend the existing recourse rates on Great Lakes. This prompted the Company to re-evaluate the impact of maintaining recourse rates at the current level as opposed to moving forward with the previously presumed Great Lakes rate case process in 2022.

On March 18, 2022, Great Lakes reached a pre-filing settlement with its customers and filed an unopposed rate case settlement with FERC by which Great Lakes and the settling parties agreed to maintain existing recourse rates through October 31, 2025. While the settlement created short-term rate certainty, it prompted a re-evaluation of Great Lakes' long-term free cash flows. With recourse rates maintained at the current level for the next three years, the expectation of increased contracting, growth and other near-term commercial and regulatory opportunities were negatively impacted.

Management performed a quantitative impairment test that evaluated a range of assumptions through a discounted cash flow analysis using a risk-adjusted discount rate. It was determined that the estimated fair value of the Great Lakes reporting unit no longer exceeded its carrying value, including goodwill, and that an impairment charge was necessary. As a result, the Company recorded a pre-tax goodwill impairment charge of $571 million ($531 million after tax) within the U.S. Natural Gas Pipelines segment that is included in Goodwill and asset impairment charges and other in the Company's Condensed consolidated statement of income. The remaining goodwill balance related to Great Lakes is US$122 million at September 30, 2022 (December 31, 2021 – US$573 million). There is a risk that continued reductions in future cash flow forecasts and adverse changes in other key assumptions could result in a future impairment of the goodwill balance relating to Great Lakes.

The Company has elected to allocate goodwill impairment charges first to goodwill that is non-deductible for income tax purposes, with any remaining charge allocated to tax-deductible goodwill. The majority of the Great Lakes goodwill impairment charge was allocated to non-deductible goodwill and the income tax recovery of $40 million was attributable to the portion of the goodwill that was deductible for income tax purposes.

## 6. INCOME TAXES

### Effective Tax Rates

The effective income tax rates were 21 per cent and negative 22 per cent for the nine months ended September 30, 2022 and 2021, respectively. The increase in the effective income tax rate was primarily due to the impacts of the Keystone XL asset impairment charge and other recorded in 2021, as well as the settlement of Mexico income tax assessments discussed below and the non-tax deductible portion of the Great Lakes goodwill impairment charge recorded in the nine months ended September 30, 2022.

### Mexico Tax Audit

In 2019, the Mexican tax authority, the Tax Administration Services (SAT), completed an audit of the 2013 tax return of one of the Company’s subsidiaries in Mexico. The audit resulted in a tax assessment that denied the deduction for all interest expense and an assessment of additional tax, penalties and financial charges totaling less than US$1 million. The Company disagreed with this assessment and commenced litigation to challenge it. In January 2022, TC Energy received the tax court’s ruling on the 2013 tax return, which upheld the SAT assessment. From September 2021 to February 2022, the SAT issued assessments for tax years 2014 through 2017 which denied the deduction of all interest expense as well as assessed incremental withholding tax on the interest. These assessments totaled approximately US$490 million in income and withholding taxes, interest, penalties and other financial charges.

On April 27, 2022, TC Energy settled with the SAT on all of the above matters for the tax years 2013 through 2021. In the nine months ended September 30, 2022, the Company recorded $195 million (US$152 million) of income tax expense (inclusive of withholding taxes, interest, penalties and other financial charges).

## 7. 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.

### Sur de Texas

TC Energy holds a 60 per cent equity interest in a joint venture with IEnova to own the Sur de Texas pipeline, for which TC Energy is the operator. In 2017, TC Energy entered into a MXN$21.3 billion unsecured revolving credit facility with the joint venture, which bore interest at a floating rate and was fully repaid upon maturity on March 15, 2022 in the amount of approximately $1.2 billion.

The Company's Condensed consolidated statement of income reflected the related interest income and foreign exchange impact on this loan which were fully offset upon consolidation with corresponding amounts included in TC Energy’s proportionate share of Sur de Texas' equity earnings as follows:

| | three months ended September 30 | | nine months ended September 30 | | Affected line item in the Condensed consolidated statement of income |
|---|---|---|---|---|---|
| (unaudited - millions of Canadian $) | **2022** | **2021** | **2022** | **2021** | |
| Interest income[1] | **—** | 22 | **19** | 64 | Interest income and other |
| Interest expense[2] | **—** | (22) | **(19)** | (64) | Income from equity investments |
| Foreign exchange losses[1] | **—** | (42) | **(28)** | (45) | Interest income and other |
| Foreign exchange gains[1] | **—** | 42 | **28** | 45 | Income from equity investments |

1 Included in the Corporate segment.

2 Included in the Mexico Natural Gas Pipelines segment.

On March 15, 2022, as part of refinancing activities with the Sur de Texas joint venture the peso-denominated loan discussed above was replaced with a new U.S. dollar-denominated loan of an equivalent $1.2 billion (US$938 million) with a floating interest rate. On July 29, 2022, the Sur de Texas joint venture entered into an unsecured term loan agreement with third parties, the proceeds of which were used to fully repay the U.S. dollar-denominated inter-affiliate loan with TC Energy.

These inter-affiliate loans represented TC Energy's proportionate share of debt financing to the joint venture. The related repayments and issuance are included in Investing activities in the Company's Condensed consolidated statement of cash flows.

### Coastal GasLink LP

TC Energy holds a 35 per cent equity interest in Coastal GasLink LP and has been contracted to develop and operate the Coastal GasLink pipeline.

**Subordinated Demand Revolving Credit Facility**

The Company has a subordinated demand revolving credit facility with Coastal GasLink LP to provide additional short-term liquidity and funding flexibility to the project. The facility bears interest at a floating market-based rate and had a capacity of $100 million with an outstanding balance of nil as at September 30, 2022 (December 31, 2021 – $1 million) reflected in Loans receivable from affiliates under Current assets on the Company's Condensed consolidated balance sheet.

