

# **TC PipeLines, LP**

## **Consolidated Financial Statements**

**June 30, 2021**

**TC PIPELINES, LP**  
**CONSOLIDATED STATEMENTS OF INCOME**

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended June 30,	
	2021	2020
Transmission revenues	190	196
Equity earnings <i>(Note 3)</i>	88	84
Operation and maintenance expenses	(31)	(32)
Property taxes	(13)	(13)
General and administrative	(3)	(3)
Depreciation and amortization	(43)	(39)
Financial charges and other <i>(Note 11)</i>	(28)	(37)
<b>Net income before taxes</b>	<b>160</b>	156
Income taxes	(1)	(1)
<b>Net income</b>	<b>159</b>	155
Net income attributable to non-controlling interest	11	10
<b>Net income attributable to controlling interests</b>	<b>148</b>	145

The accompanying notes are an integral part of these consolidated financial statements.

**TC PIPELINES, LP**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended June 30,	
	<b>2021</b>	2020
Net income	<b>159</b>	155
Other comprehensive income		
Change in fair value of cash flow hedges <i>(Note 9)</i>	—	(15)
Reclassification to net income of gains and losses on cash flow hedges <i>(Note 9)</i>	<b>4</b>	2
<b>Comprehensive income</b>	<b>163</b>	142
Comprehensive income attributable to non-controlling interests	<b>11</b>	10
<b>Comprehensive income attributable to controlling interests</b>	<b>152</b>	132

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**TC PIPELINES, LP**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited)

<i>(millions of dollars)</i>	<b>June 30, 2021</b>	December 31, 2020
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	30	200
Demand loan receivable from affiliates <i>(Note 8)</i>	44	—
Accounts receivable and other <i>(Note 10)</i>	35	40
Inventories	12	11
Other	3	6
	<u>124</u>	<u>257</u>
Equity investments <i>(Note 3)</i>	1,074	1,070
Property, plant and equipment (Net of \$1,290 accumulated depreciation; 2020 - \$1,250)	1,902	1,747
Goodwill	71	71
<b>TOTAL ASSETS</b>	<b><u>3,171</u></b>	<b><u>3,145</u></b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	76	46
Accounts payable to affiliates <i>(Note 8)</i>	8	7
Accrued interest	10	11
Current portion of long-term debt <i>(Note 5)</i>	73	423
	<u>167</u>	<u>487</u>
Long-term debt, net <i>(Note 5)</i>	1,812	1,768
Deferred state income taxes	10	10
Other liabilities	45	47
	<u>2,034</u>	<u>2,312</u>
Partners' Equity		
Common units	935	637
Class B units <i>(Note 6)</i>	95	95
General partner	18	16
Accumulated other comprehensive income (loss) (AOCI)	(9)	(13)
Controlling interests	1,039	735
Non-controlling interests	98	98
	<u>1,137</u>	<u>833</u>
<b>TOTAL LIABILITIES AND PARTNERS' EQUITY</b>	<b><u>3,171</u></b>	<b><u>3,145</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

**TC PIPELINES, LP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(unaudited) (millions of dollars)	Six months ended June 30,	
	2021	2020
<b>Cash Generated from Operations</b>		
Net income	159	155
Depreciation and amortization	43	39
Amortization of debt issue costs reported as interest expense	1	1
Equity earnings from equity investments (Note 3)	(88)	(84)
Distributions received from operating activities of equity investments (Note 3)	95	115
Equity allowance for funds used during construction (AFUDC Equity)	(8)	(3)
Change in operating working capital (Note 7)	(33)	6
Other	1	(1)
	<b>170</b>	<b>228</b>
<b>Investing Activities</b>		
Investment in Great Lakes (Note 3)	(10)	(5)
Capital expenditures	(163)	(87)
Investment in Iroquois (Note 3)	(1)	—
Distribution received from Iroquois as return of investment (Note 3)	—	5
Customer advances for construction	—	(1)
	<b>(174)</b>	<b>(88)</b>
<b>Financing Activities</b>		
Distributions paid to common units, including the General Partner	(48)	(95)
Distributions paid to Class B units (Note 6)	—	(8)
Distributions paid to non-controlling interests	(11)	(12)
Common unit issuance (Note 6)	200	—
Long-term debt issued, net of discount (Note 5)	43	207
Long-term debt repaid (Note 5)	(350)	(100)
	<b>(166)</b>	<b>(8)</b>
<b>Increase in cash and cash equivalents</b>	<b>(170)</b>	<b>132</b>
Cash and cash equivalents, beginning of period	200	83
<b>Cash and cash equivalents, end of period</b>	<b>30</b>	<b>215</b>

The accompanying notes are an integral part of these consolidated financial statements.

