

TC Energy reports strong first quarter financial results Continues to reliably deliver essential energy services across North America

CALGARY, Alberta – **May 1, 2020** – TC Energy Corporation (TSX, NYSE: TRP) (TC Energy or the Company) today announced net income attributable to common shares for first quarter 2020 of \$1.15 billion or \$1.22 per share compared to net income of \$1.0 billion or \$1.09 per share for the same period in 2019. Comparable earnings for first quarter 2020 were \$1.1 billion or \$1.18 per common share compared to \$1.0 billion or \$1.07 per common share in 2019. TC Energy's Board of Directors also declared a quarterly dividend of \$0.81 per common share for the quarter ending June 30, 2020, equivalent to \$3.24 per common share on an annualized basis.

"We are living in unprecedented times with the COVID-19 pandemic having a significant impact on millions of people around the world," said Russ Girling, TC Energy's President and Chief Executive Officer. "On behalf of everyone at TC Energy, I'd like to express my appreciation to all the front-line health care and other essential service workers who are risking their personal well-being to ensure that testing, treatment and care is provided to those directly impacted by COVID-19. We also offer our equally sincere gratitude to those ensuring that critical delivery systems and supply chains continue to operate. Your selfless acts to keep people safe, fed and comfortable during this difficult time are truly courageous.

"At TC Energy, we remain focused on the health and safety of our employees, contractors and the communities in which we operate and on maintaining the reliability of our critical energy delivery systems," continued Girling. "Business continuity plans were implemented across all of our operations in early March and we continue to effectively operate our assets and execute on our capital programs which are essential to meeting the energy needs of people across North America.

"The availability of our infrastructure has remained largely unimpacted by recent events with utilization levels robust and in line with historical norms. With approximately 95 per cent of our comparable EBITDA generated from regulated assets and/or long-term contracts, we are largely insulated from short-term volatility associated with volume throughput and commodity prices," added Girling. "During the first quarter of 2020, our diversified portfolio continued to perform very well. Comparable earnings per share increased 10 per cent compared to the same period last year while comparable funds generated from operations of \$2.1 billion were 17 per cent higher. The increases reflect the robust performance of our legacy assets and contributions from the approximately \$1.6 billion of capacity projects that have entered service to date in 2020."

Despite near-term market uncertainty, we continue to believe that access to abundant, responsibly-produced energy from one of the world's largest reserves and a country with top ESG performance will be crucial to North America's economy, energy security and standard of living over the longer term. As a result, at the end of March, the Company announced that it was moving forward with construction of the Keystone XL pipeline project which will require an additional investment of approximately US\$8.0 billion. The pipeline is expected to enter service in 2023 and will play a critical role in connecting the world's third largest oil reserves in the Canadian oil sands with the continent's largest refining market in the U.S. Gulf Coast. It is underpinned by new 20-year contracts for 575,000 barrels per day that are expected to generate approximately US\$1.3 billion of incremental EBITDA on an annual basis when the pipeline enters service. TC Energy has partnered with the Government of Alberta who will invest approximately US\$1.1 billion in equity and fully guarantee a US\$4.2 billion project-level credit facility through construction. Once the project is completed and placed into service, the Company expects to acquire the Government of Alberta's equity interest and refinance the credit facility.

"We appreciate the ongoing backing of landowners, customers, Indigenous groups and numerous partners in the U.S. and Canada who helped us secure project support and key regulatory approvals as this important energy infrastructure project is poised to put thousands of people to work, generate substantial economic benefits and strengthen the continent's energy security," said Girling. "In addition, we thank the many government officials across North America for their advocacy without which, individually and collectively, this project could not have advanced."

While capital markets conditions have been significantly impacted by COVID-19, over the course of April, the Company has enhanced its liquidity by in excess of \$9 billion through offerings of \$2.0 billion of medium term notes in Canada and US\$1.25 billion of senior unsecured notes in the U.S., establishment of an incremental US\$2.0 billion of committed credit facilities and completion of the \$2.8 billion sale of its Ontario natural gas-fired power plants. This is expected to be further supplemented by funds received from closing the Coastal GasLink joint venture and project financing transactions in the second quarter.

"Our strong financial position and continued access to capital markets will enable us to prudently fund our now \$43 billion secured capital program in a manner that is consistent with maintaining our solid credit ratings and targeted credit metrics," added Girling. "Once completed, approximately 98 per cent of the Company's consolidated EBITDA is expected to come from regulated and/or long-term contracted assets. Success in advancing these and other organic growth opportunities emanating from our five operating businesses across North America is expected to support annual dividend growth of eight to 10 per cent in 2021 and five to seven per cent thereafter."

Highlights

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

- First quarter 2020 financial results
 - Net income attributable to common shares of \$1.15 billion or \$1.22 per common share
 - Comparable earnings of \$1.1 billion or \$1.18 per common share
 - Comparable EBITDA of \$2.5 billion
 - Net cash provided by operations of \$1.7 billion
 - Comparable funds generated from operations of \$2.1 billion
- Declared a quarterly dividend of \$0.81 per common share for the quarter ending June 30, 2020
- Placed approximately \$1.5 billion of NGTL System and \$0.1 billion of Canadian Mainline capacity projects in service
- Completed construction and commissioning activities and placed Napanee in service on March 13
- Continued construction activities on the \$6.6 billion Coastal GasLink pipeline and advanced funding plans for the project
- Announced on March 31 that we will build Keystone XL and commenced construction in April
- Received approval for all elements of the NGTL System Rate Design and Services Application in March
- Received approval for the Canadian Mainline's six-year negotiated settlement in April
- Reached a five-year negotiated revenue requirement settlement for the NGTL System on April 24
- Completed the sale of the Ontario natural gas-fired power plants for net proceeds of \$2.8 billion on April 29
- Issued \$2.0 billion of seven-year fixed-rate medium term notes and US\$1.25 billion of 10-year fixed-rate senior unsecured notes and arranged for an additional US\$2.0 billion of committed credit facilities in April 2020.

Net income attributable to common shares increased by \$144 million or \$0.13 per common share to \$1.15 billion or \$1.22 per share for the three months ended March 31, 2020 compared to the same period last year. Per share results reflect the dilutive impact of common shares issued under our Dividend Reinvestment and Share Purchase Plan (DRP) in 2019. First quarter 2020 results included an income tax valuation allowance release of \$281 million following our reassessment of deferred tax assets that are deemed more likely than not to be realized as a result of our decision to proceed with the Keystone XL project, and an incremental after-tax loss of \$77 million related to the Ontario natural gas-fired power plant assets held for sale. First quarter 2019 results included an after-tax loss of \$12 million related to the U.S. Northeast power marketing contracts which were sold in May 2019. These specific items, as well as unrealized gains and losses from changes in risk management activities, are excluded from comparable earnings as we do not consider these transactions or adjustments to be a part of our underlying operations.

Comparable EBITDA increased by \$152 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to the net effect of the following:

- increased contribution from Mexico Natural Gas Pipelines mainly due to higher earnings from our investment in the Sur de Texas pipeline which was placed into service in September 2019. This includes revenues of US\$55 million from one-time fees earned from the Sur de Texas joint venture associated with our successful completion of the pipeline compared to contract targets
- higher contribution from U.S. Natural Gas Pipelines primarily due to incremental earnings from the Columbia Gas and Columbia Gulf growth projects placed in service in 2019, offset in part by the sale of certain Columbia midstream assets in August 2019
- higher Power and Storage earnings mainly attributable to increased Bruce Power results due to a higher realized power price and generation volumes as well as incremental earnings from Napanee which was placed in service on March 13, 2020. These increases were partially offset by losses in Bruce Power on funds invested for post-retirement benefits and lower earnings in Canadian Power largely as a result of an outage at our Mackay River cogeneration facility and the sale of our Coolidge generating station in May 2019
- higher contribution from Canadian Natural Gas Pipelines primarily resulting from increased rate base earnings, flow-through depreciation and financial charges on the NGTL System from additional facilities placed in service, partially offset by lower flow-through income taxes on both the NGTL System and the Canadian Mainline
- decreased contribution from Liquids Pipelines due to lower uncontracted volumes on the Keystone Pipeline System, lower contributions from liquids marketing activities and decreased earnings as a result of the sale of an 85 per cent equity interest in Northern Courier in July 2019.

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

Comparable earnings increased by \$122 million or \$0.11 per common share for the three months ended March 31, 2020 compared to the same period in 2019 and was primarily the net effect of:

- changes in comparable EBITDA described above
- lower allowance for funds used during construction (AFUDC) primarily due to Columbia Gas growth projects placed in service and the suspension of recording AFUDC on the Tula project due to continuing construction delays
- higher depreciation largely in Canadian Natural Gas Pipelines and U.S. Natural Gas Pipelines reflecting new projects placed in service. Depreciation in Canadian Natural Gas Pipelines is recoverable in tolls on a flow-through basis as discussed in comparable EBITDA above, and therefore has no significant impact on comparable earnings

- higher Interest income and other primarily from unrealized foreign exchange gains on peso-denominated deferred income tax liabilities reflecting the weakening of the Mexican peso in first quarter 2020
- a decrease in income tax expense due to lower flow-through income taxes on Canadian rate-regulated pipelines, partially offset by lower foreign income tax rate differentials.

Comparable earnings per common share for the three months ended March 31, 2020 also reflects the dilutive impact of common shares issued under our DRP in 2019.

On March 11, 2020, the World Health Organization declared the novel coronavirus or COVID-19 a global pandemic. Company business continuity plans were put in place across our organization and we continue to effectively operate our assets, conduct commercial activities and execute on projects with a focus on health, safety and reliability. At the current time, our businesses are broadly considered essential or critical businesses in Canada, the United States and Mexico given the important role our infrastructure plays in delivering energy to North American markets. We anticipate that changes to work practices and other restrictions put in place by government and health authorities in response to COVID-19 will have an impact on certain projects. We generally believe this will not be material, but the ultimate impact is uncertain at this time.

With approximately 95 per cent of our comparable EBITDA generated from rate-regulated assets and/or long-term contracts, we are largely insulated from the short-term volatility associated with volume throughput and commodity prices. Aside from the impact of maintenance activities and normal seasonal factors, to date we have not seen any pronounced changes in utilization of our assets. While it is too early to ascertain any long-term impact that COVID-19 may have on our capital program, directionally we expect some slowdown of our construction activities and capital expenditures in 2020.

Capital market conditions in 2020 have been significantly impacted by COVID-19 resulting in periods of heightened volatility and reduced liquidity. Despite these challenging conditions, we secured in excess of \$9 billion of incremental liquidity in April 2020, demonstrating our continued access to capital markets under stressed conditions. Combined with our predictable and growing cash flows from operations, cash on hand, substantial committed credit facilities, and various other financing levers available to us, we believe we are well positioned to continue to fund our obligations, capital program and dividends through a prolonged period of disruption, should it occur.

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

Other notable recent developments include:

Canadian Natural Gas Pipelines:

- ***Coastal GasLink Pipeline project:*** In December 2019, we entered into an equity purchase agreement to sell a 65 per cent equity interest in Coastal GasLink to KKR-Keats Pipeline Investors II (Canada) Ltd. (KKR) and a subsidiary of Alberta Investment Management Corporation (AIMCo), which is expected to close in second quarter 2020 subject to customary regulatory approvals and consents. As part of the transaction, we will be contracted by the Coastal GasLink Pipeline Limited Partnership to construct and operate the pipeline.

On April 28, 2020, Coastal GasLink Pipeline Limited Partnership executed a credit agreement with a syndicate of banks extending non-recourse project-level financing to fund the majority of the construction costs of the Coastal GasLink pipeline. The credit facilities under this agreement will be available to be drawn once conditions precedent have been met, including the closing of the equity purchase agreement with KKR and AIMCo. Draws on these facilities will reduce partner contributions required to fund the project.

Under the terms of the equity purchase agreement, we will receive upfront proceeds that include reimbursement of a 65 per cent proportionate share of project costs incurred to the date of closing as well as additional payment streams through construction and operation of the pipeline. We expect to record an after-tax gain of approximately \$600 million upon closing of the transaction which includes the gain on sale, recognition of previously unrecorded tax benefits and the required revaluation of our 35 per cent retained ownership to fair value, before considering derivatives. In addition, the final gain will be adjusted to reflect the closing date fair value of a derivative used to hedge the interest rate risk on the credit facilities noted above. Upon closing, we expect to account for our remaining 35 per cent investment using equity accounting.

The introduction of partners, establishment of dedicated project-level financing facilities, recovery of cash payments through construction for carrying charges on costs incurred and remuneration for costs to date are expected to substantially satisfy our funding requirements through project completion.

We are also committed to working with the 20 First Nations that have executed agreements with Coastal GasLink to provide them an opportunity to invest in the project. As a result, in conjunction with the equity purchase agreement, we will provide an option to the 20 First Nations to acquire a 10 per cent equity interest in Coastal GasLink on similar terms to what has been agreed with KKR and AIMCo.

Construction activities continue along the pipeline route with approximately 75 per cent of clearing completed and approximately 35 per cent of pipe stockpiled. Major work is now complete for the winter season with crews waiting to remobilize following spring breakup.

While the project has been designated an essential service by the B.C. provincial government, we anticipate that changes in work practices and other restrictions put in place by government and health authorities in response to COVID-19 may have an impact on its progress, however, the extent is uncertain at this time. We continue to work closely with these authorities, as well as communities along our pipeline route, to ensure the safety and well-being of our personnel and our host communities.

- **NGTL System:** In the three months ended March 31, 2020, the NGTL System placed approximately \$1.5 billion of capacity projects in service.

On February 19, 2020, the Canada Energy Regulator (CER) issued a report recommending that the Governor in Council (GIC) approve the 2021 NGTL System Expansion Program and we are awaiting a final decision from the GIC. The approximately 349 km (217 miles) of new pipeline and three compressor units are required to connect incremental firm-receipt supply commencing April 2021 and expand basin export capacity by 1.1 PJ/d (1.0 Bcf/d).

On January 31, 2020, the \$1.1 billion Aitken Creek section of the North Montney project was placed in service. The final section of the project went into service on April 18, 2020. The total project added approximately 206 km (128 miles) of new pipeline along with three compressor units and 13 meter stations.

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

The NGTL System's 2018-2019 Revenue Requirement Settlement expired in December 2019. On April 24, 2020, the NGTL System announced a five-year negotiated revenue requirement settlement with its customers and other interested parties, encompassing a term from January 1, 2020 through December 31, 2024. The settlement maintains the equity return at 10.1 per cent on 40 per cent deemed common equity, provides the NGTL System with the opportunity to increase depreciation rates if tolls fall below projected levels and includes an incentive mechanism for certain operating costs where variances from projected amounts are shared between the NGTL System and its customers. It also includes a mechanism to review the settlement should tolls exceed a pre-determined level, without affecting the equity return. The NGTL System expects to file an application with the CER for approval in second quarter 2020. Until new rates are approved, the NGTL System is operating under interim tolls for 2020 that were approved by the CER in December 2019.

- **Canadian Mainline:** In the three months ended March 31, 2020, Canadian Mainline placed approximately \$0.1 billion of capacity projects in service.

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

U.S. Natural Gas Pipelines:

- **Alberta XPress:** On February 12, 2020, we approved the Alberta XPress project, an expansion project on the ANR Pipeline system that utilizes existing capacity on the Great Lakes and Canadian Mainline systems to connect growing supply from the Western Canadian Sedimentary Basin to U.S. Gulf Coast LNG export markets. The anticipated in-service date is 2022 with estimated project costs of US\$0.3 billion.
- **Buckeye XPress:** The Buckeye XPress project represents an upsizing of an existing pipeline replacement project in conjunction with our Columbia Gas modernization program. The US\$0.2 billion cost to upsize the replacement pipe and install compressor upgrades will enable us to offer 290 TJ/d (275 MMcf/d) of incremental pipeline capacity to accommodate growing Appalachian production. The FERC certificate for Buckeye XPress was received on January 23, 2020 and we expect the project to be placed in service in late 2020.