**Subordinated Loan Agreement**

In 2021, TC Energy entered into a subordinated loan agreement with Coastal GasLink LP to provide interim temporary financing to fund incremental project costs as a bridge to a required increase in project-level financing. Under this agreement, financing was provided through a combination of interest-bearing loans subject to floating market-based interest rates and non-interest-bearing loans. Following amendments to this loan agreement on July 28, 2022, draws on this loan by Coastal GasLink LP will be provided through an interest-bearing loan, subject to a floating market-based interest rate, which will be repaid by the Coastal GasLink LP partners, including TC Energy, subsequent to the in-service date of the Coastal GasLink pipeline when final project costs are determined. The total capacity committed under this subordinated loan agreement was $2.1 billion with an available capacity of $1.8 billion and an outstanding balance of $250 million as at September 30, 2022 (December 31, 2021 – $238 million) that is reflected in Long-term loans receivable from affiliate on the Company's Condensed consolidated balance sheet.

## 8. TGNH STRATEGIC ALLIANCE WITH THE CFE

### Strategic Alliance with the CFE

On August 4, 2022, TC Energy announced a strategic alliance with Mexico's state-owned electric utility, the CFE, for the development of new natural gas infrastructure in central and southeast Mexico. This alliance consolidates previous TSAs executed between TC Energy's Mexico-based subsidiary TGNH and the CFE in connection with the Company's natural gas pipeline assets in central Mexico (including the Tamazunchale, Villa de Reyes and Tula pipelines) under a single, U.S. dollar-denominated take-or-pay contract that extends through 2055. This agreement also resolves and terminates previous international arbitrations with the CFE related to the Villa de Reyes and Tula pipelines.

In connection with the strategic alliance, TC Energy reached a final investment decision (FID) to proceed and build the Southeast Gateway pipeline, an offshore natural gas pipeline with an expected in-service date by mid-2025.

Additionally, TC Energy and the CFE agreed to jointly develop and complete the central segment of the Tula pipeline, subject to an FID. Under the new TSA, the Company will be responsible for operation and maintenance of the TGNH pipelines in service.

Subject to regulatory approvals from Mexico's economic competition commission and the Regulatory Energy Commission, the strategic alliance provides the CFE with the ability to hold an equity interest in TGNH, which is conditional upon the CFE contributing capital, acquiring land and supporting permitting on the TGNH projects. Upon in-service of the Southeast Gateway pipeline, the CFE's equity interest in TGNH would equal 15 per cent, which would increase to approximately 35 per cent upon expiry of the contract in 2055. Regulatory approvals related to the CFE's equity participation are expected to take up to 24 months.

## Lease Arrangement

**Accounting Policy and Critical Accounting Estimates and Judgments**

The Company determines if a contract contains a lease at inception of a contract by using judgment in assessing the following aspects: 1) the contract specifies an identified asset which is physically distinct or, if not physically distinct, represents substantially all of the capacity of the asset; 2) the contract provides the customer with the right to obtain substantially all of the economic benefits from the use of the asset and 3) the customer has the right to direct how and for what purpose the identified asset is used throughout the period of the contract.

If the contract is determined to contain a lease, further judgment is required to identify separate lease components of the arrangement by assessing whether the lessee can benefit from the right of use either on its own or together with other resources that are readily available to the lessee, as well as if the right of use is neither highly dependent on nor highly interrelated with the other rights to use the underlying assets in the contract.

The Company considers non-lease components as distinct elements of a contract that are not related to the use of the leased asset. A good or service that is promised to a customer is distinct if: 1) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and 2) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The TSA executed between TC Energy and the CFE, as discussed above, contains a lease with multiple lease and non-lease components. The lease components represent the capacity available to the CFE provided by the pipelines in service which, at September 30, 2022, included the Tamazunchale pipeline, the north section of the Villa de Reyes pipeline and the east section of the Tula pipeline. The non-lease components represent the Company's services with respect to operation and maintenance of the TGNH pipelines in service.

The contract consideration consisting of fixed toll payments is allocated to lease and non-lease components based on the standalone selling price for each distinct good or service within the contract using a combination of expected cost plus a margin and residual approach. In order to establish the expected cost plus a margin approach, the Company applied judgment to determine reasonable estimates of the expected future cost of satisfying the non-lease performance obligations.

The TGNH pipelines are regulated and tolls are designed to recover the cost of providing service. On this basis, the Company applied judgment to determine that, at the inception of the lease arrangement, the fair value of the underlying assets approximates the carrying value and the residual value approximates the remaining carrying value at the end of the lease term. There is no guaranteed residual value for the underlying assets; however, TC Energy expects to continue to operate the TGNH pipelines following the lease term expiration as long as there is supply and demand for natural gas in Mexico. At the inception of the lease arrangement, the Company determined that the present value of the sum of the future lease payments over the lease term exceeds substantially all of the fair value of the underlying TGNH pipelines in service and as such are classified as sales-type leases.

**Net Investment in Sales-Type Leases**

At September 30, 2022, the Company recognized an aggregate net investment in sales-type leases amounting to $2,393 million with no gains or losses recorded upon derecognition of the respective Plant, property and equipment.

The following table lists the components of the aggregate Net investment in leases reflected on the Company's Condensed consolidated balance sheet:

| (unaudited - millions of Canadian $) | September 30, 2022 |
|---|---|
| **Net Investment in Leases** | |
| Minimum lease payments | 9,684 |
| Unearned lease income | (7,230) |
| Lease receivable | 2,454 |
| Expected credit loss provision | (73) |
| Present value of unguaranteed residual value | 12 |
| | 2,393 |
| Current portion included in Other current assets | (296) |
| | 2,097 |

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

| (unaudited - millions of Canadian $) | September 30, 2022 |
|---|---|
| Less than one year | 296 |
| One to two years | 296 |
| Two to three years | 296 |
| Three to four years | 296 |
| Four to five years | 296 |
| More than five years | 8,204 |
| | 9,684 |

For the three and nine months ended September 30, 2022, the Company recorded $55 million of sales-type lease income included in the Mexico Natural Gas Pipelines segment. Refer to Note 4, Revenues, for further information.