**TC PIPELINES, LP**  
**CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY**

<i>(unaudited)</i>	Limited Partners							
	Common Units <sup>(a)</sup>		Class B Units		General Partner	Accumulated Other Comprehensive Income (Loss) <sup>(b)</sup>	Non-Controlling Interest	Total Equity
	<i>millions of units</i>	<i>millions of dollars</i>	<i>millions of units</i>	<i>millions of dollars</i>	<i>millions of dollars</i>	<i>millions of dollars</i>	<i>millions of dollars</i>	<i>millions of dollars</i>
Partners' Equity at December 31, 2020	71.3	637	1.9	95	16	(13)	98	833
Net income	—	145	—	—	3	—	11	159
Common unit issuance (Note 6)	6.6	200	—	—	—	—	—	200
Other comprehensive income (loss)	—	—	—	—	—	4	—	4
Distributions	—	(47)	—	—	(1)	—	(11)	(59)
Partners' Equity at June 30, 2021	<b>77.9</b>	<b>935</b>	<b>1.9</b>	<b>95</b>	<b>18</b>	<b>(9)</b>	<b>98</b>	<b>1,137</b>

<sup>(a)</sup> Effective March 3, 2021, all of the Partnership's common units became owned by indirect, wholly owned subsidiaries of TC Energy (see Note 1).

<sup>(b)</sup> Gain (loss) related to cash flow hedges reported in AOCI and expected to be reclassified to Net income in the next 12 months is estimated to be \$(9) million. These estimates assume constant interest rates over time; however, the amounts reclassified will vary based on actual value of interest rates at the date of settlement.

The accompanying notes are an integral part of these consolidated financial statements.

**TC PIPELINES, LP**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 1 ORGANIZATION**

Unless the context clearly indicates otherwise, TC Pipelines, LP and its subsidiaries are collectively referred to in this quarterly report as “we,” “us,” “our”, TC Pipelines and “the Partnership.” We use “our pipeline systems” and “our pipelines” when referring to the Partnership’s ownership interests in Gas Transmission Northwest LLC (GTN), Northern Border Pipeline Company (Northern Border), Bison Pipeline LLC (Bison), Great Lakes Gas Transmission Limited Partnership (Great Lakes), North Baja Pipeline, LLC (North Baja), Tuscarora Gas Transmission Company (Tuscarora), Portland Natural Gas Transmission System (PNGTS) and Iroquois Gas Transmission System, LP (Iroquois).

The Partnership was formed by TransCanada Pipelines Limited, a wholly owned subsidiary of TC Energy Corporation (TC Energy Corporation together with its subsidiaries collectively referred to herein as TC Energy), to acquire, own and participate in the management of energy infrastructure assets in North America.

On March 3, 2021, the Partnership merged with a wholly-owned subsidiary of TC Energy through a share for unit exchange transaction whereby 0.70 TC Energy common shares were issued and exchanged for every common unit of the Partnership not beneficially owned by TC Energy (Merger).

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements and related notes have been prepared in accordance with United States generally accepted accounting principles (GAAP) and amounts are stated in United States (U.S.) dollars. The results of operations for the six months ended June 30, 2021 and 2020 are not necessarily indicative of the results that may be expected for the full fiscal year.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2020 included in our Form 10-K for the year-ended December 31, 2020 filed with the Securities and Exchange Commission on February 24, 2021 (2020 Annual Report). That report contains a more comprehensive summary of the Partnership’s significant accounting policies. Our significant accounting policies are consistent with those disclosed in Note 2 of the financial statements of our 2020 Annual Report.

**Basis of Presentation**

The Partnership consolidates its interests in entities over which it is able to exercise control. To the extent there are interests owned by other parties, these interests are included as non-controlling interests. The Partnership uses the equity method of accounting for its investments in entities over which it is able to exercise significant influence.

U.S. federal and certain state income taxes are the responsibility of the limited partners and are not reflected in these consolidated financial statements. The tax effect of the Partnership’s activities accrues to its limited partners. The Partnership’s taxable income or loss, which may vary substantially from the net income or loss reported in the consolidated statement of operations, is includable in the U.S. federal income tax returns of each partner.

In instances where the Partnership’s consolidated entities are subject to state income taxes, the asset-liability method is used to account for taxes. This method requires recognition of deferred tax assets and liabilities for future tax consequences attributable to the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are classified as non-current on our consolidated balance sheets.

**Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates are reasonable, actual results could differ from these estimates.

### NOTE 3 EQUITY INVESTMENTS

The Partnership has equity interests in Northern Border, Great Lakes and Iroquois. The pipeline systems owned by these entities are regulated by the Federal Energy Regulatory Commission (FERC). The Northern Border and Great Lakes pipeline systems are operated by subsidiaries of TC Energy. The Iroquois pipeline system is operated by Iroquois Pipeline Operating Company, a wholly owned subsidiary of Iroquois. The Partnership uses the equity method of accounting for its interests in its equity investees.