Mexico Natural Gas Pipelines:

- **Tula and Villa de Reyes:** The arbitration process Comisión Federal de Electricidad (CFE) initiated in June 2019 for Villa de Reyes and Tula, and their fixed capacity payments under force majeure, have been suspended while negotiations with respect to the transportation services agreements progress. Similar to the successful amending agreement reached for Sur de Texas that resulted in CFE's withdrawal of its arbitration request, we anticipate agreements for Tula and Villa de Reyes will be reached before the end of 2020. Construction on the Villa de Reyes project is ongoing with a phased in-service anticipated to commence in third quarter 2020, with full in-service by the end of 2020.

Liquids Pipelines:

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

As part of the funding plan, the Government of Alberta has agreed to invest approximately US\$1.1 billion as equity in Keystone XL which substantially covers planned construction costs through the end of 2020. The remaining capital investment of approximately US\$6.9 billion is expected to be funded through the combination of a US\$4.2 billion project-level credit facility to be fully guaranteed by the Government of Alberta and a US\$2.7 billion investment by us. Our capital investment is expected to be funded through a combination of internally generated cash flows, hybrid securities and common equity through the activation of our DRP in 2021 and 2022. We intend to also file a \$1.0 billion equity shelf to enable an at-the-market equity issuance program which will be utilized if and as deemed appropriate. Once the project is completed and placed into service, we expect to acquire the Government of Alberta's equity investment under agreed terms and conditions and to refinance the US\$4.2 billion credit facility in the debt capital markets.

Keystone XL is underpinned by new 20-year transportation service agreements for 575,000 bbl/day which are expected to generate approximately US\$1.3 billion of EBITDA on an annual basis. In addition, once the project is in service, current contracts for 115,000 bbl/day from Hardisty to the U.S. Gulf Coast on the existing Keystone line will shift to the new facilities under renewed 20-year contracts. Subject to terms and conditions outlined in the agreements, 50 per cent of any difference between the estimated capital cost and final cost of Keystone XL is subject to a sharing mechanism and will be reflected in the pipeline tolls.

On April 15, 2020, the U.S. District Court in Montana ruled that the USACE violated the Endangered Species Act when it reissued the Clean Water Act Nationwide Permit 12 (NWP12) in 2017. The ruling vacated NWP12 and enjoined the USACE from authorizing any new activities under it, including Keystone XL construction across wetlands and other water bodies in the U.S. The ruling is not specific to Keystone XL as NWP12 is available to and utilized by a broad spectrum of parties for the construction, maintenance or repair of "utility lines", which include natural gas and liquids pipelines, water pipelines and electric, telephone, internet, radio and television lines. We are reviewing options to address the impact of this ruling and to secure the necessary authorizations to continue with planned Keystone XL construction.

Power and Storage:

- ***Ontario natural gas-fired power plants:*** On March 13, 2020, we completed construction and commissioning activities and Napanee was placed in service.

On April 29, 2020, we completed the sale of our Halton Hills and Napanee power plants as well as our 50 per cent interest in Portlands Energy Centre to a subsidiary of Ontario Power Generation Inc. for net proceeds of approximately \$2.8 billion following closing price adjustments and prior to post-closing adjustments, resulting in a pre-tax loss of approximately \$520 million (\$370 million after tax). The increase in the total loss from that disclosed at December 31, 2019 is primarily the result of higher than expected costs to achieve Napanee's March 13, 2020 in-service and the inclusion of post-closing obligations. As these assets had been classified as held for sale, \$395 million of the pre-tax loss (\$271 million after tax) was recorded up to March 31, 2020, with \$116 million of the pre-tax loss (\$77 million after tax) recognized in first quarter 2020. The remaining pre-tax loss of approximately \$125 million (\$99 million after tax) was recorded on close and will be reflected in second quarter 2020 results.

- **Bruce Power – Life extension:** On March 25, 2020, as a result of COVID-19 impacts, Bruce Power declared force majeure under its contract with the Independent Electricity System Operator. This force majeure notice covers the Unit 6 Major Component Replacement (MCR) and certain Asset Management work. At the time force majeure was declared, the Unit 6 MCR program was ahead of schedule. As a result of the COVID-19 restrictions, Unit 6 has been placed in a safe state and the Unit 6 MCR program has been limited to essential tasks related to plant safety and system integrity. Limited work on critical path activities is continuing, with strict prevention measures in place to protect workers and to ensure adequate provisions for ongoing operations within the facility. At this time, it is too early to determine how long the force majeure will last and what impact it will have to the cost and duration of the program. Bruce Power has reduced its personnel level at the site by over two-thirds in response to the pandemic. Operations and core planned outage activities on all other units continue as normal.

Corporate:

- **Common share dividend:** Our Board of Directors declared a quarterly dividend of \$0.81 per common share for the quarter ending June 30, 2020 on TC Energy's outstanding common shares. The quarterly amount is equivalent to \$3.24 per common share on an annualized basis.
- **Issuance of long-term debt:** In April 2020, TCPL issued \$2.0 billion of medium term notes due in April 2027 bearing interest at a fixed rate of 3.80 per cent and US\$1.25 billion of senior unsecured notes due in April 2030 bearing interest at a fixed rate of 4.10 per cent.

The net proceeds of these issuances were used for general corporate purposes and to fund our capital program.

- **Incremental credit facilities:** In April 2020, we arranged for an additional US\$2.0 billion of 364-day committed bilateral credit facilities.

Teleconference and Webcast:

We will hold a teleconference and webcast on Friday, May 1, 2020 to discuss our first quarter 2020 financial results. Russ Girling, President and Chief Executive Officer, Don Marchand, Executive Vice-President, Strategy & Corporate Development and Chief Financial Officer, and other members of the executive leadership team will discuss TC Energy's first quarter financial results and Company developments at 1:00 p.m. MDT / 3:00 p.m. EDT.

Members of the investment community and other interested parties are invited to participate by calling 800.806.5484 or 416.340.2217 (Toronto area) and enter pass code 3787694#. Please dial in 10 minutes prior to the start of the call. A live webcast of the teleconference will be available on TC Energy's website at [TCEnergy.com/events](https://www.TCEnergy.com/events) or via the following URL: <http://www.gowebcasting.com/10572>.

A replay of the teleconference will be available two hours after the conclusion of the call until midnight (EDT) on May 8, 2020. Please call 800.408.3053 or 905.694.9451 (Toronto area) and enter pass code 6995164#.

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/info/edgar.shtml.

About TC Energy

We are a vital part of everyday life – delivering the energy millions of people rely on to power their lives in a sustainable way. Thanks to a safe, reliable network of natural gas and crude oil pipelines, along with power generation and storage facilities, wherever life happens – we're there. Guided by our core values of safety, responsibility, collaboration and integrity, our more than 7,300 people make a positive difference in the communities where we operate across Canada, the U.S. and Mexico.

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

Forward-Looking Information

This release contains certain information that is forward-looking and is subject to important risks and uncertainties (such statements are usually accompanied by words such as "anticipate", "expect", "believe", "may", "will", "should", "estimate", "intend" or other similar words). Forward-looking statements in this document are intended to provide TC Energy security holders and potential investors with information regarding TC Energy and its subsidiaries, including management's assessment of TC Energy's and its subsidiaries' future plans and financial outlook. All forward-looking statements reflect TC Energy's beliefs and assumptions based on information available at the time the statements were made and as such are not guarantees of future performance. As actual results could vary significantly from the forward-looking information, you should not put undue reliance on forward-looking information and should not use future-oriented information or financial outlooks for anything other than their intended purpose. We do not update our forward-looking information due to new information or future events, unless we are required to by law. For additional information on the assumptions made, and the risks and uncertainties which could cause actual results to differ from the anticipated results, refer to the Quarterly Report to Shareholders dated April 30, 2020 and the 2019 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.

Non-GAAP Measures

This news release contains references to non-GAAP measures, including comparable earnings, comparable earnings per common share, comparable EBITDA and comparable funds generated from operations, that do not have any standardized meaning as prescribed by U.S. GAAP and therefore are unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are calculated on a consistent basis from period to period and are adjusted for specific items in each period, as applicable except as otherwise described in the Condensed consolidated financial statements and MD&A. For more information on non-GAAP measures, refer to TC Energy's Quarterly Report to Shareholders dated April 30, 2020.

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Quarterly report to shareholders

First quarter 2020

Financial highlights

| (millions of \$, except per share amounts) | three months ended March 31 | |
|---|-----------------------------|--------|
| | 2020 | 2019 |
| Income | | |
| Revenues | 3,418 | 3,487 |
| Net income attributable to common shares | 1,148 | 1,004 |
| per common share – basic and diluted | \$1.22 | \$1.09 |
| Comparable EBITDA ¹ | 2,535 | 2,383 |
| Comparable earnings ¹ | 1,109 | 987 |
| per common share ¹ | \$1.18 | \$1.07 |
| Cash flows | | |
| Net cash provided by operations | 1,723 | 1,949 |
| Comparable funds generated from operations ¹ | 2,094 | 1,791 |
| Capital spending ² | 2,269 | 2,331 |
| Dividends declared | | |
| Per common share | \$0.81 | \$0.75 |
| Basic common shares outstanding (millions) | | |
| – weighted average for the period | 939 | 921 |
| – issued and outstanding at end of period | 940 | 924 |

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

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

FIRST QUARTER 2020

Management's discussion and analysis

April 30, 2020

This management's discussion and analysis (MD&A) contains information to help the reader make investment decisions about TC Energy Corporation (TC Energy). It discusses our business, operations, financial position, risks and other factors for the three months ended March 31, 2020, and should be read with the accompanying unaudited Condensed consolidated financial statements for the three months ended March 31, 2020, which have been prepared in accordance with U.S. GAAP.

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

FORWARD-LOOKING INFORMATION

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

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

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

- our financial and operational performance, including the performance of our subsidiaries
- expectations about strategies and goals for growth and expansion
- expected cash flows and future financing options available, including portfolio management
- expected dividend growth
- expected access to and cost of capital
- expected costs and schedules for planned projects, including projects under construction and in development
- expected capital expenditures, contractual obligations, commitments and contingent liabilities
- expected regulatory processes and outcomes
- expected outcomes with respect to legal proceedings, including arbitration and insurance claims
- the expected impact of future tax and accounting changes
- expected industry, market and economic conditions
- the expected impact of COVID-19.

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

FIRST QUARTER 2020

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

Assumptions

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

Risks and uncertainties

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

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

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

FOR MORE INFORMATION

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

FIRST QUARTER 2020

NON-GAAP MEASURES

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

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

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

Comparable measures

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

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

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

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

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

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

FIRST QUARTER 2020

Comparable EBITDA and comparable EBIT

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

Comparable earnings and comparable earnings per common share

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

Funds generated from operations and comparable funds generated from operations

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

FIRST QUARTER 2020

Consolidated results – first quarter 2020

| (millions of \$, except per share amounts) | three months ended March 31 | |
|---|--------------------------------|--------|
| | 2020 | 2019 |
| Canadian Natural Gas Pipelines | 291 | 269 |
| U.S. Natural Gas Pipelines | 838 | 792 |
| Mexico Natural Gas Pipelines | 239 | 116 |
| Liquids Pipelines | 411 | 460 |
| Power and Storage | 64 | 48 |
| Corporate | 301 | (19) |
| Total segmented earnings | 2,144 | 1,666 |
| Interest expense | (578) | (586) |
| Allowance for funds used during construction | 82 | 139 |
| Interest income and other | (527) | 163 |
| Income before income taxes | 1,121 | 1,382 |
| Income tax recovery/(expense) | 164 | (236) |
| Net income | 1,285 | 1,146 |
| Net income attributable to non-controlling interests | (96) | (101) |
| Net income attributable to controlling interests | 1,189 | 1,045 |
| Preferred share dividends | (41) | (41) |
| Net income attributable to common shares | 1,148 | 1,004 |
| Net income per common share – basic and diluted | \$1.22 | \$1.09 |

Net income attributable to common shares increased by \$144 million or \$0.13 per common share for the three months ended March 31, 2020 compared to the same period in 2019. Net income per common share reflects the dilutive impact of common shares issued under our DRP in 2019.

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

First quarter 2020 results included:

- an income tax valuation allowance release of \$281 million following our reassessment of deferred tax assets that are deemed more likely than not to be realized as a result of our decision to proceed with the Keystone XL project
- an incremental after-tax loss of \$77 million related to the Ontario natural gas-fired power plant assets held for sale resulting in a total after-tax loss of \$271 million at March 31, 2020.

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

Results for first quarter 2019 included an after-tax loss of \$12 million related to the U.S. Northeast power marketing contracts which were sold in May 2019.

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

FIRST QUARTER 2020

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

RECONCILIATION OF NET INCOME TO COMPARABLE EARNINGS

| (millions of \$, except per share amounts) | three months ended March 31 | |
|--|-----------------------------|--------|
| | 2020 | 2019 |
| Net income attributable to common shares | 1,148 | 1,004 |
| Specific items (net of tax): | | |
| Income tax valuation allowance release | (281) | — |
| Loss on Ontario natural gas-fired power plants held for sale | 77 | — |
| U.S. Northeast power marketing contracts | — | 12 |
| Risk management activities ¹ | 165 | (29) |
| Comparable earnings | 1,109 | 987 |
| Net income per common share | \$1.22 | \$1.09 |
| Specific items (net of tax): | | |
| Income tax valuation allowance release | (0.30) | — |
| Loss on Ontario natural gas-fired power plants held for sale | 0.08 | — |
| U.S. Northeast power marketing contracts | — | 0.01 |
| Risk management activities | 0.18 | (0.03) |
| Comparable earnings per common share | \$1.18 | \$1.07 |

| ¹ Risk management activities | three months ended March 31 | |
|--|-----------------------------|------|
| | 2020 | 2019 |
| (millions of \$) | | |
| Canadian Power | 1 | (1) |
| U.S. Power | — | (60) |
| Liquids marketing | 48 | (15) |
| Natural Gas Storage | 3 | (3) |
| Foreign exchange | (272) | 120 |
| Income tax attributable to risk management activities | 55 | (12) |
| Total unrealized (losses)/gains from risk management activities | (165) | 29 |

FIRST QUARTER 2020

COMPARABLE EBITDA TO COMPARABLE EARNINGS

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

| (millions of \$) | three months ended March 31 | |
|---|-----------------------------|--------------|
| | 2020 | 2019 |
| Comparable EBITDA | | |
| Canadian Natural Gas Pipelines | 597 | 556 |
| U.S. Natural Gas Pipelines | 1,032 | 972 |
| Mexico Natural Gas Pipelines | 269 | 146 |
| Liquids Pipelines | 445 | 563 |
| Power and Storage | 194 | 151 |
| Corporate | (2) | (5) |
| Comparable EBITDA | 2,535 | 2,383 |
| Depreciation and amortization | (630) | (608) |
| Interest expense | (578) | (586) |
| Allowance for funds used during construction | 82 | 139 |
| Interest income and other included in comparable earnings | 48 | 29 |
| Income tax expense included in comparable earnings | (211) | (228) |
| Net income attributable to non-controlling interests | (96) | (101) |
| Preferred share dividends | (41) | (41) |
| Comparable earnings | 1,109 | 987 |

Comparable EBITDA – 2020 versus 2019

Comparable EBITDA increased by \$152 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to the net effect of the following:

- increased contribution from Mexico Natural Gas Pipelines mainly due to higher earnings from our investment in the Sur de Texas pipeline which was placed into service in September 2019. This includes revenues of US\$55 million from one-time fees earned from the Sur de Texas joint venture associated with our successful completion of the pipeline compared to contract targets
- higher contribution from U.S. Natural Gas Pipelines primarily due to incremental earnings from the Columbia Gas and Columbia Gulf growth projects placed in service in 2019, offset in part by the sale of certain Columbia midstream assets in August 2019
- higher Power and Storage earnings mainly attributable to increased Bruce Power results due to a higher realized power price and generation volumes as well as incremental earnings from Napanee which was placed in service on March 13, 2020. These increases were partially offset by losses in Bruce Power on funds invested for post-retirement benefits and lower earnings in Canadian Power largely as a result of an outage at our Mackay River cogeneration facility and the sale of our Coolidge generating station in May 2019
- higher contribution from Canadian Natural Gas Pipelines primarily resulting from increased rate base earnings, flow-through depreciation and financial charges on the NGTL System from additional facilities placed in service, partially offset by lower flow-through income taxes on both the NGTL System and the Canadian Mainline
- decreased contribution from Liquids Pipelines due to lower uncontracted volumes on the Keystone Pipeline System, lower contributions from liquids marketing activities and decreased earnings as a result of the sale of an 85 per cent equity interest in Northern Courier in July 2019.