The net investment in leases arising from sales-type leases is a financial asset subject to impairment using a lifetime expected loss approach at initial recognition and throughout the life of the financial asset. Expected credit losses (ECL) are calculated using a model and methodology based on assumptions and judgment considering historical data, current counterparty information as well as reasonable and supportable forecasts of future economic conditions. The Company's methodology includes consideration of the probability of default (the probability that the lessee will default during the lease term), the loss given default (the economic loss as a proportion of the net investment in leases balance in the event of a default) and the exposure at default (the net investment in leases balance at the time of a hypothetical default) with one-year forward-looking information that includes assumptions for future macroeconomic conditions under three probability-weighted future scenarios. The macroeconomic factors considered most relevant to the lessee's ability to settle the net investment in leases include Mexico's GDP, Mexico's government debt to GDP and Mexico's inflation.

The ECL amount is updated at each reporting date to reflect changes in assumptions and forecasts for future economic conditions. With respect to net investment in leases, for the three and nine months ended September 30, 2022, the Company recorded a $71 million (US$53 million) ECL provision before tax in Plant operating costs and other in the Condensed consolidated statement of income.

## 9. LONG-TERM DEBT

### Long-Term Debt Issued

Long-term debt issued by the Company in the nine months ended September 30, 2022 included the following:

| (unaudited - millions of Canadian $, unless otherwise noted) | | | | | |
|---|---|---|---|---|---|
| **Company** | **Issue date** | **Type** | **Maturity date** | **Amount** | **Interest rate** |
| TRANSCANADA PIPELINES LIMITED | | | | | |
| | May 2022 | Medium Term Notes | May 2032 | 800 | 5.33% |
| | May 2022 | Medium Term Notes | May 2026 | 400 | 4.35% |
| | May 2022 | Medium Term Notes | May 2052 | 300 | 5.92% |
| ANR PIPELINE COMPANY | | | | | |
| | May 2022 | Senior Unsecured Notes | May 2032 | US 300 | 3.43% |
| | May 2022 | Senior Unsecured Notes | May 2034 | US 200 | 3.58% |
| | May 2022 | Senior Unsecured Notes | May 2037 | US 200 | 3.73% |
| | May 2022 | Senior Unsecured Notes | May 2029 | US 100 | 3.26% |

### Long-Term Debt Retired

On August 1, 2022, TCPL retired US$1 billion of senior unsecured notes bearing interest at a fixed rate of 2.50 per cent.

### Capitalized Interest

In the three and nine months ended September 30, 2022, TC Energy capitalized interest related to capital projects of $5 million and $11 million, respectively (2021 – $2 million and $20 million, respectively).

## 10. JUNIOR SUBORDINATED NOTES ISSUED

Junior subordinated notes issued by the Company in the nine months ended September 30, 2022 included the following:

| (unaudited - millions of Canadian $, unless otherwise noted) | | | | | |
|---|---|---|---|---|---|
| **Company** | **Issue date** | **Type** | **Maturity date** | **Amount** | **Interest rate** |
| TransCanada PipeLines Limited | March 2022 | Junior Subordinated Notes[1] | March 2082 | US 800 | 5.85% |

1 The junior subordinated notes were issued to TransCanada Trust, a financing trust subsidiary wholly owned by TCPL. While the obligations of TransCanada Trust are fully and unconditionally guaranteed by TCPL on a subordinated basis, TransCanada Trust is not consolidated in TC Energy's financial statements since TCPL does not have a variable interest in TransCanada Trust and the only substantive assets of TransCanada Trust are junior subordinated notes of TCPL.

In March 2022, TransCanada Trust (the Trust) issued US$800 million of Trust Notes – Series 2022-A to investors with a fixed interest rate of 5.60 per cent per annum for the first 10 years and resetting on the 10th anniversary and every five years thereafter. All of the proceeds of the issuance by the Trust were loaned to TCPL for US$800 million of junior subordinated notes of TCPL at an initial fixed rate of 5.85 per cent per annum, including a 0.25 per cent administration charge. The rate on the junior subordinated notes of TCPL will reset every five years commencing March 2032 until March 2052 to the then Five-Year Treasury Rate, as defined in the document governing the subordinated notes, plus 4.236 per cent per annum; from March 2052 until March 2082, the interest rate will reset every five years to the then Five-Year Treasury Rate plus 4.986 per cent per annum. The junior subordinated notes are callable at TCPL's option at any time from December 7, 2031 to March 7, 2032 and on each interest payment and reset date thereafter at 100 per cent of the principal amount plus accrued and unpaid interest to the date of redemption.

The junior subordinated notes are subordinated in right of payment to existing and future senior indebtedness and other obligations of TCPL.

## 11. COMMON SHARES AND PREFERRED SHARES

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

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (unaudited - Canadian $, rounded to two decimals) | **2022** | 2021 | **2022** | 2021 |
| per common share | **0.90** | 0.87 | **2.70** | 2.61 |
| per Series 1 preferred share | **0.22** | 0.22 | **0.65** | 0.65 |
| per Series 2 preferred share | **0.21** | 0.13 | **0.50** | 0.38 |
| per Series 3 preferred share | **0.11** | 0.11 | **0.32** | 0.32 |
| per Series 4 preferred share | **0.17** | 0.09 | **0.38** | 0.26 |
| per Series 5 preferred share | **0.12** | 0.12 | **0.37** | 0.37 |
| per Series 6 preferred share | **0.23** | 0.11 | **0.48** | 0.31 |
| per Series 7 preferred share | **0.24** | 0.24 | **0.73** | 0.73 |
| per Series 9 preferred share | **0.24** | 0.24 | **0.71** | 0.71 |
| per Series 11 preferred share | **0.21** | 0.21 | **0.42** | 0.42 |
| per Series 13 preferred share | **—** | — | **—** | 0.34 |
| per Series 15 preferred share | **—** | 0.31 | **0.31** | 0.61 |

### Common Shares

On August 10, 2022, TC Energy issued 28,400,000 common shares at a price of $63.50 each for gross proceeds of approximately $1.8 billion. The Company will use the proceeds, directly or indirectly, together with other financing sources and cash on hand, to fund costs associated with the construction of the Southeast Gateway pipeline.