<i>(unaudited)</i> <i>(millions of dollars)</i>	Ownership Interest at June 30, 2021	Equity Earnings		Equity Investments	
		Six months ended June 30, <b>2021</b>	2020	<b>June 30,</b> <b>2021</b>	December 31, 2020
Northern Border	50.00%	<b>33</b>	35	<b>400</b>	407
Great Lakes	46.45%	<b>33</b>	29	<b>518</b>	509
Iroquois	49.34%	<b>22</b>	20	<b>156</b>	154
		<b>88</b>	84	<b>1,074</b>	1,070

#### Distributions from Equity Investments

Distributions received from equity investments in the six months ended June 30, 2021 totaled \$95 million (June 30, 2020 - \$120 million).

During the six months ended June 30, 2020, \$5 million of the total \$120 million distributions received from equity investments (June 30, 2021 - none) was considered return of capital and included in "Investing Activities" in the Partnership's consolidated statement of cash flows. The return of capital was related to our investment in Iroquois (see further discussion below).

#### Northern Border

During the six months ended June 30, 2021, the Partnership received distributions from Northern Border amounting to \$39 million (June 30, 2020 - \$45 million).

The Partnership did not have undistributed earnings from Northern Border for the six months ended June 30, 2021 and 2020.

The summarized financial information provided to us by Northern Border is as follows:

*(unaudited)*

<i>(millions of dollars)</i>	<b>June 30, 2021</b>	December 31, 2020
<b>ASSETS</b>		
Cash and cash equivalents	<b>29</b>	31
Other current assets	<b>34</b>	38
Property, plant and equipment, net	<b>966</b>	977
Other assets	<b>12</b>	12
	<b>1,041</b>	1,058
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current liabilities	<b>47</b>	52
Deferred credits and other	<b>43</b>	42
Long-term debt, net <sup>(a)</sup>	<b>380</b>	380
Partners' equity		
Partners' capital	<b>571</b>	584
Accumulated other comprehensive loss	<b>—</b>	—
	<b>1,041</b>	1,058

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended	
	June 30,	
	2021	2020
Transmission revenues	143	149
Operating expenses	(38)	(39)
Depreciation	(32)	(31)
Financial charges and other	(7)	(9)
<b>Net income</b>	<b>66</b>	<b>70</b>

(a) Includes current maturities of \$250 million as of June 30, 2021 for Northern Border's 7.50% Senior Notes (December 31, 2020 - \$250 million), net of unamortized debt issuance costs and debt discounts. At June 30, 2021, Northern Border was in compliance with all of its financial covenants.

### Great Lakes, a *variable interest entity*

The Partnership is considered to have a variable interest in Great Lakes, which is accounted for as an equity investment as we are not its primary beneficiary. A variable interest entity is a legal entity that either does not have sufficient equity at risk to finance its activities without additional subordinated financial support, 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 or losses of the entity.

The Partnership made an equity contribution to Great Lakes of \$10 million during the six months ended June 30, 2021 (June 30, 2020 - \$5 million). This amount represents the Partnership's 46.45 percent share of a \$21 million cash call from Great Lakes to make a scheduled debt repayment.

During the six months ended June 30, 2021, the Partnership received distributions from Great Lakes amounting to \$34 million (June 30, 2020 - \$37 million).

The Partnership did not have undistributed earnings from Great Lakes for the six months ended June 30, 2021 and 2020.

The summarized financial information provided to us by Great Lakes is as follows:

*(unaudited)*

<i>(millions of dollars)</i>	June 30, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets	73	66
Property, plant and equipment, net	719	716
	<b>792</b>	<b>782</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current liabilities	79	38
Net long-term debt, including current maturities <sup>(a)</sup>	146	198
Other long term liabilities	10	9
Partners' equity	557	537
	<b>792</b>	<b>782</b>

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended	
	June 30,	
	2021	2020
Transmission revenues	131	122
Operating expenses	(36)	(35)
Depreciation	(17)	(16)
Financial charges and other	(7)	(7)
<b>Net income</b>	<b>71</b>	<b>64</b>

<sup>(a)</sup> Includes current maturities of \$31 million as of June 30, 2021 (December 31, 2020 - \$31 million). At June 30, 2021, Great Lakes was in compliance with all of its financial covenants.

## Iroquois

During the six months ended June 30, 2021, the Partnership received total distributions from Iroquois amounting to \$22 million. During the six months ended June 30, 2020, the Partnership received total distributions from Iroquois amounting to \$38 million, which includes the Partnership's 49.34 percent share of the Iroquois unrestricted cash distribution amounting to approximately \$5.2 million, which was reported as a return of investment in the Partnership's consolidated statement of cash flows.

The Partnership made an equity contribution to Iroquois of \$1 million during the six months ended June 30, 2021 (June 30, 2020 - none). This amount represents the Partnership's 49.34 percent share of a \$2 million cash call from Iroquois to cover costs of their capital project.