FIRST QUARTER 2020

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

Comparable earnings – 2020 versus 2019

Comparable earnings increased by \$122 million or \$0.11 per common share for the three months ended March 31, 2020 compared to the same period in 2019 and was primarily the net effect of:

- changes in comparable EBITDA described above
- lower AFUDC primarily due to Columbia Gas growth projects placed in service and the suspension of recording AFUDC on the Tula project due to continuing construction delays
- higher depreciation largely in Canadian Natural Gas Pipelines and U.S. Natural Gas Pipelines reflecting new projects placed in service. Depreciation in Canadian Natural Gas Pipelines is recoverable in tolls on a flow-through basis as discussed in comparable EBITDA above, and therefore has no significant impact on comparable earnings
- higher Interest income and other primarily from unrealized foreign exchange gains on peso-denominated deferred income tax liabilities reflecting the weakening of the Mexican peso in first quarter 2020
- a decrease in Income tax expense due to lower flow-through income taxes on Canadian rate-regulated pipelines, partially offset by lower foreign income tax rate differentials.

Comparable earnings per common share for the three months ended March 31, 2020 also reflects the dilutive impact of common shares issued under our DRP in 2019.

FIRST QUARTER 2020

COVID-19

On March 11, 2020, the World Health Organization declared the novel coronavirus, or COVID-19, a global pandemic. Company business continuity plans were put in place across our organization and we continue to effectively operate our assets, conduct commercial activities and execute on projects with a focus on health, safety and reliability. At the current time, our businesses are broadly considered essential or critical businesses in Canada, the United States and Mexico given the important role our infrastructure plays in delivering energy to North American markets. We anticipate that changes to work practices and other restrictions put in place by government and health authorities in response to COVID-19 will have an impact on certain projects. We generally believe this will not be material, but the ultimate impact is uncertain at this time.

With approximately 95 per cent of our comparable EBITDA generated from rate-regulated assets and/or long-term contracts, we are largely insulated from the short-term volatility associated with volume throughput and commodity prices. Aside from the impact of maintenance activities and normal seasonal factors, to date we have not seen any pronounced changes in the utilization of our assets. While it is too early to ascertain any long-term impact that COVID-19 may have on our capital program, directionally we expect some slowdown of our construction activities and capital expenditures in 2020.

Capital market conditions in 2020 have been significantly impacted by COVID-19 resulting in periods of heightened volatility and reduced liquidity. Despite these challenging conditions, we secured in excess of \$9 billion of incremental liquidity in April 2020, demonstrating our continued access to capital markets under stressed conditions. Combined with our predictable and growing cash flows from operations, cash on hand, substantial committed credit facilities, and various other financing levers available to us, we believe we are well positioned to continue to fund our obligations, capital program and dividends through a prolonged period of disruption, should it occur.

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

FIRST QUARTER 2020

Capital Program

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

Our capital program consists of approximately \$43 billion of secured projects which include commercially supported, committed projects that are either under construction or are in or preparing to commence the permitting stage. An additional \$11 billion of projects under development are commercially supported (except where noted) but have greater uncertainty with respect to timing and estimated project costs and are subject to certain key approvals.

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

In the three months ended March 31, 2020, we placed approximately \$1.6 billion of capacity capital projects in service, including various NGTL System expansions. In addition, approximately \$0.3 billion of maintenance capital expenditures were incurred.

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

FIRST QUARTER 2020

Secured projects

| (billions of \$) | Expected in-service date | Estimated project cost | Carrying value at March 31, 2020 |
|---|--------------------------|------------------------|----------------------------------|
| Canadian Natural Gas Pipelines | | | |
| Canadian Mainline | 2020-2023 | 0.4 | 0.2 |
| NGTL System ² | 2020 | 3.3 | 3.0 |
| | 2021 | 2.7 | 0.3 |
| | 2022 | 1.8 | — |
| | 2023+ | 1.6 | — |
| Coastal GasLink ³ | 2023 | 6.6 | 1.9 |
| Regulated maintenance capital expenditures | 2020-2022 | 1.9 | 0.1 |
| U.S. Natural Gas Pipelines | | | |
| Columbia Gas | | | |
| Modernization II | 2020 | US 1.1 | US 0.8 |
| Other capacity capital | 2020-2023 | US 1.5 | US 0.2 |
| Regulated maintenance capital expenditures | 2020-2022 | US 2.1 | US 0.1 |
| Mexico Natural Gas Pipelines | | | |
| Villa de Reyes | 2020 | US 0.9 | US 0.8 |
| Tula ⁴ | — | US 0.8 | US 0.6 |
| Liquids Pipelines | | | |
| Keystone XL ⁵ | 2023 | US 9.1 | US 1.2 |
| Other capacity capital | 2020 | 0.1 | — |
| Recoverable maintenance capital expenditures | 2020-2022 | 0.1 | — |
| Power and Storage | | | |
| Bruce Power – life extension ⁶ | 2020-2023 | 2.4 | 0.9 |
| Other | | | |
| Non-recoverable maintenance capital expenditures ⁷ | 2020-2022 | 0.6 | — |
| | | 37.0 | 10.1 |
| Foreign exchange impact on secured projects ⁸ | | 6.4 | 1.5 |
| Total secured projects (Cdn\$) | | 43.4 | 11.6 |

1 Amounts reflect 100 per cent of costs related to wholly-owned assets, Keystone XL and assets held through TC PipeLines, LP, as well as cash contributions to our joint venture investments.

2 Includes \$0.4 billion for the Foothills pipeline system related to the West Path Delivery Program.

3 Represents 100 per cent of Coastal GasLink required capital pending closing of the announced joint venture partnership and project-level financing. Carrying value is net of the 2018 reimbursement by the LNG Canada participants of approximately \$0.5 billion of pre-FID costs pursuant to project agreements.

4 Construction of the central segment of the Tula project has been delayed due to a lack of progress to successfully complete Indigenous consultation by the Secretary of Energy. Project completion is expected approximately two years after the consultation process is successfully concluded. The East Section of the Tula pipeline is available for interruptible transportation services.

5 US\$5.3 billion will be funded through equity contributions and debt guaranteed by the Government of Alberta. Carrying value reflects the amount remaining after the 2015 impairment charge, along with additional amounts capitalized from January 2018. A portion of the carrying value is recoverable from shippers under certain conditions.

6 Reflects our proportionate share of the Unit 6 Major Component Replacement program costs, expected to be in service in 2023, and amounts to be invested under the Asset Management program through 2023.

7 Includes non-recoverable maintenance capital expenditures from all segments and is primarily comprised of our proportionate share of maintenance capital expenditures for Bruce Power and other Power and Storage assets.

8 Reflects U.S./Canada foreign exchange rate of 1.41 at March 31, 2020.

FIRST QUARTER 2020

Projects under development

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

| (billions of \$) | Estimated project cost ¹ | Carrying value at March 31, 2020 |
|--|-------------------------------------|----------------------------------|
| Canadian Natural Gas Pipelines | | |
| NGTL System – Merrick | 1.9 | — |
| U.S. Natural Gas Pipelines | | |
| Other capacity capital ² | US 0.7 | — |
| Liquids Pipelines | | |
| Heartland and TC Terminals ³ | 0.9 | 0.1 |
| Grand Rapids Phase 2 ³ | 0.7 | — |
| Keystone Hardisty Terminal ³ | 0.3 | 0.1 |
| Power and Storage | | |
| Bruce Power – life extension ⁴ | 5.8 | 0.1 |
| | 10.3 | 0.3 |
| Foreign exchange impact on projects under development ⁵ | 0.3 | — |
| Total projects under development (Cdn\$) | 10.6 | 0.3 |

- 1 Amounts reflect our proportionate share of joint venture costs where applicable and 100 per cent of costs related to wholly-owned assets and assets held through TC PipeLines, LP.
- 2 Includes projects subject to a positive customer FID.
- 3 Regulatory approvals have been obtained and additional commercial support is being pursued.
- 4 Reflects our proportionate share of Major Component Replacement program costs for Units 3, 4, 5, 7 and 8, and the remaining Asset Management program costs beyond 2023.
- 5 Reflects U.S./Canada foreign exchange rate of 1.41 at March 31, 2020.

Outlook

Consolidated comparable earnings

Our overall comparable earnings per common share outlook for 2020 remains consistent with the 2019 Annual Report. While our assessment of the impact of COVID-19 continues, at this time we do not expect a material impact on 2020 comparable earnings.

Consolidated capital spending

Our total capital expenditures for 2020 are now expected to be approximately \$10 billion on growth projects, maintenance capital expenditures and contributions to equity investments. The increase relative to the outlook in our 2019 Annual Report is primarily a result of higher spending in 2020 on Keystone XL, the majority of which is expected to be funded by the Government of Alberta's equity contributions to the project. We continue to assess the potential for delays to our capital program resulting from disruptions related to COVID-19, however, it is premature to determine the extent of any impact to our capital expenditure outlook.

FIRST QUARTER 2020

Canadian Natural Gas Pipelines

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

| (millions of \$) | three months ended March 31 | |
|---|-----------------------------|-------|
| | 2020 | 2019 |
| NGTL System | 344 | 292 |
| Canadian Mainline | 225 | 237 |
| Other Canadian pipelines ¹ | 28 | 27 |
| Comparable EBITDA | 597 | 556 |
| Depreciation and amortization | (306) | (287) |
| Comparable EBIT and segmented earnings | 291 | 269 |

¹ Includes results from Foothills, Ventures LP, Great Lakes Canada and our share of equity income from our investment in TQM, 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 \$22 million for the three months ended March 31, 2020 compared to the same period in 2019.

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

NET INCOME AND AVERAGE INVESTMENT BASE

| (millions of \$) | three months ended March 31 | |
|--------------------------------|-----------------------------|--------|
| | 2020 | 2019 |
| Net Income | | |
| NGTL System | 135 | 113 |
| Canadian Mainline | 39 | 44 |
| Average investment base | | |
| NGTL System | 13,399 | 11,096 |
| Canadian Mainline | 3,633 | 3,665 |

Net income for the NGTL System increased by \$22 million for the three months ended March 31, 2020 compared to the same period in 2019 mainly due to a higher average investment base resulting from continued system expansions. First quarter 2020 results for the NGTL System, while under interim tolls, reflect an ROE of 10.1 per cent on 40 per cent deemed equity. The NGTL System's 2019 results reflected the 2018-2019 Revenue Requirement Settlement which expired on December 31, 2019. It included an ROE of 10.1 per cent on 40 per cent deemed common equity and a mechanism for sharing variances above and below a fixed annual OM&A amount and flow-through treatment of all other costs.

FIRST QUARTER 2020

Net income for the Canadian Mainline decreased by \$5 million for the three months ended March 31, 2020 compared to the same period in 2019 largely due to lower incentive earnings.

COMPARABLE EBITDA

Comparable EBITDA for Canadian Natural Gas Pipelines increased by \$41 million for the three months ended March 31, 2020 compared to the same period in 2019 due to the net effect of:

- increased rate base earnings as well as flow-through depreciation and financial charges on the NGTL System due to additional facilities placed in service
- lower flow-through income taxes on the NGTL System and on the Canadian Mainline as a result of accelerated tax depreciation measures enacted by the Canadian federal government in June 2019.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by \$19 million for the three months ended March 31, 2020 compared to the same period in 2019 mainly due to NGTL System expansion facilities that were placed in service.

FIRST QUARTER 2020

U.S. Natural Gas Pipelines

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

| (millions of US\$, unless otherwise noted) | three months ended March 31 | |
|---|-----------------------------|-------|
| | 2020 | 2019 |
| Columbia Gas | 372 | 308 |
| ANR | 147 | 153 |
| TC PipeLines, LP ^{1,2} | 34 | 36 |
| Columbia Gulf | 50 | 35 |
| Great Lakes ³ | 30 | 30 |
| Other U.S. pipelines ⁴ | 28 | 56 |
| Non-controlling interests ⁵ | 105 | 112 |
| Comparable EBITDA | 766 | 730 |
| Depreciation and amortization | (144) | (135) |
| Comparable EBIT | 622 | 595 |
| Foreign exchange impact | 216 | 197 |
| Comparable EBIT and segmented earnings (Cdn\$) | 838 | 792 |

1 Reflects our share of earnings from TC PipeLines, LP's ownership interests in eight natural gas pipelines as well as general and administrative costs related to TC PipeLines, LP.

2 For the three months ended March 31, 2020, our ownership interest in TC PipeLines, LP was 25.5 per cent which is unchanged from the same period in 2019.

3 Reflects our 53.55 per cent direct interest in Great Lakes. The remaining 46.45 per cent is held by TC PipeLines, LP.

4 Reflects earnings from our effective ownership in Crossroads, Millennium and Hardy Storage, and certain Columbia midstream assets until sold in August 2019, as well as general and administrative and business development costs related to our U.S. natural gas pipelines.

5 Reflects earnings attributable to portions of TC PipeLines, LP that we do not own.

U.S. Natural Gas Pipelines segmented earnings increased by \$46 million for the three months ended March 31, 2020 compared to the same period in 2019.

Comparable EBITDA for U.S. Natural Gas Pipelines increased by US\$36 million for the three months ended March 31, 2020 compared to the same period in 2019 and was primarily the net effect of:

- incremental earnings from Columbia Gas and Columbia Gulf growth projects placed in service
- decreased earnings as a result of the sale of certain Columbia midstream assets in August 2019.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by US\$9 million for the three months ended March 31, 2020 compared to the same period in 2019 mainly due to new projects placed in service.

FIRST QUARTER 2020

Mexico Natural Gas Pipelines

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

| (millions of US\$, unless otherwise noted) | three months ended March 31 | |
|---|-----------------------------|------|
| | 2020 | 2019 |
| Topolobampo | 40 | 40 |
| Tamazunchale | 30 | 31 |
| Mazatlán | 18 | 18 |
| Guadalajara | 16 | 16 |
| Sur de Texas ¹ | 94 | 5 |
| Comparable EBITDA | 198 | 110 |
| Depreciation and amortization | (22) | (23) |
| Comparable EBIT | 176 | 87 |
| Foreign exchange impact | 63 | 29 |
| Comparable EBIT and segmented earnings (Cdn\$) | 239 | 116 |

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

Mexico Natural Gas Pipelines comparable EBIT and segmented earnings increased by \$123 million for the three months ended March 31, 2020 compared to the same period in 2019.

Comparable EBITDA for Mexico Natural Gas Pipelines increased by US\$88 million for the three months ended March 31, 2020 compared to the same period in 2019 mainly due to higher earnings from our investment in the Sur de Texas pipeline, including:

- revenues of US\$55 million from one-time fees earned from the Sur de Texas joint venture associated with the successful completion of the pipeline compared to contract targets, as well as fees earned from operating the pipeline
- increased equity income from the commencement of transportation services in September 2019 and a realized Mexican income tax benefit resulting from the significant decrease in the Mexican peso.

Prior to in-service, Sur de Texas equity income primarily reflected AFUDC during construction, net of our proportionate share of interest expense on inter-affiliate loans. Our share of this interest expense was fully offset by corresponding interest income recorded in Interest income and other in the Corporate segment.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the three months ended March 31, 2020 was consistent with the same period in 2019.

FIRST QUARTER 2020

Liquids Pipelines

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

| (millions of \$) | three months ended March 31 | |
|-------------------------------|-----------------------------|------|
| | 2020 | 2019 |
| Keystone Pipeline System | 388 | 424 |
| Intra-Alberta pipelines | 24 | 39 |
| Liquids marketing and other | 33 | 100 |
| Comparable EBITDA | 445 | 563 |
| Depreciation and amortization | (82) | (88) |
| Comparable EBIT | 363 | 475 |
| Specific item: | | |
| Risk management activities | 48 | (15) |
| Segmented earnings | 411 | 460 |

Comparable EBIT denominated as follows:

| | | |
|-------------------------|------------|-----|
| Canadian dollars | 84 | 89 |
| U.S. dollars | 207 | 290 |
| Foreign exchange impact | 72 | 96 |
| Comparable EBIT | 363 | 475 |

Liquids Pipelines segmented earnings decreased by \$49 million for the three months ended March 31, 2020 compared to the same period in 2019 and included unrealized gains and losses from changes in the fair value of derivatives related to our liquids marketing business which have been excluded from our calculation of comparable EBIT.