### Dividend Reinvestment Plan

TC Energy has reinstated the issuance of common shares from treasury at a two per cent discount under its Dividend Reinvestment Plan commencing with the dividends declared on July 27, 2022.

### Preferred Shares

On May 31, 2022, TC Energy redeemed all 40,000,000 issued and outstanding Series 15 preferred shares at a redemption price of $25.00 per share and paid the final quarterly dividend of $0.30625 per Series 15 preferred share, for the period up to but excluding May 31, 2022. The Company used the proceeds from the March 2022 issuance of US$800 million of junior subordinated notes through the Trust to finance this preferred share redemption.

## 12. OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

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

| **three months ended September 30, 2022**<br>(unaudited - millions of Canadian $) | **Before tax amount** | **Income tax (expense)/ recovery** | **Net of tax amount** |
|---|---|---|---|
| Foreign currency translation gains and losses on net investment in foreign operations | **1,430** | **80** | **1,510** |
| Change in fair value of net investment hedges | **(89)** | **22** | **(67)** |
| Change in fair value of cash flow hedges | **(23)** | **3** | **(20)** |
| Reclassification to net income of gains and losses on cash flow hedges | **13** | **2** | **15** |
| Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans | **3** | **(1)** | **2** |
| Other comprehensive loss on equity investments | **(4)** | **2** | **(2)** |
| **Other Comprehensive Income** | **1,330** | **108** | **1,438** |

| **three months ended September 30, 2021**<br>(unaudited - millions of Canadian $) | **Before tax amount** | **Income tax (expense)/ recovery** | **Net of tax amount** |
|---|---|---|---|
| Foreign currency translation gains and losses on net investment in foreign operations | 441 | 9 | 450 |
| Change in fair value of net investment hedges | (36) | 9 | (27) |
| Change in fair value of cash flow hedges | (19) | 4 | (15) |
| Reclassification to net income of gains and losses on cash flow hedges | 18 | (3) | 15 |
| Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans | 7 | (2) | 5 |
| Other comprehensive income on equity investments | 34 | (9) | 25 |
| **Other Comprehensive Income** | 445 | 8 | 453 |

| **nine months ended September 30, 2022**<br>(unaudited - millions of Canadian $) | **Before tax amount** | **Income tax (expense)/ recovery** | **Net of tax amount** |
|---|---|---|---|
| Foreign currency translation gains and losses on net investment in foreign operations | **1,770** | **102** | **1,872** |
| Change in fair value of net investment hedges | **(100)** | **25** | **(75)** |
| Change in fair value of cash flow hedges | **(6)** | **(2)** | **(8)** |
| Reclassification to net income of gains and losses on cash flow hedges | **37** | **(7)** | **30** |
| Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans | **8** | **(2)** | **6** |
| Other comprehensive income on equity investments | **455** | **(112)** | **343** |
| **Other Comprehensive Income** | **2,164** | **4** | **2,168** |

| **nine months ended September 30, 2021**<br>(unaudited - millions of Canadian $) | **Before tax amount** | **Income tax (expense)/ recovery** | **Net of tax amount** |
|---|---|---|---|
| Foreign currency translation gains and losses on net investment in foreign operations | (78) | (3) | (81) |
| Change in fair value of net investment hedges | (4) | 1 | (3) |
| Change in fair value of cash flow hedges | (19) | 4 | (15) |
| Reclassification to net income of gains and losses on cash flow hedges | 41 | (8) | 33 |
| Reclassification to net income of actuarial gains and losses on pension and other post-retirement benefit plans | 16 | (4) | 12 |
| Other comprehensive income on equity investments | 207 | (52) | 155 |
| **Other Comprehensive Income** | 163 | (62) | 101 |

The changes in AOCI by component are as follows:

| **three months ended September 30, 2022**<br>(unaudited - millions of Canadian $) | **Currency translation adjustments** | **Cash flow hedges** | **Pension and other post-retirement benefit plans adjustments** | **Equity investments** | **Total**[1] |
|---|---|---|---|---|---|
| AOCI balance at July 1, 2022 | **(657)** | **(85)** | **(109)** | **145** | **(706)** |
| Other comprehensive income/(loss) before reclassifications[2] | **1,435** | **(20)** | **—** | **(2)** | **1,413** |
| Amounts reclassified from AOCI | **—** | **15** | **2** | **—** | **17** |
| **Net current period other comprehensive income/(loss)** | **1,435** | **(5)** | **2** | **(2)** | **1,430** |
| **AOCI balance at September 30, 2022** | **778** | **(90)** | **(107)** | **143** | **724** |

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 is net of a non-controlling interest gain of $8 million.

| **nine months ended September 30, 2022**<br>(unaudited - millions of Canadian $) | **Currency translation adjustments** | **Cash flow hedges** | **Pension and other post-retirement benefit plans adjustments** | **Equity investments** | **Total**[1] |
|---|---|---|---|---|---|
| AOCI balance at January 1, 2022 | **(1,009)** | **(112)** | **(113)** | **(200)** | **(1,434)** |
| Other comprehensive income/(loss) before reclassifications[2] | **1,787** | **(8)** | **—** | **345** | **2,124** |
| Amounts reclassified from AOCI[3] | **—** | **30** | **6** | **(2)** | **34** |
| **Net current period other comprehensive income** | **1,787** | **22** | **6** | **343** | **2,158** |
| **AOCI balance at September 30, 2022** | **778** | **(90)** | **(107)** | **143** | **724** |

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 is net of a non-controlling interest gain of $10 million.