The Partnership did not have undistributed earnings from Iroquois for the six months ended June 30, 2021 and 2020.

The summarized financial information provided to us by Iroquois is as follows:

*(unaudited)*

<i>(millions of dollars)</i>	June 30, 2021	December 31, 2020
<b>ASSETS</b>		
Cash and cash equivalents	38	25
Other current assets	28	36
Property, plant and equipment, net	499	506
Other assets	21	20
	<u>586</u>	<u>587</u>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current liabilities	17	20
Long-term debt, net <sup>(a)</sup>	312	314
Other non-current liabilities	21	21
Partners' equity	236	232
	<u>586</u>	<u>587</u>

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended June 30,	
	2021	2020
Transmission revenues	96	93
Operating expenses	(30)	(30)
Depreciation	(15)	(15)
Financial charges and other	(5)	(6)
<b>Net income</b>	<u>46</u>	<u>42</u>

<sup>(a)</sup> Includes current maturities of \$4 million as of June 30, 2021 (December 31, 2020 - \$5 million). At June 30, 2021, Iroquois was in compliance with all of its financial covenants.

## NOTE 4 REVENUES

### Disaggregation of Revenues

For the six months ended June 30, 2021 and 2020, effectively all of the Partnership's revenues were from capacity arrangements and transportation contracts with customers as discussed in more detail below.

#### *Capacity Arrangements and Transportation Contracts*

The Partnership's performance obligations in its contracts with customers consist primarily of capacity arrangements and natural gas transportation contracts.

The Partnership's revenues are generated from contractual arrangements for committed capacity and from transportation of natural gas which are treated as a bundled performance obligation. Revenues earned from firm contracted capacity arrangements are recognized ratably over the term of the contract regardless of the amount of natural gas that is transported. Transportation revenues for interruptible or volumetric-based services are recognized when the service is performed. The Partnership has elected to utilize the practical expedient of recognizing revenue as invoiced.

The Partnership's pipeline systems are subject to FERC regulations and, as a result, a portion of revenues collected may be subject to refund if invoiced during an interim period when a rate proceeding is ongoing. Allowances for these potential refunds are recognized using management's best estimate based on the facts and circumstances of the proceeding. Any allowances that are recognized during the proceeding process are refunded or retained, as applicable, at the time a regulatory decision becomes final. As of June 30, 2021, the Partnership does not have any outstanding refund obligations related to any rate proceedings. Revenues are invoiced and paid on a monthly basis. The Partnership's pipeline systems do not take ownership of the natural gas that is transported for customers. Revenues from contracts with customers are recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

### **Contract Balances**

All of the Partnership's contract balances pertain to receivables from contracts with customers amounting to \$29 million at June 30, 2021 (December 31, 2020 - \$36 million) and are recorded as trade accounts receivable and reported as "Accounts receivable and other" in the Partnership's consolidated balance sheet (Refer to Note 10, "Accounts Receivable and Other").

Additionally, our accounts receivable represent the Partnership's unconditional right to consideration for services completed which includes billed and unbilled accounts.

### **Right to invoice practical expedient**

In the application of the right to invoice practical expedient, the Partnership's revenues from regulated capacity arrangements are recognized based on rates specified in the contract. Therefore, the amount invoiced, which includes the capacity contracted and variable volume of natural gas transported, corresponds directly to the value the customer received. These revenues are recognized on a monthly basis once the Partnership's performance obligation to provide capacity has been satisfied.

## NOTE 5 DEBT

<i>(unaudited)</i> <i>(millions of dollars)</i>	<b>June 30, 2021</b>	Weighted Average Interest Rate for the Six Months Ended June 30, 2021	December 31, 2020	Weighted Average Interest Rate for the Year Ended December 31, 2020
<b><u>TC PipeLines, LP</u></b>				
2013 Term Loan Facility due 2022	<b>450</b>	1.29%	450	1.87%
4.65% Unsecured Senior Notes due 2021	—	—	350	4.65% (a)
4.375% Unsecured Senior Notes due 2025	<b>350</b>	4.38%	350	4.375% (a)
3.90% Unsecured Senior Notes due 2027	<b>500</b>	3.90%	500	3.90% (a)
<b><u>GTN</u></b>				
3.12% Series A Senior Notes due 2030	<b>175</b>	3.12%	175	3.12% (a)
5.69% Unsecured Senior Notes due 2035	<b>150</b>	5.69%	150	5.69% (a)
<b><u>PNGTS</u></b>				
Revolving Credit Facility due 2023	<b>68</b>	1.24%	25	1.88%
2.84% Series A Senior Notes due 2030	<b>125</b>	2.84%	125	2.84% (a)
<b><u>Tuscarora</u></b>				
Unsecured Term Loan due 2021	<b>23</b>	2.12%	23	2.13%
<b><u>North Baja</u></b>				
Unsecured Term Loan due 2021	<b>50</b>	1.19%	50	1.70%
	<b>1,891</b>		2,198	
Less: unamortized debt issuance costs and debt discount	<b>6</b>		7	
Less: current portion <sup>(b)</sup>	<b>73</b>		423	
	<b>1,812</b>		1,768	