Comparable EBITDA for Liquids Pipelines decreased by \$118 million for the three months ended March 31, 2020 compared to the same period in 2019. This was primarily the net effect of:

- lower uncontracted volumes on the Keystone Pipeline System, partially offset by higher contracted volumes
- lower contributions from liquids marketing activities due to lower margins
- decreased earnings as a result of the sale of an 85 per cent equity interest in Northern Courier in July 2019.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by \$6 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily as a result of the sale of an 85 per cent equity interest in Northern Courier.

FIRST QUARTER 2020

Power and Storage

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

| (millions of \$) | three months ended March 31 | |
|--|-----------------------------|------|
| | 2020 | 2019 |
| Canadian Power ^{1,2} | 70 | 77 |
| Bruce Power ¹ | 119 | 60 |
| Natural Gas Storage and other | 5 | 14 |
| Comparable EBITDA | 194 | 151 |
| Depreciation and amortization | (18) | (23) |
| Comparable EBIT | 176 | 128 |
| Specific items: | | |
| Loss on Ontario natural gas-fired power plants held for sale | (116) | — |
| U.S. Northeast power marketing contracts | — | (16) |
| Risk management activities | 4 | (64) |
| Segmented earnings | 64 | 48 |

1 Includes our share of equity income from our investments in Portlands Energy and Bruce Power.

2 Includes Coolidge generating station until sold in May 2019.

Power and Storage segmented earnings increased by \$16 million for the three months ended March 31, 2020 compared to the same period in 2019 and included the following specific items which have been excluded from comparable EBIT:

- an additional pre-tax loss of \$116 million in first quarter 2020 related to the Ontario natural gas-fired power plants held for sale. Refer to the Recent developments section for additional information
- a pre-tax loss in first quarter 2019 of \$16 million related to U.S. Northeast power marketing contracts which were sold in May 2019
- unrealized gains and losses from changes in the fair value of derivatives used to reduce our exposure to certain commodity price risks.

Comparable EBITDA for Power and Storage increased by \$43 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to the net effect of:

- increased Bruce Power results mainly due to a higher realized power price and higher volumes from fewer outage days, partially offset by losses on funds invested for post-retirement benefits. Additional financial and operating information on Bruce Power is provided below
- lower Canadian Power earnings largely as a result of an outage at our Mackay River cogeneration facility in first quarter 2020 and the sale of our Coolidge generating station in May 2019, partially offset by Napanee being placed in service on March 13, 2020
- decreased Natural Gas Storage results due to lower realized natural gas spreads.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization decreased by \$5 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to the cessation of depreciation on our Halton Hills power plant in July 2019 upon classification as held for sale.

FIRST QUARTER 2020

BRUCE POWER

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

| (millions of \$, unless otherwise noted) | three months ended March 31 | |
|---|-----------------------------|-----------|
| | 2020 | 2019 |
| Equity income included in comparable EBITDA and EBIT comprised of: | | |
| Revenues ¹ | 467 | 361 |
| Operating expenses | (236) | (227) |
| Depreciation and other | (112) | (74) |
| Comparable EBITDA and EBIT² | 119 | 60 |
| Bruce Power – other information | | |
| Plant availability ^{3,4} | 92% | 79% |
| Planned outage days ⁴ | 46 | 141 |
| Unplanned outage days | 6 | 7 |
| Sales volumes (GWh) ² | 5,592 | 5,260 |
| Realized power price per MWh ⁵ | \$81 | \$68 |

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

2 Represents our 48.4 per cent (2019 – 48.3 per cent) ownership interest in Bruce Power. Sales volumes include deemed generation.

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

4 Excludes Unit 6 Major Component Replacement (MCR) outage days.

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

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

FIRST QUARTER 2020

Corporate

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).

| (millions of \$) | three months ended March 31 | |
|--|-----------------------------|-------------|
| | 2020 | 2019 |
| Comparable EBITDA and EBIT | (2) | (5) |
| Specific item: | | |
| Foreign exchange gain/(loss) – inter-affiliate loan ¹ | 303 | (14) |
| Segmented earnings/(losses) | 301 | (19) |

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

Corporate segmented earnings increased by \$320 million for the three months ended March 31, 2020 compared to the same period in 2019.

Segmented earnings included foreign exchange gains of \$303 million in 2020 compared to foreign exchange losses of \$14 million in 2019 on our proportionate share of peso-denominated inter-affiliate loans to the Sur de Texas joint venture from its partners. These amounts are recorded in Income from equity investments and have been excluded from our calculation of comparable EBITDA and EBIT as they are fully offset by corresponding foreign exchange losses and gains on the inter-affiliate loan receivable included in Interest income and other.

OTHER INCOME STATEMENT ITEMS

Interest expense

| (millions of \$) | three months ended March 31 | |
|---|-----------------------------|--------------|
| | 2020 | 2019 |
| Interest on long-term debt and junior subordinated notes | | |
| Canadian dollar-denominated | (157) | (140) |
| U.S. dollar-denominated | (332) | (331) |
| Foreign exchange impact | (115) | (109) |
| | (604) | (580) |
| Other interest and amortization expense | (38) | (43) |
| Capitalized interest | 64 | 37 |
| Interest expense | (578) | (586) |

Interest expense decreased by \$8 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to the net effect of:

- higher capitalized interest primarily related to Coastal GasLink and Keystone XL
- lower interest rates on higher levels of short-term borrowings
- long-term debt issuances, net of maturities.

FIRST QUARTER 2020

Allowance for funds used during construction

| (millions of \$) | three months ended March 31 | |
|---|-----------------------------|------------|
| | 2020 | 2019 |
| Canadian dollar-denominated | 37 | 43 |
| U.S. dollar-denominated | 33 | 72 |
| Foreign exchange impact | 12 | 24 |
| Allowance for funds used during construction | 82 | 139 |

AFUDC decreased by \$57 million for the three months ended March 31, 2020 compared to the same period in 2019. The decrease in U.S. dollar-denominated AFUDC is largely due to Columbia Gas growth projects placed in service during 2019 and the suspension of recording AFUDC on Tula, effective January 1, 2020, due to continuing construction delays on the project. Refer to the Recent developments section for additional information.

Interest income and other

| (millions of \$) | three months ended March 31 | |
|--|-----------------------------|------------|
| | 2020 | 2019 |
| Interest income and other included in comparable earnings | 48 | 29 |
| Specific items: | | |
| Foreign exchange (loss)/gain – inter-affiliate loan | (303) | 14 |
| Risk management activities | (272) | 120 |
| Interest income and other | (527) | 163 |

Interest income and other decreased by \$690 million for the three months ended March 31, 2020 compared to the same period in 2019 and was primarily the net effect of:

- foreign exchange losses in 2020 compared to foreign exchange gains in 2019 related to a peso-denominated inter-affiliate loan receivable from the Sur de Texas joint venture. Our proportionate share of the offsetting foreign exchange gain in Sur de Texas is reflected in Income from equity investments in the Corporate segment, resulting in no impact on net income. The offsetting foreign exchange gains and losses are excluded from comparable earnings
- unrealized losses in 2020 compared to unrealized gains in 2019 on risk management activities primarily reflecting the strengthening and weakening of the U.S. dollar during the first quarters of 2020 and 2019, respectively. These amounts have been excluded from comparable earnings
- unrealized foreign exchange gains, primarily on peso-denominated deferred income tax liabilities, reflecting the weakening of the Mexican peso in first quarter 2020.

FIRST QUARTER 2020

Income tax expense

| (millions of \$) | three months ended March 31 | |
|--|-----------------------------|--------------|
| | 2020 | 2019 |
| Income tax expense included in comparable earnings | (211) | (228) |
| Specific items: | | |
| Income tax valuation allowance release | 281 | — |
| Loss on Ontario natural gas-fired power plants held for sale | 39 | — |
| U.S. Northeast power marketing contracts | — | 4 |
| Risk management activities | 55 | (12) |
| Income tax recovery/(expense) | 164 | (236) |

Income tax expense included in comparable earnings decreased by \$17 million for the three months ended March 31, 2020 compared to the same period in 2019. This was primarily due to lower flow-through income taxes on Canadian rate-regulated pipelines, partially offset by lower foreign income tax rate differentials. As well, the income tax impact with respect to increased pre-tax earnings is generally offset by a lower Alberta income tax rate.

An income tax valuation allowance release of \$281 million was recorded at March 31, 2020 following our reassessment of deferred tax assets that are deemed more likely than not to be realized as a result of our decision to proceed with the Keystone XL project. This has been excluded from comparable earnings.

Net income attributable to non-controlling interests

| (millions of \$) | three months ended March 31 | |
|---|-----------------------------|--------------|
| | 2020 | 2019 |
| Net income attributable to non-controlling interests | (96) | (101) |

Net income attributable to non-controlling interests for the three months ended March 31, 2020 decreased by \$5 million compared to the same period in 2019 primarily due to lower earnings in TC PipeLines, LP.

Preferred share dividends

| (millions of \$) | three months ended March 31 | |
|----------------------------------|-----------------------------|-------------|
| | 2020 | 2019 |
| Preferred share dividends | (41) | (41) |

FIRST QUARTER 2020

Recent developments

CANADIAN NATURAL GAS PIPELINES

Coastal GasLink Pipeline Project

In December 2019, we entered into an equity purchase agreement to sell a 65 per cent equity interest in Coastal GasLink to KKR-Keats Pipeline Investors II (Canada) Ltd. (KKR) and a subsidiary of Alberta Investment Management Corporation (AIMCo), which is expected to close in second quarter 2020 subject to customary regulatory approvals and consents. As part of the transaction, we will be contracted by the Coastal GasLink Pipeline Limited Partnership to construct and operate the pipeline.

On April 28, 2020, Coastal GasLink Pipeline Limited Partnership executed a credit agreement with a syndicate of banks extending non-recourse project-level financing to fund the majority of the construction costs of the Coastal GasLink pipeline. The credit facilities under this agreement will be available to be drawn once conditions precedent have been met, including the closing of the equity purchase agreement with KKR and AIMCo. Draws on these facilities will reduce partner contributions required to fund the project.

Under the terms of the equity purchase agreement, we will receive upfront proceeds that include reimbursement of a 65 per cent proportionate share of project costs incurred to the date of closing as well as additional payment streams through construction and operation of the pipeline. We expect to record an after-tax gain of approximately \$600 million upon closing of the transaction, which includes the gain on sale, recognition of previously unrecorded tax benefits and the required revaluation of our 35 per cent retained ownership to fair value, before considering derivatives. In addition, the final gain will be adjusted to reflect the closing date fair value of a derivative used to hedge the interest rate risk on the credit facilities noted above. Upon closing, we expect to account for our remaining 35 per cent investment using equity accounting.

The introduction of partners, establishment of dedicated project-level financing facilities, recovery of cash payments through construction for carrying charges on costs incurred and remuneration for costs to date are expected to substantially satisfy our funding requirements through project completion.

We are also committed to working with the 20 First Nations that have executed agreements with Coastal GasLink to provide them an opportunity to invest in the project. As a result, in conjunction with the equity purchase agreement, we will provide an option to the 20 First Nations to acquire a 10 per cent equity interest in Coastal GasLink on similar terms to what has been agreed with KKR and AIMCo.

In December 2019, the B.C. Supreme Court granted an interlocutory injunction prohibiting protesters from impeding the project, confirming Coastal GasLink's legal right to access areas necessary to pursue its permitted and authorized activities through to completion. Several blockades were subsequently constructed, obstructing access to our pipeline route. After initial negotiations were unsuccessful between the Province of British Columbia and the Office of the Wet'suwet'en Hereditary Chiefs, the blockades were removed with the support of law enforcement. Since enforcement, construction has continued in the area.

Following enforcement, negotiations between the Office of the Wet'suwet'en Hereditary Chiefs and the provincial and federal governments commenced, resulting in an agreement-in-principle between these parties on issues regarding Wet'suwet'en Aboriginal Rights and Title. The process for the broader Wet'suwet'en community to ratify the agreement was suspended due to the COVID-19 pandemic but is expected to recommence when feasible.

Construction activities continue along the pipeline route with approximately 75 per cent of clearing completed and approximately 35 per cent of pipe stockpiled. Major work is now complete for the winter season with crews waiting to remobilize following spring breakup.

FIRST QUARTER 2020

While the project has been designated an essential service by the B.C. provincial government, we anticipate that changes in work practices and other restrictions put in place by government and health authorities in response to COVID-19 may have an impact on its progress, however, the extent is uncertain at this time. We continue to work closely with these authorities, as well as communities along our pipeline route, to ensure the safety and well-being of our personnel and our host communities.

NGTL System

In the three months ended March 31, 2020, the NGTL System placed approximately \$1.5 billion of capacity projects in service.

2021 NGTL System Expansion Program

On February 19, 2020, the CER issued a report recommending that the Governor in Council (GIC) approve the 2021 NGTL System Expansion Program and we are awaiting a final decision from the GIC. The approximately 349 km (217 miles) of new pipeline and three compressor units are required to connect incremental firm-receipt supply commencing April 2021 and expand basin export capacity by 1.1 PJ/d (1.0 Bcf/d).

North Montney

On January 31, 2020, the \$1.1 billion Aitken Creek section of the North Montney project was placed in service. The final section of the project went into service on April 18, 2020. The total project added approximately 206 km (128 miles) of new pipeline along with three compressor units and 13 meter stations.

NGTL System Rate Design

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

NGTL System Revenue Requirement Settlement

The NGTL System's 2018-2019 Revenue Requirement Settlement expired in December 2019. On April 24, 2020, the NGTL System announced a five-year negotiated revenue requirement settlement with its customers and other interested parties, encompassing a term from January 1, 2020 through December 31, 2024. The settlement maintains the equity return at 10.1 per cent on 40 per cent deemed common equity, provides the NGTL System with the opportunity to increase depreciation rates if tolls fall below projected levels and includes an incentive mechanism for certain operating costs where variances from projected amounts are shared between the NGTL System and its customers. It also includes a mechanism to review the settlement should tolls exceed a pre-determined level, without affecting the equity return. The NGTL System expects to file an application with the CER for approval in second quarter 2020. Until new rates are approved, the NGTL System is operating under interim tolls for 2020 that were approved by the CER in December 2019.

Canadian Mainline

In the three months ended March 31, 2020, Canadian Mainline placed approximately \$0.1 billion of capacity projects in service.

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

FIRST QUARTER 2020

U.S. NATURAL GAS PIPELINES

Alberta XPress

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

Buckeye XPress

The Buckeye XPress project represents an upsizing of an existing pipeline replacement project in conjunction with our Columbia Gas modernization program. The US\$0.2 billion cost to upsize the replacement pipe and install compressor upgrades will enable us to offer 290 TJ/d (275 MMcf/d) of incremental pipeline capacity to accommodate growing Appalachian production. The FERC certificate for Buckeye XPress was received on January 23, 2020 and we expect the project to be placed in service in late 2020.

MEXICO NATURAL GAS PIPELINES

Tula and Villa de Reyes

The arbitration process CFE initiated in June 2019 for Villa de Reyes and Tula, and their fixed capacity payments under force majeure, have been suspended while negotiations with respect to the transportation services agreements progress. Similar to the successful amending agreement reached for Sur de Texas that resulted in CFE's withdrawal of its arbitration request, we anticipate agreements for Tula and Villa de Reyes will be reached before the end of 2020. Construction on the Villa de Reyes project is ongoing with a phased in-service anticipated to commence in third quarter 2020, with full in-service by the end of 2020.

LIQUIDS PIPELINES

Keystone XL

On February 7, 2020, we received approval from the U.S. Bureau of Land Management allowing for the construction of the Keystone XL pipeline across federally managed lands in Montana and land managed by the U.S. Army Corps of Engineers (USACE) at the Missouri River.