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 $54 million ($41 million, net of tax) at September 30, 2022. 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.

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

| (unaudited - millions of Canadian $) | three months ended September 30 2022 | three months ended September 30 2021 | nine months ended September 30 2022 | nine months ended September 30 2021 | Affected line item in the Condensed consolidated statement of income[1] |
|---|---|---|---|---|---|
| Cash flow hedges | | | | | |
| Commodities | **(10)** | (8) | **(24)** | (13) | Revenues (Power and Storage) |
| Interest rate | **(3)** | (10) | **(13)** | (28) | Interest expense |
| | **(13)** | (18) | **(37)** | (41) | Total before tax |
| | **(2)** | 3 | **7** | 8 | Income tax expense/(recovery) |
| | **(15)** | (15) | **(30)** | (33) | Net of tax |
| Pension and other post-retirement benefit plans | | | | | |
| Amortization of actuarial losses | **(3)** | (7) | **(8)** | (16) | Plant operating costs and other[2] |
| | **1** | 2 | **2** | 4 | Income tax expense/(recovery) |
| | **(2)** | (5) | **(6)** | (12) | Net of tax |
| Equity investments | | | | | |
| Equity income | **1** | (9) | **3** | (27) | Income from equity investments |
| | **(1)** | 2 | **(1)** | 7 | Income tax expense/(recovery) |
| | **—** | (7) | **2** | (20) | Net of tax |

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

2 These AOCI components are included in the computation of net benefit cost. Refer to Note 13, Employee post-retirement benefits, for additional information.

## 13. 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 $) | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Service cost[1] | **36** | 44 | **2** | 2 | **108** | 129 | **4** | 5 |
| Other components of net benefit cost[1] | | | | | | | | |
| Interest cost | **32** | 30 | **4** | 3 | **94** | 90 | **10** | 9 |
| Expected return on plan assets | **(59)** | (59) | **(3)** | (4) | **(178)** | (176) | **(10)** | (10) |
| Amortization of actuarial losses | **3** | 7 | **—** | — | **8** | 18 | **1** | 1 |
| Amortization of regulatory asset | **3** | 6 | **—** | 1 | **9** | 20 | **1** | 2 |
| | **(21)** | (16) | **1** | — | **(67)** | (48) | **2** | 2 |
| **Net Benefit Cost** | **15** | 28 | **3** | 2 | **41** | 81 | **6** | 7 |

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.

## 14. 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 its earnings, cash flows and, ultimately, shareholder value.

### Counterparty Credit Risk

TC Energy's exposure to counterparty credit risk includes its cash and cash equivalents, accounts receivable and certain contractual recoveries, available-for-sale assets, the fair value of derivative assets, loans receivable and net investment in leases.

Market events causing disruptions in global energy demand and supply may contribute to economic uncertainties impacting a number of TC Energy's customers. While the majority of the Company's credit exposure is to large creditworthy entities, TC Energy maintains close monitoring and communication with those counterparties experiencing greater financial pressures. Refer to TC Energy's 2021 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 reasonable and supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other. At September 30, 2022, there were no significant credit risk concentrations and no significant amounts past due or impaired. For the three and nine months ended September 30, 2022, the Company recorded a $71 million (US$53 million) ECL provision before tax on the net investment in leases with respect to the new TGNH TSA. Refer to Note 8, TGNH strategic alliance with the CFE, for additional information.

The Company has significant credit and performance exposure to financial institutions that hold cash deposits and provide committed credit lines and letters of credit that help manage the Company's exposure to counterparties and provide liquidity in commodity, foreign exchange and interest rate derivative markets.

### 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 interest rate swaps, foreign exchange forwards and foreign exchange options as appropriate.

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

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $, unless otherwise noted) | Fair value[1,2] | Notional amount | Fair value[1,2] | Notional amount |
| U.S. dollar foreign exchange options (maturing 2022 to 2024) | **(73)** | **US 3,600** | (4) | US 3,800 |
| U.S. dollar cross-currency interest rate swaps (maturing 2023 to 2025) | **(11)** | **US 300** | 23 | US 400 |
| U.S. dollar foreign exchange forward contracts (maturing 2022)[3] | **(2)** | **—** | — | — |
| | **(86)** | **US 3,900** | 19 | US 4,200 |

1 Fair value equals carrying value.

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

3 Notional amount presented on a net basis.

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, 2022 | December 31, 2021 |
|---|---|---|
| Notional amount | **34,500 (US 25,100)** | 30,700 (US 24,200) |
| Fair value | **32,000 (US 23,200)** | 35,500 (US 28,100) |

## 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, Loans receivable from affiliates, Other current assets, Long-term loans receivable from affiliate, Restricted investments, Net investment in leases, Other long-term assets, Notes payable, Accounts payable and other, Dividends payable, 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 financial instruments.

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

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

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term debt, including current portion[1,2] | **(42,000)** | **(39,076)** | (38,661) | (45,615) |
| Junior subordinated notes | **(10,634)** | **(9,365)** | (8,939) | (9,236) |
| | **(52,634)** | **(48,441)** | (47,600) | (54,851) |

1 Long-term debt is recorded at amortized cost, except for US$1.0 billion (December 31, 2021 – nil) that is attributed to hedged risk and recorded at fair value.

2 Net income for the three and nine months ended September 30, 2022 included unrealized gains of $73 million and $71 million, respectively (2021 – nil) for fair value adjustments attributable to the hedged interest rate risk associated with interest rate swap fair value hedging relationships on US$1.0 billion of long-term debt at September 30, 2022 (December 31, 2021 – nil). There were no other unrealized gains or losses from fair value adjustments to the non-derivative financial instruments.