(a) Fixed interest rate

(b) At June 30, 2021, this amount included Tuscarora's \$23 million Unsecured Term Loan due in August 2021 and North Baja's \$50 million Unsecured Term Loan due in December 2021. At December 31, 2020, this amount included TC PipeLines, LP's \$350 million 4.65% Unsecured Senior Notes due in June 2021, Tuscarora's \$23 million Unsecured Term Loan due in August 2021 and North Baja's \$50 million Unsecured Term Loan due in December 2021.

### TC PipeLines, LP

The Partnership's \$500 million senior facility under a revolving credit agreement dated November 10, 2016, as amended (Senior Credit Facility) was terminated effective March 4, 2021. This facility was not utilized in 2021 and there were no outstanding borrowings on this facility for the year ended December 31, 2020.

On March 15, 2021, the Partnership's \$350 million 4.65% Unsecured Senior Notes were repaid in full from the proceeds of a \$200 million equity contribution from TC Energy and cash on hand of \$150 million.

As of June 30, 2021, the variable interest rate exposure related to the Partnership's term loan facility under a term loan agreement, dated July 1, 2013, as amended (2013 Term Loan Facility) was hedged using interest rate swaps at an average rate of 3.26 percent (December 31, 2020 - 3.26 percent). Prior to hedging activities, the London Interbank Offered Rate based (LIBOR) interest rate on the 2013 Term Loan Facility was 1.22 percent at June 30, 2021 (December 31, 2020 - 1.40 percent).

The 2013 Term Loan Facility requires the Partnership to maintain a debt to adjusted cash flow leverage ratio of no greater than 5.00 to 1.00 for each fiscal quarter, except for the fiscal quarter and the two following fiscal quarters in which one or more acquisitions have been executed, in which case the leverage ratio is to be no greater than 5.50 to 1.00. The leverage ratio was 3.33 to 1.00 as of June 30, 2021.

## GTN

GTN's Series A Notes contain a covenant that limits total debt to no greater than 65 percent of total capitalization and GTN's Unsecured Senior Notes contain a covenant that limits total debt to no greater than 70 percent of GTN's total capitalization. GTN's total debt to total capitalization ratio at June 30, 2021 was 34.6 percent.

## PNGTS

PNGTS's Series A Notes contain a covenant that limits total debt to no greater than 65 percent of PNGTS' total capitalization and PNGTS' Revolving Credit Facility requires PNGTS to maintain a leverage ratio of no greater than 5.00 to 1.00. The ratio of debt to capitalization was 43 percent and the leverage ratio was 2.20 to 1.00 as of June 30, 2021. As of June 30, 2021, \$68 million was drawn on the Revolving Credit Facility and the LIBOR-based interest rate was 1.22 percent (December 31, 2020 - 1.28 percent).

## Tuscarora

Tuscarora's Unsecured Term Loan contains a covenant that requires Tuscarora to maintain a debt service coverage ratio (cash available from operations divided by the sum of interest expense and principal payments) of greater than or equal to 3.00 to 1.00. As of June 30, 2021, the ratio was 31.83 to 1.00.

The LIBOR-based interest rate applicable to Tuscarora's Unsecured Term Loan was 2.09 percent at June 30, 2021 (December 31, 2020 - 2.15 percent).

## North Baja

North Baja's \$50 million Term Loan Facility contains a covenant that limits total debt to no greater than 70 percent of North Baja's total capitalization. North Baja's total debt to total capitalization ratio at June 30, 2021 was 41.65 percent.

The LIBOR-based interest rate applicable to North Baja's Term Loan Facility was 1.17 percent at June 30, 2021 (December 31, 2020 - 1.23 percent).

## Partnership

At June 30, 2021, the Partnership was in compliance with all debt and credit facility terms and conditions including its financial covenants and its other covenants including restrictions on entering into mergers, consolidations and sales of assets, granting of liens, material amendments to the Fourth Amended and Restated Agreement of Limited Partnership, as amended to date (Partnership Agreement), incurring additional debt and distributions to unitholders.