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

As part of the funding plan, the Government of Alberta has agreed to invest approximately US\$1.1 billion as equity in Keystone XL which substantially covers planned construction costs through the end of 2020. The remaining capital investment of approximately US\$6.9 billion is expected to be funded through the combination of a US\$4.2 billion project-level credit facility to be fully guaranteed by the Government of Alberta and a US\$2.7 billion investment by us. Our capital investment is expected to be funded through a combination of internally generated cash flows, hybrid securities and common equity through the activation of our DRP in 2021 and 2022. We intend to also file a \$1.0 billion equity shelf to enable an at-the-market equity issuance program which will be utilized if and as deemed appropriate. Once the project is completed and placed into service, we expect to acquire the Government of Alberta's equity investment under agreed terms and conditions and to refinance the US\$4.2 billion credit facility in the debt capital markets.

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

FIRST QUARTER 2020

On April 15, 2020, the U.S. District Court in Montana ruled that the USACE violated the Endangered Species Act when it reissued the Clean Water Act Nationwide Permit 12 (NWP12) in 2017. The ruling vacated NWP12 and enjoined the USACE from authorizing any new activities under it, including Keystone XL construction across wetlands and other water bodies in the U.S. The ruling is not specific to Keystone XL as NWP12 is available to and utilized by a broad spectrum of parties for the construction, maintenance or repair of "utility lines", which include natural gas and liquids pipelines, water pipelines and electric, telephone, internet, radio and television lines. We are reviewing options to address the impact of this ruling and to secure the necessary authorizations to continue with planned Keystone XL construction.

POWER AND STORAGE**Ontario natural gas-fired power plants**

On March 13, 2020, we completed construction and commissioning activities and Napanee was placed in service.

On April 29, 2020 we completed the sale of our Halton Hills and Napanee power plants as well as our 50 per cent interest in Portlands Energy Centre to a subsidiary of Ontario Power Generation Inc. for net proceeds of approximately \$2.8 billion following closing price adjustments and prior to post-closing adjustments, resulting in a pre-tax loss of approximately \$520 million (\$370 million after tax). The increase in the total loss from that disclosed at December 31, 2019 is primarily the result of higher than expected costs to achieve Napanee's March 13, 2020 in-service and the inclusion of post-closing obligations. As these assets had been classified as held for sale, \$395 million of the pre-tax loss (\$271 million after tax) was recorded up to March 31, 2020, with \$116 million of the pre-tax loss (\$77 million after tax) recognized in first quarter 2020. The remaining pre-tax loss of approximately \$125 million (\$99 million after tax) was recorded on close and will be reflected in second quarter 2020 results. Along with post-closing adjustments, this loss may also be amended in the future for items that could not be estimated on close including the settlement of existing insurance claims.

Bruce Power – Life Extension

On March 25, 2020, as a result of COVID-19 impacts, Bruce Power declared force majeure under its contract with the IESO. This force majeure notice covers the Unit 6 MCR and certain Asset Management work. At the time force majeure was declared, the Unit 6 MCR program was ahead of schedule. As a result of the COVID-19 restrictions, Unit 6 has been placed in a safe state and the Unit 6 MCR program has been limited to essential tasks related to plant safety and system integrity. Limited work on critical path activities is continuing, with strict prevention measures in place to protect workers and to ensure adequate provisions for ongoing operations within the facility. At this time, it is too early to determine how long the force majeure will last and what impact it will have to the cost and duration of the program. Bruce Power has reduced its personnel level at the site by over two-thirds in response to the pandemic. Operations and core planned outage activities on all other units continue as normal.

FIRST QUARTER 2020

Financial condition

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

Capital market conditions in 2020 have been significantly impacted by COVID-19 resulting in periods of heightened volatility and reduced liquidity. In response to this, in April 2020 we secured in excess of \$9 billion of incremental liquidity through:

- the issuance by TCPL of \$2.0 billion of seven-year medium term notes at a fixed rate of 3.80 per cent
- the issuance by TCPL of US\$1.25 billion of 10-year senior unsecured notes at a fixed rate of 4.10 per cent
- the arrangement by TCPL of an additional US\$2.0 billion of 364-day committed bilateral credit facilities
- completion of the sale of the Ontario natural gas-fired power plants on April 29, 2020 for net proceeds of approximately \$2.8 billion.

These transactions, which are to be supplemented by the expected second quarter 2020 completion of the Coastal GasLink equity purchase agreement and project-level financing, demonstrate our continued access to capital markets under stressed conditions. Combined with our predictable and growing cash flows from operations, cash on hand, substantial committed credit facilities and various other financing levers available to us, we believe we are well positioned to continue to fund our obligations, capital program and dividends through a prolonged period of disruption, should it occur. We do not expect COVID-19 or the recent decline in commodity prices to have a material impact on our operating cash flows as a majority of revenues are derived from long-term contracts and/or regulated cost of service business models, however, counterparty credit risk has heightened. Refer to the Financial risks and financial instruments section for additional information.

While the market value of our pension assets within our defined benefit pension plans was negatively impacted by the recent decline in global markets, funding requirements for 2020 are not expected to be materially affected given the plans' funded status, timing of actuarial valuations and COVID-19 relief measures introduced.

At March 31, 2020, our current assets totaled \$9.0 billion and current liabilities amounted to \$17.5 billion, leaving us with a working capital deficit of \$8.5 billion compared to \$5.2 billion at December 31, 2019. Our working capital deficiency is considered to be in the normal course of business and is managed through:

- our ability to generate predictable and growing cash flows from operations
- approximately \$8.8 billion of unutilized, committed revolving and demand credit facility capacity at March 31, 2020, which in part backstops \$4.3 billion of commercial paper outstanding. This amount has been supplemented by the incremental liquidity secured in April 2020 described above
- our access to capital markets, including through portfolio management activities, DRP and Corporate ATM programs, if deemed appropriate.

FIRST QUARTER 2020

CASH PROVIDED BY OPERATING ACTIVITIES

| (millions of \$) | three months ended March 31 | |
|---|-----------------------------|--------------|
| | 2020 | 2019 |
| Net cash provided by operations | 1,723 | 1,949 |
| Increase/(decrease) in operating working capital | 371 | (142) |
| Funds generated from operations | 2,094 | 1,807 |
| Specific item: | | |
| U.S. Northeast power marketing contracts | — | (16) |
| Comparable funds generated from operations | 2,094 | 1,791 |

NET CASH PROVIDED BY OPERATIONS

Net cash provided by operations decreased by \$226 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to the amount and timing of working capital changes, partially offset by higher funds generated 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 operations 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 \$303 million for the three months ended March 31, 2020 compared to the same period in 2019 primarily due to higher comparable earnings adjusted for non-cash items, the receipt of deferred amounts and recovery of higher depreciation on the NGTL System's investment base.

CASH USED IN INVESTING ACTIVITIES

| (millions of \$) | three months ended March 31 | |
|--|-----------------------------|----------------|
| | 2020 | 2019 |
| Capital spending | | |
| Capital expenditures | (1,996) | (2,022) |
| Capital projects in development | (122) | (164) |
| Contributions to equity investments | (151) | (145) |
| | (2,269) | (2,331) |
| Other distributions from equity investments | — | 120 |
| Deferred amounts and other | (149) | (26) |
| Net cash used in investing activities | (2,418) | (2,237) |

Capital expenditures in first quarter 2020 were incurred primarily for the expansion of the NGTL System and Columbia Gas projects, construction of the Coastal GasLink pipeline, commissioning of the Napanee power generating facility as well as maintenance capital expenditures.

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

Contributions to equity investments increased in 2020 compared to 2019 mainly due to higher contributions to Bruce Power.

Other distributions from equity investments reflect Bruce Power financings undertaken to fund its capital program and to make distributions to its partners. In first quarter 2020, there were no such distributions. In first quarter 2019, we received \$120 million in distributions from Bruce Power in connection with their issuance of senior notes in capital markets.

FIRST QUARTER 2020

CASH PROVIDED BY FINANCING ACTIVITIES

| (millions of \$) | three months ended March 31 | |
|--|-----------------------------|------------|
| | 2020 | 2019 |
| Notes payable issued, net | 2,919 | 2,852 |
| Long-term debt issued, net of issue costs | 8 | 24 |
| Long-term debt repaid | (1,071) | (1,708) |
| Dividends and distributions paid | (800) | (515) |
| Common shares issued, net of issue costs | 81 | 68 |
| Net cash provided by financing activities | 1,137 | 721 |

In March 2020, we repaid US\$750 million of senior unsecured notes bearing interest at a fixed rate of 4.60 per cent. The senior notes were redeemed at par for the principal amount plus accrued and unpaid interest up to the date of redemption. Further details related to our long-term debt as at and for the three months ended March 31, 2020 are discussed in Note 7, Long-term debt in our Condensed consolidated financial statements.

DIVIDEND REINVESTMENT PLAN

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

DIVIDENDS

On April 30, 2020, we declared quarterly dividends on our common shares of \$0.81 per share payable on July 31, 2020 to shareholders of record at the close of business on June 30, 2020.

SHARE INFORMATION

At April 29, 2020, we had 940 million issued and outstanding common shares and 9 million outstanding options to buy common shares, of which 6 million were exercisable.

CREDIT FACILITIES

As previously described, we have significantly enhanced our liquidity by more than \$9 billion through incremental long-term debt and credit facilities secured in early April as well as the completion of the sale of the Ontario natural gas-fired power plants on April 29, 2020. Liquidity will be further strengthened upon closing of the Coastal GasLink equity purchase agreement and project-level financing expected to be completed in second quarter.

At April 29, 2020, we had a total of \$13.5 billion of committed revolving credit facilities of which \$10.3 billion of incremental short-term borrowing capacity remains, net of facility draws of \$0.5 billion and \$2.7 billion to backstop commercial paper. We also had a total of \$2.4 billion of demand credit facilities of which \$1.1 billion remains available, and our operated affiliates had an additional \$0.8 billion of undrawn capacity on committed credit facilities.

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

CONTRACTUAL OBLIGATIONS

Our capital expenditure commitments at March 31, 2020 have decreased compared to December 31, 2019 due to normal course fulfillment of commitments for construction, partially offset by new commitments on capital projects.

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

FIRST QUARTER 2020

Financial risks and financial instruments

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

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

INTEREST RATE RISK

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

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

FOREIGN EXCHANGE RISK

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

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

Average exchange rate – U.S. to Canadian dollars

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

| | |
|--|-------------|
| three months ended March 31, 2020 | 1.34 |
| three months ended March 31, 2019 | 1.33 |

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

FIRST QUARTER 2020

Significant U.S. dollar-denominated amounts

| (millions of US\$) | three months ended March 31 | |
|--|-----------------------------|------------|
| | 2020 | 2019 |
| U.S. Natural Gas Pipelines comparable EBIT | 622 | 595 |
| Mexico Natural Gas Pipelines comparable EBIT ¹ | 201 | 113 |
| U.S. Liquids Pipelines comparable EBIT | 207 | 290 |
| Interest on U.S. dollar-denominated long-term debt and junior subordinated notes | (332) | (331) |
| Capitalized interest on U.S. dollar-denominated capital expenditures | 12 | 6 |
| U.S. dollar-denominated allowance for funds used during construction | 33 | 72 |
| U.S. dollar comparable non-controlling interests and other | (72) | (81) |
| | 671 | 664 |

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

Net investment hedges

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

COUNTERPARTY CREDIT RISK

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

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

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

We review financial assets carried at amortized cost for impairment using the lifetime expected loss of the financial asset at initial recognition and throughout the life of the financial asset. We use historical credit loss and recovery data, adjusted for our judgment regarding current economic and credit conditions, along with supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other. At March 31, 2020, we had no significant credit losses, no significant credit risk concentration and no significant amounts past due or impaired.

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

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LIQUIDITY RISK

We manage our liquidity risk by continuously forecasting our cash flows and making sure we have adequate cash balances, cash flows from operations, committed and demand credit facilities and access to capital markets to meet our operating, financing and capital expenditure obligations under both normal and stressed economic conditions. As discussed previously, global market volatility has heightened and liquidity has tightened but we have taken steps to mitigate our risk. Refer to the Financial Conditions section for more information related to the expected impact of COVID-19.

LOAN RECEIVABLE FROM AFFILIATE

At March 31, 2020, our Condensed consolidated balance sheet included a MXN 20.9 billion or \$1.3 billion (December 31, 2019 – MXN 20.9 billion or \$1.4 billion) loan receivable from the Sur de Texas joint venture which represents our 60 per cent proportionate share of long-term debt financing to the joint venture. Interest income and other included interest income of \$33 million for the three months ended March 31, 2020 (2019 – \$35 million) from this joint venture with a corresponding proportionate share of interest expense recorded in Income from equity investments in our Mexico Natural Gas Pipelines segment. Interest income and other also included foreign exchange losses of \$303 million for the three months ended March 31, 2020 (2019 – gains of \$14 million) on the loan receivable from this joint venture with a corresponding proportionate share of Sur de Texas foreign exchange gains and losses recorded in Income from equity investments in the Corporate segment. As a result, there was no impact to net income.

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.

Balance sheet presentation of derivative instruments

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

| (millions of \$) | March 31, 2020 | December 31, 2019 |
|-----------------------------|----------------|-------------------|
| Other current assets | 824 | 190 |
| Intangible and other assets | 4 | 7 |
| Accounts payable and other | (1,064) | (115) |
| Other long-term liabilities | (747) | (81) |
| | (983) | 1 |

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Unrealized and realized gains/(losses) on derivative instruments

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

| (millions of \$) | three months ended March 31 | |
|--|-----------------------------|------|
| | 2020 | 2019 |
| Derivative instruments held for trading¹ | | |
| Amount of unrealized gains/(losses) in the period | | |
| Commodities ² | 66 | (88) |
| Foreign exchange | (272) | 120 |
| Amount of realized gains/(losses) in the period | | |
| Commodities | 36 | 107 |
| Foreign exchange | (12) | (29) |
| Derivative instruments in hedging relationships | | |
| Amount of realized (losses)/gains in the period | | |
| Commodities | (3) | (7) |
| Interest rate | 1 | — |

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

2 In the three months ended March 31, 2020 and 2019, there were no gains or losses included in Net income relating to discontinued cash flow hedges where it was probable that the anticipated transaction would not occur.

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

FIRST QUARTER 2020

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 March 31, 2020, as required by the Canadian securities regulatory authorities and by the SEC, and concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

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

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY CHANGES

When we prepare financial statements that conform with U.S. GAAP, we are required to make estimates and assumptions that 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. A summary of our critical accounting estimates is included in our 2019 Annual Report.

Accounting Changes

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

FIRST QUARTER 2020

Quarterly results

SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

| (millions of \$, except per share amounts) | 2020 | | 2019 | | | 2018 | | |
|---|---------------|--------|--------|--------|--------|--------|--------|--------|
| | First | Fourth | Third | Second | First | Fourth | Third | Second |
| Revenues | 3,418 | 3,263 | 3,133 | 3,372 | 3,487 | 3,904 | 3,156 | 3,195 |
| Net income attributable to common shares | 1,148 | 1,108 | 739 | 1,125 | 1,004 | 1,092 | 928 | 785 |
| Comparable earnings | 1,109 | 970 | 970 | 924 | 987 | 946 | 902 | 768 |
| Share statistics | | | | | | | | |
| Net income per common share – basic and diluted | \$1.22 | \$1.18 | \$0.79 | \$1.21 | \$1.09 | \$1.19 | \$1.02 | \$0.88 |
| Comparable earnings per common share | \$1.18 | \$1.03 | \$1.04 | \$1.00 | \$1.07 | \$1.03 | \$1.00 | \$0.86 |
| Dividends declared per common share | \$0.81 | \$0.75 | \$0.75 | \$0.75 | \$0.75 | \$0.69 | \$0.69 | \$0.69 |

FACTORS AFFECTING QUARTERLY FINANCIAL INFORMATION BY BUSINESS SEGMENT

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

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

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

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

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

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

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

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FACTORS AFFECTING FINANCIAL INFORMATION BY QUARTER

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

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

In first quarter 2020, comparable earnings also excluded:

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

In fourth quarter 2019, comparable earnings also excluded:

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

In third quarter 2019, comparable earnings also excluded:

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

In second quarter 2019, comparable earnings also excluded:

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

In first quarter 2019, comparable earnings also excluded:

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

In fourth quarter 2018, comparable earnings also excluded:

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

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In third quarter 2018, comparable earnings also excluded:

- an after-tax gain of \$8 million related to our U.S. Northeast power marketing contracts.