**Available-for-sale assets summary**

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

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | LMCI restricted investments | Other restricted investments[1] | LMCI restricted investments | Other restricted investments[1] |
| Fair values of fixed income securities[2,3] | | | | |
| Maturing within 1 year | **1** | **53** | — | 26 |
| Maturing within 1-5 years | **9** | **108** | 8 | 107 |
| Maturing within 5-10 years | **1,100** | **—** | 1,150 | — |
| Maturing after 10 years | **74** | **—** | 84 | — |
| Fair value of equity securities[2,4] | **690** | **—** | 817 | — |
| | **1,874** | **161** | 2,059 | 133 |

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.

| | September 30, 2022 | | September 30, 2021 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | LMCI restricted investments[1] | Other restricted investments[2] | LMCI restricted investments[1] | Other restricted investments[2] |
| Net unrealized losses in the period | | | | |
| three months ended | **—** | **(2)** | (13) | — |
| nine months ended | **(300)** | **(8)** | (4) | (1) |
| Net realized (losses)/gains in the period[3] | | | | |
| three months ended | **(10)** | **—** | 9 | — |
| nine months ended | **(26)** | **—** | 6 | — |

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 and liabilities, respectively.

2 Losses on other restricted investments are included in Interest income and other in the Condensed consolidated statement of income.

3 Realized gains and losses on the sale of LMCI restricted investments are determined using the average cost basis.

## Derivative Instruments

**Fair value of derivative instruments**

The fair value of 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.

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.

The recognition of gains and losses on derivatives for Canadian natural gas regulated pipeline exposures is determined through the regulatory process. Gains and losses arising from changes in the fair value of derivatives accounted for as part of rate-regulated accounting, including those that qualify for hedge accounting treatment, are expected to be recovered or refunded through the tolls charged by the Company. As a result, these gains and losses are deferred as regulatory assets and regulatory liabilities and are collected from or refunded to the rate payers in subsequent years when the derivative settles.

**Balance sheet presentation of derivative instruments**

The balance sheet classification of the fair value of derivative instruments was as follows:

| **at September 30, 2022**<br>(unaudited - millions of Canadian $) | **Cash flow hedges** | **Fair value hedges** | **Net investment hedges** | **Held for trading** | **Total fair value of derivative instruments**[1] |
|---|---|---|---|---|---|
| Other current assets | | | | | |
| Commodities[2] | **—** | **—** | **—** | **663** | **663** |
| Foreign exchange | **—** | **—** | **3** | **36** | **39** |
| | **—** | **—** | **3** | **699** | **702** |
| Other long-term assets | | | | | |
| Commodities[2] | **1** | **—** | **—** | **47** | **48** |
| Foreign exchange | **—** | **—** | **6** | **15** | **21** |
| | **1** | **—** | **6** | **62** | **69** |
| **Total Derivative Assets** | **1** | **—** | **9** | **761** | **771** |
| Accounts payable and other | | | | | |
| Commodities[2] | **(42)** | **—** | **—** | **(682)** | **(724)** |
| Foreign exchange | **—** | **—** | **(63)** | **(285)** | **(348)** |
| Interest rate | **—** | **(8)** | **—** | **—** | **(8)** |
| | **(42)** | **(8)** | **(63)** | **(967)** | **(1,080)** |
| Other long-term liabilities | | | | | |
| Commodities[2] | **(4)** | **—** | **—** | **(57)** | **(61)** |
| Foreign exchange | **—** | **—** | **(32)** | **(83)** | **(115)** |
| Interest rate | **—** | **(63)** | **—** | **—** | **(63)** |
| | **(4)** | **(63)** | **(32)** | **(140)** | **(239)** |
| **Total Derivative Liabilities** | **(46)** | **(71)** | **(95)** | **(1,107)** | **(1,319)** |
| **Total Derivatives** | **(45)** | **(71)** | **(86)** | **(346)** | **(548)** |

1 Fair value equals carrying value.

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

| at December 31, 2021 (unaudited - millions of Canadian $) | Cash flow hedges | Net investment hedges | Held for trading | Total fair value of derivative instruments[1] |
|---|---|---|---|---|
| Other current assets | | | | |
| Commodities[2] | — | — | 122 | 122 |
| Foreign exchange | — | 10 | 37 | 47 |
| | — | 10 | 159 | 169 |
| Other long-term assets | | | | |
| Commodities[2] | — | — | 8 | 8 |
| Foreign exchange | — | 32 | 6 | 38 |
| Interest rate | 2 | — | — | 2 |
| | 2 | 32 | 14 | 48 |
| **Total Derivative Assets** | 2 | 42 | 173 | 217 |
| Accounts payable and other | | | | |
| Commodities[2] | (23) | — | (138) | (161) |
| Foreign exchange | — | (4) | (46) | (50) |
| Interest rate | (10) | — | — | (10) |
| | (33) | (4) | (184) | (221) |
| Other long-term liabilities | | | | |
| Commodities[2] | (4) | — | (6) | (10) |
| Foreign exchange | — | (19) | (10) | (29) |
| Interest rate | (8) | — | — | (8) |
| | (12) | (19) | (16) | (47) |
| **Total Derivative Liabilities** | (45) | (23) | (200) | (268) |
| **Total Derivatives** | (43) | 19 | (27) | (51) |

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:

| | Carrying amount | | Fair value hedging adjustments[1] | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | **September 30, 2022** | December 31, 2021 | **September 30, 2022** | December 31, 2021 |
| Long-term debt | **(1,304)** | — | **71** | — |

1 At September 30, 2022 and December 31, 2021, adjustments for discontinued hedging relationships included in these balances were nil.