The principal repayments required of the Partnership on its debt are as follows:

*(unaudited)*

*(millions of dollars)*

	<b>Principal Payments</b>
2021	73
2022	450
2023	68
2024	—
2025	350
Thereafter	950
	<u>1,891</u>

## NOTE 6 PARTNERS' EQUITY

### Class B units issued to TC Energy

The Class B units entitle TC Energy to an annual distribution based on 30 percent of GTN's annual distributable cash flow as follows: (i) 30 percent of GTN's distributable cash flow, less \$20 million through calendar year 2019, (ii) 30 percent of GTN's distributable cash flow, less \$20 million, multiplied by 43.75% for calendar year 2020 and (iii) 30 percent of GTN's distributable cash flow, less \$20 million, multiplied by 25% thereafter (Class B Distribution). Additionally, for any calendar year for which the cash distributions payable on the Partnership's common units are less than \$3.94 per common unit, the Class B Distribution will be reduced by the same percentage as the percentage by which distributions payable on the common units are reduced below \$3.94 per common unit (Class B Reduction). In first quarter 2018, a Class B Reduction of 35 percent was implemented following the Partnership's common unit distribution reduction of 35 percent. The Class B Reduction will continue to apply for any calendar year for which distributions payable in respect of common units for such calendar year are less than \$3.94 per common unit.

For the year ended December 31, 2020, there was no Class B distribution as the threshold was not exceeded, therefore no distribution was declared related to the Class B units.

For the year ended December 31, 2019, the Class B Distribution was \$8 million and was declared and paid in the first quarter of 2020.

### Common unit issuance

On March 11, 2021, the Partnership issued 6,595,436 common units (at an average price of \$30.32 per common unit) in return for a \$200 million equity contribution from TC Energy. On March 15, 2021, the proceeds from the equity contribution, in addition to the Partnership's cash on hand, were used to redeem its \$350 million 4.65% Unsecured Senior Notes due June 2021.

## NOTE 7 CHANGE IN OPERATING WORKING CAPITAL

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended June 30,	
	2021	2020
Change in accounts receivable and other <sup>(a)</sup>	5	6
Change in demand loan receivable <i>(Note 8)</i>	(44)	—
Change in inventories	(1)	—
Change in other current assets	3	3
Change in accounts payable and accrued liabilities <sup>(a)</sup>	4	—
Change in accounts payable to affiliates	1	(2)
Change in accrued interest	(1)	(1)
Change in operating working capital	(33)	6

<sup>(a)</sup> Excludes certain non-cash items primarily related to capital accruals and credits.

## **NOTE 8 RELATED PARTY TRANSACTIONS**

The Partnership does not have any employees. The management and operating functions are provided by its general partner, TC Pipelines GP, Inc. (the General Partner). The General Partner does not receive a management fee in connection with its management of the Partnership. The Partnership reimburses the General Partner for all costs of services provided, including the costs of employee, officer and director compensation and benefits, and all other expenses necessary or appropriate to conduct the business of, and allocable to the Partnership. Such costs include (i) overhead costs (such as office space and equipment) and (ii) out-of-pocket expenses related to the provision of such services. The Partnership Agreement provides that the General Partner will determine the costs that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. For both the six months ended June 30, 2021 and 2020, total costs charged to the Partnership by the General Partner were \$1 million.

As operator of our pipelines, except Iroquois and a certain portion of the PNGTS facilities, TC Energy's subsidiaries provide capital and operating services to our pipeline systems. TC Energy's subsidiaries incur costs on behalf of our pipeline systems, including, but not limited to, employee salary and benefit costs, and property and liability insurance costs. These costs are reimbursed by our pipeline systems. Iroquois does not receive any capital and operating services from TC Energy (Refer to Note 3, "Equity Investments").

### **Cash Management Program**

Following the Merger, the Partnership became part of TC Energy's cash management program. As a result, all of the Partnership's cash, with the exception of cash generated by PNGTS, Iroquois and Northern Border, is now managed by TC Energy. This program matches short-term cash surpluses and needs of participating related parties, thus minimizing total borrowings from outside sources. Monies advanced under the program are considered loans, accruing interest and repayable on demand. The Partnership receives interest on monies advanced to TC Energy at the rate of interest earned by TC Energy on its short-term cash investments. The Partnership pays interest on monies advanced from TC Energy based on TC Energy's short-term borrowing costs. For the six months ended June 30, 2021 the net interest income on this arrangement was immaterial. At June 30, 2021 the Partnership had a demand loan receivable from TC Energy of \$44 million.

### **Great Lakes**

Great Lakes earns significant transportation revenues from TC Energy and its affiliates, some of which are provided at discounted rates and some at maximum recourse rates. For the six months ended June 30, 2021, Great Lakes earned 67 percent of its transportation revenues from TC Energy and its affiliates (June 30, 2020 - 74 percent).

At June 30, 2021, \$12 million was included in Great Lakes' receivables with regard to the transportation contracts with TC Energy and its affiliates (December 31, 2020 - \$17 million).