In second quarter 2018, comparable earnings also excluded:

- an after-tax loss of \$11 million related to our U.S. Northeast power marketing contracts.

FIRST QUARTER 2020

Condensed consolidated statement of income

| (unaudited - millions of Canadian \$, except per share amounts) | three months ended March 31 | |
|---|-----------------------------|--------|
| | 2020 | 2019 |
| Revenues | | |
| Canadian Natural Gas Pipelines | 1,032 | 967 |
| U.S. Natural Gas Pipelines | 1,355 | 1,304 |
| Mexico Natural Gas Pipelines | 242 | 152 |
| Liquids Pipelines | 677 | 728 |
| Power and Storage | 112 | 336 |
| | 3,418 | 3,487 |
| Income from Equity Investments | 568 | 155 |
| Operating and Other Expenses | | |
| Plant operating costs and other | 920 | 929 |
| Commodity purchases resold | — | 252 |
| Property taxes | 176 | 187 |
| Depreciation and amortization | 630 | 608 |
| | 1,726 | 1,976 |
| Loss on Assets Held for Sale | (116) | — |
| Financial Charges | | |
| Interest expense | 578 | 586 |
| Allowance for funds used during construction | (82) | (139) |
| Interest income and other | 527 | (163) |
| | 1,023 | 284 |
| Income before Income Taxes | 1,121 | 1,382 |
| Income Tax (Recovery)/Expense | | |
| Current | 91 | 160 |
| Deferred | (255) | 76 |
| | (164) | 236 |
| Net Income | 1,285 | 1,146 |
| Net income attributable to non-controlling interests | 96 | 101 |
| Net Income Attributable to Controlling Interests | 1,189 | 1,045 |
| Preferred share dividends | 41 | 41 |
| Net Income Attributable to Common Shares | 1,148 | 1,004 |
| Net Income per Common Share | | |
| Basic and diluted | \$1.22 | \$1.09 |
| Weighted Average Number of Common Shares (millions) | | |
| Basic | 939 | 921 |
| Diluted | 940 | 922 |

See accompanying notes to the Condensed consolidated financial statements.

FIRST QUARTER 2020

Condensed consolidated statement of comprehensive income

| (unaudited - millions of Canadian \$) | three months ended March 31 | |
|---|-----------------------------|-------|
| | 2020 | 2019 |
| Net Income | 1,285 | 1,146 |
| Other Comprehensive Income/(Loss), Net of Income Taxes | | |
| Foreign currency translation gains and losses on net investment in foreign operations | 1,702 | (370) |
| Change in fair value of net investment hedges | (92) | 20 |
| Change in fair value of cash flow hedges | (495) | (17) |
| Reclassification to net income of gains and losses on cash flow hedges | 4 | 3 |
| Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans | (7) | 3 |
| Other comprehensive income on equity investments | 4 | 1 |
| Other comprehensive income/(loss) | 1,116 | (360) |
| Comprehensive Income | 2,401 | 786 |
| Comprehensive income attributable to non-controlling interests | 230 | 61 |
| Comprehensive Income Attributable to Controlling Interests | 2,171 | 725 |
| Preferred share dividends | 41 | 41 |
| Comprehensive Income Attributable to Common Shares | 2,130 | 684 |

See accompanying notes to the Condensed consolidated financial statements.

FIRST QUARTER 2020

Condensed consolidated statement of cash flows

| (unaudited - millions of Canadian \$) | three months ended March 31 | |
|---|-----------------------------|------------|
| | 2020 | 2019 |
| Cash Generated from Operations | | |
| Net income | 1,285 | 1,146 |
| Depreciation and amortization | 630 | 608 |
| Deferred income taxes | (255) | 76 |
| Income from equity investments | (568) | (155) |
| Distributions received from operating activities of equity investments | 289 | 277 |
| Employee post-retirement benefits funding, net of expense | 12 | 3 |
| Loss on assets held for sale | 116 | — |
| Equity allowance for funds used during construction | (51) | (94) |
| Unrealized losses/(gains) on financial instruments | 206 | (32) |
| Foreign exchange losses/(gains) on Loan receivable from affiliate | 303 | (14) |
| Other | 127 | (8) |
| (Increase)/decrease in operating working capital | (371) | 142 |
| Net cash provided by operations | 1,723 | 1,949 |
| Investing Activities | | |
| Capital expenditures | (1,996) | (2,022) |
| Capital projects in development | (122) | (164) |
| Contributions to equity investments | (151) | (145) |
| Other distributions from equity investments | — | 120 |
| Deferred amounts and other | (149) | (26) |
| Net cash used in investing activities | (2,418) | (2,237) |
| Financing Activities | | |
| Notes payable issued, net | 2,919 | 2,852 |
| Long-term debt issued, net of issue costs | 8 | 24 |
| Long-term debt repaid | (1,071) | (1,708) |
| Dividends on common shares | (704) | (419) |
| Dividends on preferred shares | (41) | (40) |
| Distributions to non-controlling interests | (55) | (56) |
| Common shares issued, net of issue costs | 81 | 68 |
| Net cash provided by financing activities | 1,137 | 721 |
| Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | 105 | (7) |
| Increase in Cash and Cash Equivalents | 547 | 426 |
| Cash and Cash Equivalents | | |
| Beginning of period | 1,343 | 446 |
| Cash and Cash Equivalents | | |
| End of period | 1,890 | 872 |

See accompanying notes to the Condensed consolidated financial statements.

FIRST QUARTER 2020

Condensed consolidated balance sheet

| (unaudited - millions of Canadian \$) | | March 31, 2020 | December 31, 2019 |
|--|--|----------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 1,890 | 1,343 |
| Accounts receivable | | 2,352 | 2,422 |
| Inventories | | 430 | 452 |
| Assets held for sale | | 2,807 | 2,807 |
| Other | | 1,491 | 627 |
| | | 8,970 | 7,651 |
| Plant, Property and Equipment | net of accumulated depreciation of \$28,581 and \$27,318, respectively | 72,273 | 65,489 |
| Loan Receivable from Affiliate | | 1,257 | 1,434 |
| Equity Investments | | 7,005 | 6,506 |
| Restricted Investments | | 1,575 | 1,557 |
| Regulatory Assets | | 1,687 | 1,587 |
| Goodwill | | 14,037 | 12,887 |
| Intangible and Other Assets | | 1,007 | 2,168 |
| | | 107,811 | 99,279 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Notes payable | | 7,561 | 4,300 |
| Accounts payable and other | | 5,045 | 4,544 |
| Dividends payable | | 773 | 737 |
| Accrued interest | | 631 | 613 |
| Current portion of long-term debt | | 3,503 | 2,705 |
| | | 17,513 | 12,899 |
| Regulatory Liabilities | | 3,883 | 3,772 |
| Other Long-Term Liabilities | | 2,365 | 1,614 |
| Deferred Income Tax Liabilities | | 5,828 | 5,703 |
| Long-Term Debt | | 34,816 | 34,280 |
| Junior Subordinated Notes | | 9,257 | 8,614 |
| | | 73,662 | 66,882 |
| Redeemable Non-Controlling Interest | | 102 | — |
| EQUITY | | | |
| Common shares, no par value | | 24,477 | 24,387 |
| Issued and outstanding: | March 31, 2020 – 940 million shares | | |
| | December 31, 2019 – 938 million shares | | |
| Preferred shares | | 3,980 | 3,980 |
| Additional paid-in capital | | — | — |
| Retained earnings | | 4,357 | 3,955 |
| Accumulated other comprehensive loss | | (577) | (1,559) |
| Controlling Interests | | 32,237 | 30,763 |
| Non-controlling interests | | 1,810 | 1,634 |
| | | 34,047 | 32,397 |
| | | 107,811 | 99,279 |

Contingencies and Guarantees (Note 13)

Variable Interest Entities (Note 14)

Subsequent Events (Note 15)

See accompanying notes to the Condensed consolidated financial statements.

FIRST QUARTER 2020

Condensed consolidated statement of equity

| (unaudited - millions of Canadian \$) | three months ended March 31 | |
|---|-----------------------------|---------------|
| | 2020 | 2019 |
| Common Shares | | |
| Balance at beginning of period | 24,387 | 23,174 |
| Shares issued: | | |
| Under dividend reinvestment and share purchase plan | — | 216 |
| On exercise of stock options | 90 | 76 |
| Balance at end of period | 24,477 | 23,466 |
| Preferred Shares | | |
| Balance at beginning and end of period | 3,980 | 3,980 |
| Additional Paid-In Capital | | |
| Balance at beginning of period | — | 17 |
| Issuance of stock options, net of exercises | (6) | (6) |
| Reclassification of additional paid-in capital deficit to retained earnings | 6 | — |
| Balance at end of period | — | 11 |
| Retained Earnings | | |
| Balance at beginning of period | 3,955 | 2,773 |
| Net income attributable to controlling interests | 1,189 | 1,045 |
| Common share dividends | (761) | (693) |
| Preferred share dividends | (20) | (19) |
| Reclassification of additional paid-in capital deficit to retained earnings | (6) | — |
| Balance at end of period | 4,357 | 3,106 |
| Accumulated Other Comprehensive Loss | | |
| Balance at beginning of period | (1,559) | (606) |
| Other comprehensive income/(loss) attributable to controlling interests | 982 | (320) |
| Balance at end of period | (577) | (926) |
| Equity Attributable to Controlling Interests | 32,237 | 29,637 |
| Equity Attributable to Non-Controlling Interests | | |
| Balance at beginning of period | 1,634 | 1,655 |
| Net income attributable to non-controlling interests | 96 | 101 |
| Other comprehensive income/(loss) attributable to non-controlling interests | 134 | (40) |
| Distributions declared to non-controlling interests | (54) | (56) |
| Balance at end of period | 1,810 | 1,660 |
| Total Equity | 34,047 | 31,297 |

See accompanying notes to the Condensed consolidated financial statements.

FIRST QUARTER 2020

Notes to Condensed consolidated financial statements (unaudited)

1. Basis of presentation

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

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

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

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

USE OF ESTIMATES AND JUDGMENTS

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

FIRST QUARTER 2020

2. Accounting changes

CHANGES IN ACCOUNTING POLICIES FOR 2020

Measurement of credit losses on financial instruments

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

Implementation costs of cloud computing arrangements

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

Consolidation

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

Reference rate reform

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

FUTURE ACCOUNTING CHANGES

Defined benefit plans

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

FIRST QUARTER 2020

Income taxes

In December 2019, the FASB issued new guidance that simplified the accounting for income taxes and clarified existing guidance. This new guidance is effective January 1, 2021, however, early adoption is permitted. The Company is currently evaluating the timing and impact of the adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

3. Segmented information

| three months ended March 31, 2020 (unaudited - millions of Canadian \$) | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Corporate¹ | Total |
|---|---|---|---|------------------------------|----------------------------------|------------------------------|--------------|
| Revenues | 1,032 | 1,355 | 242 | 677 | 112 | — | 3,418 |
| Intersegment revenues | — | 42 | — | — | 7 | (49) ² | — |
| | 1,032 | 1,397 | 242 | 677 | 119 | (49) | 3,418 |
| Income from equity investments | 3 | 74 | 40 | 20 | 128 | 303 ³ | 568 |
| Plant operating costs and other | (366) | (363) | (13) | (178) | (47) | 47 ² | (920) |
| Property taxes | (72) | (76) | — | (26) | (2) | — | (176) |
| Depreciation and amortization | (306) | (194) | (30) | (82) | (18) | — | (630) |
| Loss on assets held for sale | — | — | — | — | (116) | — | (116) |
| Segmented Earnings | 291 | 838 | 239 | 411 | 64 | 301 | 2,144 |
| Interest expense | | | | | | | (578) |
| Allowance for funds used during construction | | | | | | | 82 |
| Interest income and other ³ | | | | | | | (527) |
| Income before Income Taxes | | | | | | | 1,121 |
| Income tax recovery | | | | | | | 164 |
| Net Income | | | | | | | 1,285 |
| Net income attributable to non-controlling interests | | | | | | | (96) |
| Net Income Attributable to Controlling Interests | | | | | | | 1,189 |
| Preferred share dividends | | | | | | | (41) |
| Net Income Attributable to Common Shares | | | | | | | 1,148 |

1 Includes intersegment eliminations.

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

3 Income from equity investments includes the Company's proportionate share of Sur de Texas foreign exchange gains on the peso-denominated loans from affiliates which are fully offset in Interest income and other. Refer to Note 12, Risk management and financial instruments, for additional information.

FIRST QUARTER 2020

| three months ended March 31, 2019 | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Corporate¹ | Total |
|---|---|---|---|------------------------------|----------------------------------|------------------------------|--------------|
| (unaudited - millions of Canadian \$) | | | | | | | |
| Revenues | 967 | 1,304 | 152 | 728 | 336 | — | 3,487 |
| Intersegment revenues | — | 42 | — | — | 5 | (47) ² | — |
| | 967 | 1,346 | 152 | 728 | 341 | (47) | 3,487 |
| Income/(loss) from equity investments | 1 | 76 | 6 | 14 | 72 | (14) ³ | 155 |
| Plant operating costs and other | (343) | (362) | (12) | (166) | (88) | 42 ² | (929) |
| Commodity purchases resold | — | — | — | — | (252) | — | (252) |
| Property taxes | (69) | (88) | — | (28) | (2) | — | (187) |
| Depreciation and amortization | (287) | (180) | (30) | (88) | (23) | — | (608) |
| Segmented Earnings/(Losses) | 269 | 792 | 116 | 460 | 48 | (19) | 1,666 |
| Interest expense | | | | | | | (586) |
| Allowance for funds used during construction | | | | | | | 139 |
| Interest income and other ³ | | | | | | | 163 |
| Income before Income Taxes | | | | | | | 1,382 |
| Income tax expense | | | | | | | (236) |
| Net Income | | | | | | | 1,146 |
| Net income attributable to non-controlling interests | | | | | | | (101) |
| Net Income Attributable to Controlling Interests | | | | | | | 1,045 |
| Preferred share dividends | | | | | | | (41) |
| Net Income Attributable to Common Shares | | | | | | | 1,004 |

1 Includes intersegment eliminations.

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

3 Income/(loss) from equity investments includes the Company's proportionate share of Sur de Texas foreign exchange losses on the peso-denominated loans from affiliates which are fully offset in Interest income and other. Refer to Note 12, Risk management and financial instruments, for additional information.

TOTAL ASSETS BY SEGMENT

| (unaudited - millions of Canadian \$) | March 31, 2020 | December 31, 2019 |
|---------------------------------------|-----------------------|--------------------------|
| Canadian Natural Gas Pipelines | 23,324 | 21,983 |
| U.S. Natural Gas Pipelines | 45,458 | 41,627 |
| Mexico Natural Gas Pipelines | 7,745 | 7,207 |
| Liquids Pipelines | 17,432 | 15,931 |
| Power and Storage | 7,869 | 7,788 |
| Corporate | 5,983 | 4,743 |
| | 107,811 | 99,279 |

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4. Revenues

DISAGGREGATION OF REVENUES

The following tables summarize total Revenues for the three months ended March 31, 2020 and 2019:

| three months ended March 31, 2020 | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Total |
|--|---|---|---|------------------------------|------------------------------|--------------|
| (unaudited - millions of Canadian \$) | | | | | | |
| Revenues from contracts with customers | | | | | | |
| Capacity arrangements and transportation | 1,032 | 1,158 | 152 | 582 | — | 2,924 |
| Power generation | — | — | — | — | 57 | 57 |
| Natural gas storage and other ¹ | — | 178 | 90 | 1 | 21 | 290 |
| | 1,032 | 1,336 | 242 | 583 | 78 | 3,271 |
| Other revenues ^{2,3} | — | 19 | — | 94 | 34 | 147 |
| | 1,032 | 1,355 | 242 | 677 | 112 | 3,418 |

1 The Company recognized \$77 million of fee revenues from an affiliate related to the construction of the Sur de Texas pipeline which is 60 per cent owned by TC Energy.