**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 was as follows:

| at September 30, 2022<br>(unaudited) | Power | Natural Gas | Liquids | Emission credits | Foreign exchange | Interest rate |
|---|---|---|---|---|---|---|
| Net sales/(purchases)[1] | **629** | **(21)** | **10** | **100** | **—** | **—** |
| Millions of U.S. dollars | **—** | **—** | **—** | **—** | **7,571** | **1,000** |
| Millions of Mexican pesos | **—** | **—** | **—** | **—** | **9,747** | **—** |
| Maturity dates | **2022-2026** | **2022-2027** | **2022-2024** | **2022** | **2022-2026** | **2030** |

1 Volumes for power, natural gas, liquids and emission credit derivatives are in GWh, Bcf, MMBbls and thousand metric tonnes $CO_2$, respectively.

| at December 31, 2021<br>(unaudited) | Power | Natural Gas | Liquids | Foreign exchange | Interest rate |
|---|---|---|---|---|---|
| Net sales/(purchases)[1] | 490 | (52) | 4 | — | — |
| Millions of U.S. dollars | — | — | — | 6,636 | 650 |
| Millions of Mexican pesos | — | — | — | 5,500 | — |
| Maturity dates | 2022-2026 | 2022-2027 | 2022 | 2022-2026 | 2024-2026 |

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

## Unrealized and Realized Gains and Losses on Derivative Instruments

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

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | **2022** | **2021** | **2022** | **2021** |
| **Derivative Instruments Held-for-Trading**[1] | | | | |
| Amount of unrealized gains/(losses) in the period | | | | |
| Commodities | **42** | (43) | **(16)** | (27) |
| Foreign exchange | **(283)** | (125) | **(321)** | (183) |
| Amount of realized gains/(losses) in the period | | | | |
| Commodities | **165** | 58 | **561** | 167 |
| Foreign exchange | **(1)** | 37 | **27** | 195 |
| **Derivative Instruments in Hedging Relationships** | | | | |
| Amount of realized (losses)/gains in the period | | | | |
| Commodities | **(21)** | (9) | **(39)** | (32) |
| Interest rate | **2** | (6) | **—** | (18) |

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.

**Derivatives in cash flow hedging relationships**

The components of OCI (Note 12) 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 were as follows:

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $, pre-tax) | **2022** | **2021** | **2022** | **2021** |
| Change in fair value of derivative instruments recognized in OCI[1] | | | | |
| Commodities | **(23)** | (16) | **(42)** | (31) |
| Interest rate | **—** | (3) | **36** | 12 |
| | **(23)** | (19) | **(6)** | (19) |

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 were recorded:

| | three months ended September 30 | | nine months ended September 30 | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | **2022** | **2021** | **2022** | **2021** |
| **Fair Value Hedges** | | | | |
| Interest rate contracts[1] | | | | |
| Hedged items | **(10)** | — | **(12)** | — |
| Derivatives designated as hedging instruments | **1** | — | **2** | — |
| **Cash Flow Hedges** | | | | |
| Reclassification of losses on derivative instruments from AOCI to Net income[2,3] | | | | |
| Commodities[4] | **(10)** | (8) | **(24)** | (13) |
| Interest rate[1] | **(3)** | (10) | **(13)** | (28) |

1 Presented within Interest expense in the Condensed consolidated statement of income.

2 Refer to Note 12, Other comprehensive income and accumulated other comprehensive income/(loss), for the components of OCI related to derivatives in cash flow hedging relationships.

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.

**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:

| **at September 30, 2022** (unaudited - millions of Canadian $) | **Gross derivative instruments** | **Amounts available for offset**[1] | **Net amounts** |
|---|---|---|---|
| Derivative instrument assets | | | |
| Commodities | **711** | **(610)** | **101** |
| Foreign exchange | **60** | **(60)** | **—** |
| | **771** | **(670)** | **101** |
| Derivative instrument liabilities | | | |
| Commodities | **(785)** | **610** | **(175)** |
| Foreign exchange | **(463)** | **60** | **(403)** |
| Interest rate | **(71)** | **—** | **(71)** |
| | **(1,319)** | **670** | **(649)** |

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

| **at December 31, 2021** (unaudited - millions of Canadian $) | **Gross derivative instruments** | **Amounts available for offset**[1] | **Net amounts** |
|---|---|---|---|
| Derivative instrument assets | | | |
| Commodities | 130 | (91) | 39 |
| Foreign exchange | 85 | (54) | 31 |
| Interest rate | 2 | (1) | 1 |
| | 217 | (146) | 71 |
| Derivative instrument liabilities | | | |
| Commodities | (171) | 91 | (80) |
| Foreign exchange | (79) | 54 | (25) |
| Interest rate | (18) | 1 | (17) |
| | (268) | 146 | (122) |

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 $150 million and letters of credit of $19 million at September 30, 2022 (December 31, 2021 – $144 million and $130 million, respectively) to its counterparties. At September 30, 2022, the Company held $2 million of cash collateral and a $13 million balance in letters of credit (December 31, 2021 – nil and $6 million, respectively) from counterparties on asset exposures.

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

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

Based on contracts in place and market prices at September 30, 2022, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was $21 million (December 31, 2021 – $5 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, 2022, 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.

| Levels | How fair value has been determined |
|---|---|
| Level I | Quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. An active market is a market in which frequency and volume of transactions provides pricing information on an ongoing basis. |
| Level II | This category includes 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.<br><br>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 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.<br><br>There is uncertainty caused by using unobservable market data which may not accurately reflect possible future changes in fair value. |

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

| **at September 30, 2022**<br>(unaudited - millions of Canadian $) | **Quoted prices in active markets (Level I)** | **Significant other observable inputs (Level II)**[1] | **Significant unobservable inputs (Level III)**[1] | **Total** |
|---|---|---|---|---|
| Derivative instrument assets | | | | |
| Commodities | **557** | **154** | **—** | **711** |
| Foreign exchange | **—** | **60** | **—** | **60** |
| Derivative instrument liabilities | | | | |
| Commodities | **(572)** | **(197)** | **(16)** | **(785)** |
| Foreign exchange | **—** | **(463)** | **—** | **(463)** |
| Interest rate | **—** | **(71)** | **—** | **(71)** |
| | **(15)** | **(517)** | **(16)** | **(548)** |