## **NOTE 9 FAIR VALUE MEASUREMENTS**

### **(a) Fair Value Hierarchy**

Under Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, fair value measurements are characterized in one of three levels based upon the inputs used to arrive at the measurement. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

When appropriate, valuations are adjusted for various factors including credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

### **(b) Fair Value of Financial Instruments**

The carrying value of "cash and cash equivalents, "demand loan receivable'," "accounts receivable and other," "accounts payable and accrued liabilities," "accounts payable to affiliates" and "accrued interest" approximate their fair values because of the short maturity or duration of these instruments, or because the instruments bear a variable rate of interest or a rate that approximates current rates. The fair value of the Partnership's debt is estimated by discounting the future cash flows of each instrument at estimated current borrowing rates. The fair value of interest rate derivatives is calculated using the income approach, which uses period-end market rates and applies a discounted cash flow valuation model.

The Partnership has classified the fair value of natural gas imbalances as a Level 2 of the fair value hierarchy for fair value disclosure purposes, as the valuation approach includes quoted prices in the market index and observable volumes for the imbalance.

Long-term debt is recorded at amortized cost and classified as Level 2 of the fair value hierarchy for fair value disclosure purposes. Interest rate derivative assets and liabilities are classified as Level 2 for all periods presented where the fair value is determined by using valuation techniques that refer to observable market data or estimated market prices. The estimated fair value of the Partnership's debt as at June 30, 2021 and December 31, 2020 was \$2,067 million and \$2,388 million, respectively.

Market risk is the risk that changes in market interest rates may result in fluctuations in the fair values or cash flows of financial instruments. The Partnership's floating rate debt is subject to LIBOR benchmark interest rate risk. The Partnership uses derivatives to manage its exposure to interest rate risk. We regularly assess the impact of interest rate fluctuations on future cash flows and evaluate hedging opportunities to mitigate our interest rate risk.

The Partnership's interest rate swaps mature on October 2, 2022. The interest rate swaps were structured such that the cash flows of the derivative instruments match the variable rate of interest on the 2013 Term Loan Facility. The fixed weighted average interest rate on these instruments is 3.26 percent.

At June 30, 2021, the fair value of the interest rate swaps accounted for as cash flow hedges was a liability of \$11 million (both on a gross and net basis) (December 31, 2020 - liability of \$15 million), the net change of which is recognized in other comprehensive income. For the six months ended June 30, 2021, the net realized loss related to the interest rate swaps was \$4 million and was included in "financial charges and other" (June 30, 2020 - \$2 million) (Refer to Note 11, "Financial Charges and Other").

The Partnership has no master netting agreements; however, it has derivative contracts containing provisions with rights of offset. The Partnership has elected to present the fair value of derivative instruments with the right to offset on a gross basis in the consolidated balance sheet. Had the Partnership elected to present these instruments on a net basis, there would be no effect on the consolidated balance sheet as of June 30, 2021 and December 31, 2020.

## **NOTE 10 ACCOUNTS RECEIVABLE AND OTHER**

<i>(unaudited)</i>		
<i>(millions of dollars)</i>		
	<b>June 30, 2021</b>	December 31, 2020
Trade accounts receivable, net of allowance of nil	<b>29</b>	36
Other	<b>6</b>	4
	<b>35</b>	40

## NOTE 11 FINANCIAL CHARGES AND OTHER

<i>(unaudited)</i>	Six months ended	
<i>(millions of dollars)</i>	June 30,	
	<b>2021</b>	2020
Interest expense <sup>(a)</sup>	<b>34</b>	40
Net realized loss (gain) related to the interest rate swaps	<b>4</b>	2
AFUDC - Equity	<b>(8)</b>	(3)
Other income	<b>(2)</b>	(2)
	<b>28</b>	37

<sup>(a)</sup> Includes amortization of debt issuance costs and discount costs.

## NOTE 12 SUBSEQUENT EVENTS

Management of the Partnership has reviewed subsequent events through August 13, 2021, the date the consolidated financial statements were issued, and concluded there were no events or transactions during this period that would require recognition or disclosure in the consolidated financial statements other than what is disclosed here and/or those already disclosed in the preceding notes.

### Distributions

Northern Border declared its June 2021 distribution of \$12 million on July 26, 2021, of which the Partnership received its 50 percent share or \$6 million on July 31, 2021.

Great Lakes declared its second quarter 2021 distribution of \$21 million on July 14, 2021, of which the Partnership received its 46.45 percent share or \$10 million on July 30, 2021.

PNGTS declared its second quarter 2021 distribution of \$16 million on July 15, 2021, of which \$6 million was paid to its non-controlling interest owner on July 31, 2021.