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

3 Other revenues for the three months ended March 31, 2020 included operating lease income of \$32 million.

| three months ended March 31, 2019 | Canadian Natural Gas Pipelines | U.S. Natural Gas Pipelines | Mexico Natural Gas Pipelines | Liquids Pipelines | Power and Storage | Total |
|--|---|---|---|------------------------------|------------------------------|--------------|
| (unaudited - millions of Canadian \$) | | | | | | |
| Revenues from contracts with customers | | | | | | |
| Capacity arrangements and transportation | 967 | 1,100 | 151 | 593 | — | 2,811 |
| Power generation | — | — | — | — | 343 | 343 |
| Natural gas storage and other | — | 180 | 1 | 1 | 28 | 210 |
| | 967 | 1,280 | 152 | 594 | 371 | 3,364 |
| Other revenues ^{1,2} | — | 24 | — | 134 | (35) | 123 |
| | 967 | 1,304 | 152 | 728 | 336 | 3,487 |

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

2 Other revenues for the three months ended March 31, 2019 included operating lease income of \$55 million.

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CONTRACT BALANCES

| (unaudited - millions of Canadian \$) | March 31, 2020 | December 31, 2019 | Affected line item on the Condensed consolidated balance sheet |
|---|----------------|-------------------|--|
| Receivables from contracts with customers | 1,418 | 1,458 | Accounts receivable |
| Contract assets | 272 | 153 | Other current assets |
| Long-term contract assets | 95 | 102 | Intangible and other assets |
| Contract liabilities ¹ | 41 | 61 | Accounts payable and other |
| Long-term contract liabilities | 303 | 226 | Other long-term liabilities |

¹ During the three months ended March 31, 2020, \$3 million (2019 – \$6 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 received on long-term capacity arrangements in Mexico.

FUTURE REVENUES FROM REMAINING PERFORMANCE OBLIGATIONS**Capacity Arrangements and Transportation**

As at March 31, 2020, future revenues from long-term pipeline capacity arrangements and transportation contracts extending through 2046 are approximately \$27.5 billion, of which approximately \$2.8 billion is expected to be recognized during the remainder of 2020.

Power Generation

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

Natural Gas Storage and Other

As at March 31, 2020, future revenues from long-term natural gas storage and other contracts extending through 2026 are approximately \$0.6 billion, of which approximately \$0.3 billion is expected to be recognized during the remainder of 2020.

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5. Income taxes

Effective Tax Rates

The effective income tax rate was negative 15 per cent for the three months ended March 31, 2020, and 17 per cent for the same period in 2019. The negative effective income tax rate in 2020 was primarily the result of the release of an income tax valuation allowance related to Keystone XL, discussed below. Excluding the impact of the income tax valuation allowance release, the effective income tax rate for the three months ended March 31, 2020 was 10 per cent. The decline in the rates compared to the same period in 2019 was primarily due to lower Alberta income tax rates and lower flow-through income taxes on Canadian rate-regulated pipelines.

TC Energy recorded an income tax valuation allowance of \$673 million against the deferred income tax asset balances at December 31, 2019. As of each reporting date, the Company considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. A net income tax valuation allowance release of \$281 million was recorded for the three months ended March 31, 2020, following management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized due to the Company's decision to proceed with construction of the Keystone XL pipeline.

U.S. Tax Reform

In late 2017, proposed income tax regulations were issued as part of U.S. Tax Reform. The U.S. Treasury and the U.S. Internal Revenue Service issued final base erosion and anti-abuse tax (BEAT) regulations in 2019 and final anti-hybrid rules on April 7, 2020. The finalization of these regulations did not have a material impact on the Company's consolidated financial statements as at March 31, 2020.

6. Assets held for sale

Ontario Natural Gas-Fired Power Plants

At March 31, 2020, the related assets and liabilities in the Power and Storage segment were classified as held for sale as follows:

| (unaudited - millions of Canadian \$) | |
|--|--------------|
| Assets Held for Sale | |
| Inventories | 13 |
| Other current assets | 2 |
| Plant, property and equipment | 2,504 |
| Equity investments | 272 |
| Intangible and other assets | 16 |
| Total Assets Held for Sale | 2,807 |
| Liabilities Related to Assets Held for Sale | |
| Other long-term liabilities | (16) |
| Total Liabilities Related to Assets Held for Sale¹ | (16) |

¹ Included in Accounts payable and other on the Condensed consolidated balance sheet.

On April 29, 2020, TC Energy completed the sale of the Halton Hills and Napanee power plants as well as its 50 per cent interest in Portlands Energy Centre which were reported as held for sale at March 31, 2020. Refer to Note 15, Subsequent events, for additional information.

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7. Long-term debt

LONG-TERM DEBT REPAYED

Long-term debt retired by the Company in the three months ended March 31, 2020 included the following:

| (unaudited - millions of Canadian \$, unless otherwise noted) | | | | |
|---|-----------------|------------------------|--------|---------------|
| Company | Retirement date | Type | Amount | Interest rate |
| TRANSCANADA PIPELINES LIMITED ¹ | | | | |
| | March 2020 | Senior Unsecured Notes | US 750 | 4.60% |

¹ Related unamortized debt issue costs of \$8 million were included in Interest expense in the Condensed consolidated statement of income for the three months ended March 31, 2020.

CAPITALIZED INTEREST

In the three months ended March 31, 2020, TC Energy capitalized interest related to capital projects of \$64 million (2019 – \$37 million).

8. Redeemable non-controlling interest

On March 31, 2020, TC Energy announced that it will proceed with construction of the Keystone XL pipeline. As part of the funding plan, the Government of Alberta (GoA) has agreed to invest approximately US\$1.1 billion as equity in Keystone XL subsidiaries of TC Energy. The remaining capital investment is expected to be funded through the combination of a US\$4.2 billion project-level credit facility to be fully guaranteed by the GoA and capital contributions by the Company.

In conjunction with this agreement, on March 31, 2020, the Company's Keystone XL subsidiaries issued Class A Interests amounting to \$102 million to the GoA and recognized corresponding notes receivable due by December 31, 2020. These Class A Interests rank above TC Energy's equity investment in the Keystone XL project and have certain voting rights.

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

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

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9. Dividends per common share and preferred share

The board of directors of TC Energy declared dividends as follows:

| (unaudited - Canadian \$, rounded to two decimals) | three months ended March 31 | |
|--|-----------------------------|------|
| | 2020 | 2019 |
| per common share | 0.81 | 0.75 |
| per Series 1 preferred share | 0.22 | 0.20 |
| per Series 2 preferred share | 0.22 | 0.22 |
| per Series 3 preferred share | 0.13 | 0.13 |
| per Series 4 preferred share | 0.18 | 0.18 |
| per Series 5 preferred share | 0.14 | 0.14 |
| per Series 6 preferred share | 0.20 | 0.20 |
| per Series 7 preferred share | 0.24 | 0.25 |
| per Series 9 preferred share | 0.24 | 0.27 |

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

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

| three months ended March 31, 2020 | Before Tax Amount | Income Tax Recovery/ (Expense) | Net of Tax Amount |
|---|-------------------|--------------------------------|-------------------|
| (unaudited - millions of Canadian \$) | | | |
| Foreign currency translation gains on net investment in foreign operations | 1,611 | 91 | 1,702 |
| Change in fair value of net investment hedges | (122) | 30 | (92) |
| Change in fair value of cash flow hedges | (656) | 161 | (495) |
| Reclassification to net income of gains and losses on cash flow hedges | 5 | (1) | 4 |
| Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans | (9) | 2 | (7) |
| Other comprehensive income on equity investments | 5 | (1) | 4 |
| Other Comprehensive Income | 834 | 282 | 1,116 |

| three months ended March 31, 2019 | Before Tax Amount | Income Tax Recovery/ (Expense) | Net of Tax Amount |
|---|-------------------|--------------------------------|-------------------|
| (unaudited - millions of Canadian \$) | | | |
| Foreign currency translation losses on net investment in foreign operations | (364) | (6) | (370) |
| Change in fair value of net investment hedges | 27 | (7) | 20 |
| Change in fair value of cash flow hedges | (22) | 5 | (17) |
| Reclassification to net income of gains and losses on cash flow hedges | 4 | (1) | 3 |
| Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans | 4 | (1) | 3 |
| Other comprehensive income on equity investments | 1 | — | 1 |
| Other Comprehensive Loss | (350) | (10) | (360) |

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The changes in AOCI by component are as follows:

| three months ended March 31, 2020 (unaudited - millions of Canadian \$) | Currency Translation Adjustments | Cash Flow Hedges | Pension and OPEB Plan Adjustments | Equity Investments | Total¹ |
|---|---|-------------------------|--|---------------------------|--------------------------|
| AOCI balance at January 1, 2020 | (730) | (58) | (314) | (457) | (1,559) |
| Other comprehensive income/(loss) before reclassifications ² | 1,463 | (481) | — | — | 982 |
| Amounts reclassified from AOCI ³ | — | 4 | (7) | 3 | — |
| Net current period other comprehensive income/(loss) | 1,463 | (477) | (7) | 3 | 982 |
| AOCI balance at March 31, 2020 | 733 | (535) | (321) | (454) | (577) |

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

2 Other comprehensive income/(loss) before reclassifications on currency translation adjustments, cash flow hedges and equity investments are net of non-controlling interest gains of \$147 million, losses of \$14 million and gains of \$1 million, respectively.

3 Losses related to cash flow hedges reported in AOCI and expected to be reclassified to net income in the next 12 months are estimated to be \$23 million (\$17 million, net of tax) at March 31, 2020. These estimates assume constant commodity prices, interest rates and foreign exchange rates over time, however, the amounts reclassified will vary based on the actual value of these factors at the date of settlement.

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

| (unaudited - millions of Canadian \$) | Amounts Reclassified From AOCI | | Affected line item in the Condensed consolidated statement of income |
|---|---------------------------------------|-------------|---|
| | three months ended March 31 | | |
| | 2020 | 2019 | |
| Cash flow hedges | | | |
| Commodities | (2) | — | Revenues (Power and Storage) |
| Interest rate | (3) | (3) | Interest expense |
| | (5) | (3) | Total before tax |
| | 1 | 1 | Income tax (recovery)/expense |
| | (4) | (2) | Net of tax ^{1,3} |
| Pension and other post-retirement benefit plan adjustments | | | |
| Amortization of actuarial gains/(losses) | 9 | (4) | Plant operating costs and other ² |
| | (2) | 1 | Income tax (recovery)/expense |
| | 7 | (3) | Net of tax ¹ |
| Equity investments | | | |
| Equity income | (4) | (3) | Income from equity investments |
| | 1 | — | Income tax (recovery)/expense |
| | (3) | (3) | Net of tax ^{1,3} |

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 11, Employee post-retirement benefits, for additional information.

3 Amounts reclassified from AOCI on cash flow hedges are net of non-controlling interest losses of less than \$1 million for the three months ended March 31, 2020 (2019 – gains of \$1 million).

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11. Employee post-retirement benefits

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

| (unaudited - millions of Canadian \$) | three months ended March 31 | | | |
|---|-----------------------------|-----------|-------------------------------------|----------|
| | Pension benefit plans | | Other post-retirement benefit plans | |
| | 2020 | 2019 | 2020 | 2019 |
| Service cost ¹ | 38 | 33 | 1 | 1 |
| Other components of net benefit cost ¹ | | | | |
| Interest cost | 35 | 35 | 4 | 4 |
| Expected return on plan assets | (57) | (58) | (4) | (4) |
| Amortization of actuarial losses | 5 | 3 | 1 | 1 |
| Amortization of regulatory asset | 6 | 3 | — | — |
| | (11) | (17) | 1 | 1 |
| Net Benefit Cost | 27 | 16 | 2 | 2 |

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

12. Risk management and financial instruments

RISK MANAGEMENT OVERVIEW

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

COUNTERPARTY CREDIT RISK

TC Energy's maximum counterparty credit exposure with respect to financial instruments at March 31, 2020, without taking into account security held, consisted of cash and cash equivalents, accounts receivable, available-for-sale assets, the fair value of derivative assets and loans receivable.

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

The Company reviews financial assets carried at amortized cost for impairment using the lifetime expected loss of the financial asset at initial recognition and throughout the life of the financial asset. TC Energy uses historical credit loss and recovery data, adjusted for management's judgment regarding current economic and credit conditions, along with supportable forecasts to determine any impairment, which is recognized in Plant operating costs and other. At March 31, 2020, there were no significant credit losses, no significant credit risk concentration and no significant amounts past due or impaired.

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LOAN RECEIVABLE FROM AFFILIATE

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.

At March 31, 2020, the Company's Condensed consolidated balance sheet included a MXN\$20.9 billion or \$1.3 billion (December 31, 2019 – MXN\$20.9 billion or \$1.4 billion) loan receivable from the Sur de Texas joint venture which represents TC Energy's 60 per cent proportionate share of long-term debt financing to the joint venture. Interest income and other included interest income of \$33 million for the three months ended March 31, 2020 (2019 – \$35 million) from this joint venture with a corresponding proportionate share of interest expense recorded in Income from equity investments in the Company's Mexico Natural Gas Pipelines segment. Interest income and other also included foreign exchange losses of \$303 million for the three months ended March 31, 2020 (2019 – gains of \$14 million) on the loan receivable from this joint venture with a corresponding proportionate share of Sur de Texas foreign exchange gains and losses recorded in Income from equity investments in the Corporate segment. As a result, there was no impact to net income.

NET INVESTMENT IN FOREIGN OPERATIONS

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

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

| (unaudited - millions of Canadian \$, unless otherwise noted) | March 31, 2020 | | December 31, 2019 | |
|--|---------------------------|-----------------|---------------------------|-----------------|
| | Fair value ^{1,2} | Notional amount | Fair value ^{1,2} | Notional amount |
| U.S. dollar cross-currency swaps (maturing 2020 to 2025) | (35) | US 400 | 3 | US 100 |
| U.S. dollar foreign exchange options (maturing 2020 to 2021) | (72) | US 3,200 | 10 | US 3,000 |
| U.S. dollar foreign exchange forward contracts (maturing 2020) | (3) | US 200 | — | — |
| | (110) | US 3,800 | 13 | US 3,100 |

1 Fair value equals carrying value.

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

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

| (unaudited - millions of Canadian \$, unless otherwise noted) | March 31, 2020 | December 31, 2019 |
|---|---------------------------|--------------------|
| Notional amount | 33,100 (US 23,400) | 29,300 (US 22,600) |
| Fair value | 32,800 (US 23,200) | 33,400 (US 25,700) |

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FINANCIAL INSTRUMENTS

Non-derivative financial instruments

Fair value of non-derivative financial instruments

Available-for-sale assets are recorded at fair value which is calculated using quoted market prices where available. Certain non-derivative financial instruments included in Cash and cash equivalents, Accounts receivable, Intangible and other assets, Notes payable, Accounts payable and other, Accrued interest and Other long-term liabilities have carrying amounts that approximate their fair value due to the nature of the item or the short time to maturity. Each of these instruments are classified in Level II of the fair value hierarchy, except for the Company's LMCI equity securities which are classified in Level I.

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

Balance sheet presentation of non-derivative financial instruments

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

| (unaudited - millions of Canadian \$) | March 31, 2020 | | December 31, 2019 | |
|---|-----------------|------------|-------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term debt including current portion ^{1,2} | (38,319) | (40,172) | (36,985) | (43,187) |
| Junior subordinated notes | (9,257) | (7,316) | (8,614) | (8,777) |
| | (47,576) | (47,488) | (45,599) | (51,964) |

- 1 Long-term debt is recorded at amortized cost except for US\$200 million at December 31, 2019 that is attributed to hedged risk and recorded at fair value.
- 2 Net income for the three months ended March 31, 2020 includes unrealized gains of \$1 million (2019 – unrealized losses of \$3 million) for fair value adjustments attributable to the hedged interest rate risk associated with interest rate swap fair value hedging relationships on US\$200 million of long-term debt that matured prior to March 31, 2020 (December 31, 2019 – US\$200 million). There were no other unrealized gains or losses from fair value adjustments to the non-derivative financial instruments.