1 There were no transfers from Level II to Level III for the nine months ended September 30, 2022.

| **at December 31, 2021**<br>(unaudited - millions of Canadian $) | **Quoted prices in active markets (Level I)** | **Significant other observable inputs (Level II)**[1] | **Significant unobservable inputs (Level III)**[1] | **Total** |
|---|---|---|---|---|
| Derivative instrument assets | | | | |
| Commodities | 39 | 91 | — | 130 |
| Foreign exchange | — | 85 | — | 85 |
| Interest rate | — | 2 | — | 2 |
| Derivative instrument liabilities | | | | |
| Commodities | (49) | (116) | (6) | (171) |
| Foreign exchange | — | (79) | — | (79) |
| Interest rate | — | (18) | — | (18) |
| | (10) | (35) | (6) | (51) |

1 There were no transfers from Level II to Level III for the year ended December 31, 2021.

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

| | **three months ended September 30** | | **nine months ended September 30** | |
|---|---|---|---|---|
| (unaudited - millions of Canadian $) | **2022** | **2021** | **2022** | **2021** |
| Balance at beginning of period | **(15)** | (5) | **(6)** | (4) |
| Net losses included in Net income | **(3)** | (1) | **(11)** | (2) |
| Net losses included in OCI | **(1)** | — | **(2)** | — |
| Transfers to Level II | **2** | — | **2** | — |
| Settlements | **1** | — | **1** | — |
| **Balance at End of Period**[1] | **(16)** | (6) | **(16)** | (6) |

1 For the three and nine months ended September 30, 2022, there were unrealized losses of $3 million and $11 million, respectively, recognized in Revenues attributed to derivatives in the Level III category that were held at September 30, 2022 (2021 – unrealized losses of $1 million and $2 million, respectively).

## 15. CONTINGENCIES AND GUARANTEES

### 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 normal course proceedings and actions will not have a material impact on the Company's consolidated financial position or results of operations.

### Guarantees

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 Other long-term liabilities on the Condensed consolidated balance sheet. Information regarding the Company's guarantees is as follows:

| | | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|---|
| (unaudited - millions of Canadian $) | Term | Potential exposure[1] | Carrying value | Potential exposure[1] | Carrying value |
| Sur de Texas | to 2043 | **101** | **—** | 93 | — |
| Bruce Power | to 2023 | **88** | **—** | 88 | — |
| Other jointly-owned entities | to 2043 | **81** | **3** | 80 | 4 |
| | | **270** | **3** | 261 | 4 |

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

## 16. VARIABLE INTEREST ENTITIES

The assessment of whether an entity is a VIE and, if so, whether the Company is the primary beneficiary is completed at the inception of the entity or at a reconsideration event. The Company examines specific criteria and uses its judgment when determining if it is the primary beneficiary of a VIE.

### 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, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **68** | 72 |
| Accounts receivable | **74** | 70 |
| Inventories | **29** | 28 |
| Other current assets | **9** | 13 |
| | **180** | 183 |
| **Plant, Property and Equipment** | **4,036** | 3,672 |
| **Equity Investments** | **950** | 890 |
| **Goodwill** | **457** | 421 |
| | **5,623** | 5,166 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and other | **258** | 232 |
| Accrued interest | **23** | 17 |
| Current portion of long-term debt | **32** | 29 |
| | **313** | 278 |
| **Regulatory Liabilities** | **77** | 66 |
| **Other Long-Term Liabilities** | **—** | 1 |
| **Deferred Income Tax Liabilities** | **14** | 13 |
| **Long-Term Debt** | **2,170** | 2,025 |
| | **2,574** | 2,383 |

### 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.

In third quarter 2022, there was a reconsideration event for the Company's investment in Coastal GasLink LP as a result of revised project agreements and a further $1,880 million equity contribution from TC Energy. The Company exercised judgment in performing the primary beneficiary analysis and determined that power continues to be shared with its partners; therefore, TC Energy is not the primary beneficiary. In addition, the Company evaluated its investment in Coastal GasLink LP and concluded there was no indication of impairment as at September 30, 2022. Adverse changes to the Company's expectations around future developments may indicate a reduction in estimated future cash flows and could result in an impairment to this investment.

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, 2022** | **December 31, 2021** |
|---|---|---|
| **Balance Sheet Exposure** | | |
| Loan receivable from affiliate[1] | — | 1 |
| Equity investments | | |
| Bruce Power | **4,969** | 4,493 |
| Coastal GasLink[2] | **2,738** | 386 |
| Other pipeline equity investments | **1,303** | 1,219 |
| Long-term loans receivable from affiliate[1] | **250** | 238 |
| **Off-Balance Sheet Exposure**[3] | | |
| Bruce Power[4] | **2,177** | 974 |
| Coastal GasLink[5] | **475** | 3,037 |
| Other pipeline equity investments | **97** | 171 |
| **Maximum Exposure to Loss** | **12,009** | 10,519 |

1 Refer to Note 7, Loans receivable from affiliates, for additional information.

2 Includes a $1,880 million equity contribution from TC Energy, payable in monthly installments from August 2022 to February 2023. At September 30, 2022, a liability for the $1,343 million remaining portion of the equity contribution has been accrued and is reflected in Accounts payable and other on the Company's Condensed consolidated balance sheet.

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

4 On March 7, 2022, the IESO verified Bruce Power's Unit 3 MCR program final cost and schedule duration estimate submitted in December 2021. As at September 30, 2022, the maximum exposure includes TC Energy's portion of capital to be invested under the Unit 3 MCR program as well as the expected increase in the capital to be invested under the Asset Management program through 2027.

5 Represents the total capacity of $2,068 million (December 31, 2021 – $3,275 million) committed under a subordinated loan agreement with Coastal GasLink LP less a $250 million (December 31, 2021 – $238 million) balance outstanding under this loan agreement as at September 30, 2022 and less the $1,343 million (December 31, 2021 – nil) accrual for the remaining portion of the equity contribution noted above. Refer to Note 7, Loans receivable from affiliates, for additional information.