### Debt

On August 3, 2021, Tuscarora closed an extension and increase in its Unsecured Term Loan due 2021, increasing the amount to \$36 million and extending the term to August 1, 2024.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and notes included in Item 1. "Financial Statements" of this Quarterly Report, as well as our 2020 Annual Report. Additionally, readers are cautioned that this section contains certain forward-looking statements. Forward-looking statements are identified by words and phrases such as: "anticipate," "assume," "estimate," "expect," "project," "intend," "plan," "believe," "forecast," "should," "predict," "could," "will," "may," and other terms and expressions of similar meaning. The absence of these words, however, does not mean that the statements are not forward-looking. These statements are based on management's beliefs and assumptions and on currently available information and include, but are not limited to, statements regarding anticipated financial performance, future capital expenditures, liquidity, market or competitive conditions, regulations, organic or strategic growth opportunities, contract renewals and ability to market open capacity, business prospects and outcome of regulatory proceedings. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. All forward-looking statements are made only as of the date made and except as required by applicable law, we undertake no obligation to update any forward-looking statements to reflect new information, subsequent events or other changes.

## RESULTS OF OPERATIONS

Our ownership interests in eight pipelines were our only material sources of income during the period. Therefore, our results of operations and cash flows were influenced by, and reflect the same factors that influenced, our pipeline systems.

<i>(unaudited)</i> <i>(millions of dollars)</i>	Six months ended		\$ Change	% Change <sup>(a)</sup>
	June 30,			
	2021	2020		
Transmission revenues	190	196	(6)	(3)
Equity earnings	88	84	4	5
Operating, maintenance and administrative costs	(47)	(48)	1	2
Depreciation and amortization	(43)	(39)	(4)	(10)
Financial charges and other	(28)	(37)	9	24
<b>Net income before taxes</b>	<b>160</b>	<b>156</b>	<b>4</b>	<b>3</b>
Income taxes	(1)	(1)	—	—
<b>Net income</b>	<b>159</b>	<b>155</b>	<b>4</b>	<b>3</b>
Net income attributable to non-controlling interests	11	10	1	(10)
<b>Net income attributable to controlling interests</b>	<b>148</b>	<b>145</b>	<b>3</b>	<b>2</b>

<sup>(a)</sup> Positive number represents a favorable change; bracketed or negative number represents an unfavorable change.

## **Six Months Ended June 30, 2021 Compared to the Same Period in 2020**

The Partnership's net income attributable to controlling interests in the six months ended June 30, 2021 was comparable to the same period in 2020, mainly due to the following:

**Transmission revenues** - Revenue was comparable mainly due to the net effect of the following:

- higher revenue from PNGTS as a result of new revenues from its Portland XPress Phase III project, which went in service in November 2020 and discretionary revenues due to the colder weather conditions experienced in early 2021 compared to 2020 offset by
- lower revenue on Bison as a result of the expiration of all its active contracts beginning January 2021

**Equity Earnings** - Equity earnings were comparable to the prior year period due to the net effect of the following:

- lower equity earnings from our investment in Northern Border primarily as a result of lower contracted volumes sold at above recourse rates when compared to the previous year period; and
- higher equity earnings from our investment in Great Lakes due to its higher revenues from increased firm contracting compared to the same period in 2020.

**Operating, maintenance and administrative (OM&A) costs** - OM&A costs decreased by \$1 million in the six months ended June 30, 2021 from the same period in 2020 primarily due to the net effect of:

- decrease in TC Energy's allocated costs related to personnel; and
- costs incurred related to the completion of the Merger

**Depreciation and amortization** - The \$4 million increase is primarily related to increased maintenance capital expenditures at GTN and PNGTS Portland XPress Phase III project in service in November 2020.

**Financial charges and other** - The \$9 million decrease was primarily attributable to higher Allowance For Funds Used During Construction (AFUDC), which served to offset interest charges and thereby resulted in a decline. AFUDC increased as a result of continued spending on our expansion projects and higher maintenance capital spending.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Partnership strives to maintain financial strength and flexibility in all parts of the economic cycle. Our principal sources of liquidity and cash flows currently include distributions received from our equity investments and operating cash flows from our subsidiaries and access to TC Energy's cash management program, which matches short-term cash surpluses and needs of participating related parties, thus minimizing total borrowings from outside sources.

We continue to be financially disciplined by using our available cash to fund ongoing operating expenses and capital expenditures and maintaining debt at prudent levels and we believe we are well positioned to fund our obligations as required.

We believe our (1) overall cash position, (2) operating cash-flows and (3) access to cash through TC Energy's cash management program are sufficient to fund our short-term liquidity requirements, ongoing capital expenditures, required debt repayments and other financing needs such as capital contribution requests from our equity investments.

## SIGNATURES

The Partnership has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 13th day of August 2021.

TC PIPELINES, LP  
(A Delaware Limited Partnership)  
by its General Partner, TC PipeLines GP, Inc.

By: /s/ William C. Morris  
William C. Morris  
Vice President, Principal Financial Officer & Treasurer  
TC PipeLines GP, Inc.

By: /s/ Burton D. Cole  
Burton D. Cole  
Controller  
TC PipeLines GP, Inc.