Available-for-sale assets summary

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

| (unaudited - millions of Canadian \$) | March 31, 2020 | | December 31, 2019 | |
|---|-----------------------------|---|-----------------------------|---|
| | 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 | — | 16 | — | 6 |
| Maturing within 1-5 years | 51 | 78 | 26 | 100 |
| Maturing within 5-10 years | 772 | — | 801 | — |
| Maturing after 10 years | 71 | — | 61 | — |
| Fair value of equity securities ^{2,4} | 572 | — | 556 | — |
| | 1,466 | 94 | 1,444 | 106 |

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

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| (unaudited - millions of Canadian \$) | March 31, 2020 | | March 31, 2019 | |
|---|--|---|--|---|
| | LMCI restricted investments ¹ | Other restricted investments ² | LMCI restricted investments ¹ | Other restricted investments ² |
| Net unrealized (losses)/gains in the period | | | | |
| three months ended | (23) | 1 | 51 | 1 |
| Net realized gains in the period | | | | |
| three months ended | 2 | — | — | — |

1 Gains and losses arising from changes in the fair value of LMCI restricted investments impact the subsequent amounts to be collected through tolls to cover future pipeline abandonment costs. As a result, the Company records these gains and losses as regulatory assets or liabilities.

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

Derivative instruments

Fair value of derivative instruments

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

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.

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Balance sheet presentation of derivative instruments

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

| at March 31, 2020 | | | | | |
|---------------------------------------|---------------------|----------------------|-----------------------------|---------------------|--|
| (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 | 2 | — | — | 816 | 818 |
| Foreign exchange | — | — | 4 | 2 | 6 |
| | 2 | — | 4 | 818 | 824 |
| Intangible and other assets | | | | | |
| Commodities ² | — | — | — | 1 | 1 |
| Foreign exchange | — | — | 3 | — | 3 |
| | — | — | 3 | 1 | 4 |
| Total Derivative Assets | 2 | — | 7 | 819 | 828 |
| Accounts payable and other | | | | | |
| Commodities ² | (1) | — | — | (743) | (744) |
| Foreign exchange | — | — | (68) | (216) | (284) |
| Interest rate ³ | (36) | — | — | — | (36) |
| | (37) | — | (68) | (959) | (1,064) |
| Other long-term liabilities | | | | | |
| Commodities ² | (4) | — | — | (6) | (10) |
| Foreign exchange | — | — | (49) | — | (49) |
| Interest rate ³ | (688) | — | — | — | (688) |
| | (692) | — | (49) | (6) | (747) |
| Total Derivative Liabilities | (729) | — | (117) | (965) | (1,811) |
| Total Derivatives | (727) | — | (110) | (146) | (983) |

1 Fair value equals carrying value.

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

3 Includes a derivative instrument entered into by Coastal GasLink Pipeline Limited Partnership to hedge the interest rate risk associated with project-level financing of Coastal GasLink construction. Hedging the interest rate exposure is a requirement of both the Coastal GasLink equity purchase agreement announced in December 2019 and the project financing agreement.

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| at December 31, 2019 | | | | | |
|---------------------------------------|-------------------------|--------------------------|------------------------------|-------------------------|---|
| (unaudited - millions of Canadian \$) | Cash Flow Hedges | Fair Value Hedges | Net Investment Hedges | Held for Trading | Total Fair Value of Derivative Instruments¹ |
| Other current assets | | | | | |
| Commodities ² | — | — | — | 118 | 118 |
| Foreign exchange | — | — | 10 | 61 | 71 |
| Interest rate | — | 1 | — | — | 1 |
| | — | 1 | 10 | 179 | 190 |
| Intangible and other assets | | | | | |
| Foreign exchange | — | — | 5 | — | 5 |
| Interest rate | 2 | — | — | — | 2 |
| | 2 | — | 5 | — | 7 |
| Total Derivative Assets | 2 | 1 | 15 | 179 | 197 |
| Accounts payable and other | | | | | |
| Commodities ² | (4) | — | — | (104) | (108) |
| Foreign exchange | — | — | (1) | (3) | (4) |
| Interest rate | (3) | — | — | — | (3) |
| | (7) | — | (1) | (107) | (115) |
| Other long-term liabilities | | | | | |
| Commodities ² | (6) | — | — | (11) | (17) |
| Foreign exchange | — | — | (1) | — | (1) |
| Interest rate | (63) | — | — | — | (63) |
| | (69) | — | (1) | (11) | (81) |
| Total Derivative Liabilities | (76) | — | (2) | (118) | (196) |
| Total Derivatives | (74) | 1 | 13 | 61 | 1 |

1 Fair value equals carrying value.

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

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

Derivatives in fair value hedging relationships

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

| (unaudited - millions of Canadian \$) | Carrying amount | | Fair value hedging adjustments¹ | |
|---------------------------------------|------------------------|--------------------------|---|--------------------------|
| | March 31, 2020 | December 31, 2019 | March 31, 2020 | December 31, 2019 |
| Long-term debt | — | (260) | — | (1) |
| | — | (260) | — | (1) |

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

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Notional and maturity summary

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

| at March 31, 2020 (unaudited) | Power | Natural Gas | Liquids | Foreign Exchange | Interest Rate |
|---|--------------|--------------------|----------------|-------------------------|----------------------|
| Purchases ¹ | 451 | 18 | 48 | — | — |
| Sales ¹ | 2,088 | 23 | 60 | — | — |
| Millions of Canadian dollars ² | — | — | — | — | 4,126 |
| Millions of U.S. dollars | — | — | — | 3,184 | 1,500 |
| Millions of Mexican pesos | — | — | — | 1,050 | — |
| Maturity dates | 2020-2024 | 2020-2027 | 2020 | 2020-2021 | 2020-2030 |

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

2 Notional value represents the maximum contracted amount over the term of a variable notional derivative.

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

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

Unrealized and realized gains/(losses) on derivative instruments

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

| (unaudited - millions of Canadian \$) | three months ended March 31 | |
|--|------------------------------------|-------------|
| | 2020 | 2019 |
| Derivative Instruments Held for Trading¹ | | |
| Amount of unrealized gains/(losses) in the period | | |
| Commodities ² | 66 | (88) |
| Foreign exchange | (272) | 120 |
| Amount of realized gains/(losses) in the period | | |
| Commodities | 36 | 107 |
| Foreign exchange | (12) | (29) |
| Derivative Instruments in Hedging Relationships | | |
| Amount of realized (losses)/gains in the period | | |
| Commodities | (3) | (7) |
| Interest rate | 1 | — |

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

2 In the three months ended March 31, 2020 and 2019, there were no gains or losses included in Net income relating to discontinued cash flow hedges where it was probable that the anticipated transaction would not occur.

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Derivatives in cash flow hedging relationships

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

| (unaudited - millions of Canadian \$) | three months ended March 31 | |
|---|-----------------------------|-------------|
| | 2020 | 2019 |
| Change in fair value of derivative instruments recognized in OCI ¹ | | |
| Commodities | 4 | (3) |
| Interest rate | (660) | (19) |
| | (656) | (22) |

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

Effect of fair value and cash flow hedging relationships

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

| (unaudited - millions of Canadian \$) | three months ended March 31 | |
|---|-----------------------------|------|
| | 2020 | 2019 |
| Fair Value Hedges | | |
| Interest rate contracts ¹ | | |
| Hedged items | (3) | (6) |
| Derivatives designated as hedging instruments | 1 | (1) |
| Cash Flow Hedges | | |
| Reclassification of (losses)/gains on derivative instruments from AOCI to net income ^{2,3} | | |
| Interest rate contracts ¹ | (3) | (4) |
| Commodity contracts ⁴ | (2) | — |

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

2 Refer to Note 10, Other comprehensive income, for the components of OCI related to derivatives in cash flow hedging relationships including the portion attributable to non-controlling interests.

3 There are no amounts recognized in earnings that were excluded from effectiveness testing.

4 Presented within Revenues (Power and Storage) in the Condensed consolidated statement of income.

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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 March 31, 2020 (unaudited - millions of Canadian \$) | Gross derivative instruments | Amounts available for offset¹ | Net amounts |
|---|-------------------------------------|---|--------------------|
| Derivative instrument assets | | | |
| Commodities | 819 | (699) | 120 |
| Foreign exchange | 9 | (9) | — |
| | 828 | (708) | 120 |
| Derivative instrument liabilities | | | |
| Commodities | (754) | 699 | (55) |
| Foreign exchange | (333) | 9 | (324) |
| Interest rate | (724) | — | (724) |
| | (1,811) | 708 | (1,103) |

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

| at December 31, 2019 (unaudited - millions of Canadian \$) | Gross derivative instruments | Amounts available for offset¹ | Net amounts |
|--|-------------------------------------|---|--------------------|
| Derivative instrument assets | | | |
| Commodities | 118 | (76) | 42 |
| Foreign exchange | 76 | (5) | 71 |
| Interest rate | 3 | (1) | 2 |
| | 197 | (82) | 115 |
| Derivative instrument liabilities | | | |
| Commodities | (125) | 76 | (49) |
| Foreign exchange | (5) | 5 | — |
| Interest rate | (66) | 1 | (65) |
| | (196) | 82 | (114) |

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 \$12 million and letters of credit of \$20 million at March 31, 2020 (December 31, 2019 – \$58 million and \$25 million, respectively) to its counterparties. At March 31, 2020 and December 31, 2019, the Company held no cash collateral and no letters of credit from counterparties on asset exposures.

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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 March 31, 2020, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was \$3 million (December 31, 2019 – \$4 million), for which the Company has provided no collateral in the normal course of business. If the credit-risk-related contingent features in these agreements were triggered on March 31, 2020, the Company would have been required to provide collateral of \$3 million (December 31, 2019 – \$4 million) to its counterparties. 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. Inputs include published exchange rates, interest rates, interest rate swap curves, yield curves and broker quotes from external data service providers. |
| Level III | This category mainly includes long-dated commodity transactions in certain markets where liquidity is low and the Company uses the most observable inputs available or, if not available, long-term broker quotes to estimate the fair value for these transactions. There is uncertainty caused by using unobservable market data which may not accurately reflect possible future changes in fair value. |

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

| at March 31, 2020 | | | | |
|---------------------------------------|---|---|--|-------|
| (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 | 735 | 84 | — | 819 |
| Foreign exchange | — | 9 | — | 9 |
| Derivative instrument liabilities | | | | |
| Commodities | (698) | (53) | (3) | (754) |
| Foreign exchange | — | (333) | — | (333) |
| Interest rate | — | (724) | — | (724) |
| | 37 | (1,017) | (3) | (983) |

¹ There were no transfers from Level II to Level III for the three months ended March 31, 2020.

| at December 31, 2019 | | | | |
|---------------------------------------|---|---|--|-------|
| (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 | 81 | 37 | — | 118 |
| Foreign exchange | — | 76 | — | 76 |
| Interest rate | — | 3 | — | 3 |
| Derivative instrument liabilities | | | | |
| Commodities | (77) | (41) | (7) | (125) |
| Foreign exchange | — | (5) | — | (5) |
| Interest rate | — | (66) | — | (66) |
| | 4 | 4 | (7) | 1 |

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

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

| (unaudited - millions of Canadian \$) | three months ended March 31 | |
|---|-----------------------------|------------|
| | 2020 | 2019 |
| Balance at beginning of period | (7) | (4) |
| Total gains included in Net income | 4 | — |
| Balance at end of period¹ | (3) | (4) |

¹ For the three months ended March 31, 2020, Revenues included unrealized gains of \$4 million attributed to derivatives in the Level III category that were still held at March 31, 2020 (2019 – unrealized gains of less than \$1 million).

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

GUARANTEES

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

TC Energy and its partner on the Sur de Texas pipeline, IEnova, have jointly guaranteed the financial performance of the entity which owns the pipeline. Such agreements include a guarantee and a letter of credit which are primarily related to construction services and 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 delivery of natural gas, construction services and the payment of liabilities. For certain of these entities, any payments made by TC Energy under these guarantees in excess of its ownership interest are to be reimbursed by its partners.

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

| (unaudited - millions of Canadian \$) | Term | March 31, 2020 | | December 31, 2019 | |
|---------------------------------------|---------|---------------------------------|----------------|---------------------------------|----------------|
| | | Potential exposure ¹ | Carrying value | Potential exposure ¹ | Carrying value |
| Northern Courier | to 2055 | 300 | 27 | 300 | 27 |
| Sur de Texas | to 2021 | 119 | — | 109 | — |
| Bruce Power | to 2021 | 88 | — | 88 | — |
| Other jointly-owned entities | to 2059 | 100 | 10 | 100 | 10 |
| | | 607 | 37 | 597 | 37 |

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

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14. Variable interest entities

A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity.

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

Consolidated VIEs

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

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

| (unaudited - millions of Canadian \$) | March 31, 2020 | December 31, 2019 |
|--|----------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | 189 | 106 |
| Accounts receivable | 65 | 88 |
| Inventories | 29 | 27 |
| Other | 107 | 8 |
| | 390 | 229 |
| Plant, Property and Equipment | 3,325 | 3,050 |
| Equity Investments | 849 | 785 |
| Goodwill | 469 | 431 |
| | 5,033 | 4,495 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and other | 84 | 70 |
| Accrued interest | 31 | 21 |
| Current portion of long-term debt | 217 | 187 |
| | 332 | 278 |
| Regulatory Liabilities | 50 | 45 |
| Other Long-Term Liabilities | 20 | 9 |
| Deferred Income Tax Liabilities | 9 | 9 |
| Long-Term Debt | 2,914 | 2,694 |
| | 3,325 | 3,035 |

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

Non-Consolidated VIEs

The Company's non-consolidated VIEs consist of legal entities where the Company is not the primary beneficiary as it does not have the power to direct the activities that most significantly impact the economic performance of these VIEs or where this power is shared with third parties. The Company contributes capital to these VIEs and receives ownership interests that provide it with residual claims on assets after liabilities are paid.

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

| (unaudited - millions of Canadian \$) | March 31, 2020 | December 31, 2019 |
|---------------------------------------|----------------|-------------------|
| Balance sheet | | |
| Equity investments ¹ | 4,814 | 4,720 |
| Off-balance sheet | | |
| Potential exposure to guarantees | 465 | 466 |
| Maximum exposure to loss | 5,279 | 5,186 |

¹ Includes equity investment in Portlands Energy Centre classified as Assets held for sale as at March 31, 2020 and December 31, 2019. Refer to Note 6, Assets held for sale, for additional information.

15. Subsequent events

Long-Term Debt Issuances

In April 2020, TCPL issued \$2.0 billion of Medium Term Notes, due in April 2027, bearing interest at a fixed rate of 3.80 per cent and US\$1.25 billion of Senior Unsecured Notes, due in April 2030, bearing interest at a fixed rate of 4.10 per cent.

Credit Facilities Arrangement

In April 2020, TCPL entered into a total of US\$2.0 billion of 364-day committed bilateral credit facilities with Canadian banks. When drawn, interest on these lines of credit is charged at negotiated floating rates.

Ontario Natural Gas-Fired Power Plants

On April 29, 2020, TC Energy completed the sale of its Halton Hills and Napanee power plants as well as its 50 per cent interest in Portlands Energy Centre to a third party for net proceeds of approximately \$2.8 billion following closing price adjustments and prior to post-closing adjustments, resulting in a pre-tax loss of approximately \$520 million (\$370 million after tax). The increase in the total loss from that disclosed at December 31, 2019 is primarily the result of higher than expected costs to achieve Napanee's March 13, 2020 in-service and the inclusion of post-closing obligations. As these assets had been classified as held for sale, \$395 million of the pre-tax loss (\$271 million after tax) was recorded up to March 31, 2020, with \$116 million of the pre-tax loss (\$77 million after tax) recognized in the three months ended March 31, 2020. The remaining pre-tax loss of approximately \$125 million (\$99 million after tax) was recorded on close and will be reflected in second quarter 2020 results. Along with post-closing adjustments, this loss may also be amended in the future for items that could not be estimated on close including the settlement of existing insurance claims.