

FIRST QUARTER 2020

## Condensed consolidated statement of income

(unaudited - millions of Canadian \$)	three months ended March 31	
	2020	2019
<b>Revenues</b>		
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
	<b>3,418</b>	<b>3,487</b>
<b>Income from Equity Investments</b>	<b>568</b>	<b>155</b>
<b>Operating and Other Expenses</b>		
Plant operating costs and other	920	929
Commodity purchases resold	—	252
Property taxes	176	187
Depreciation and amortization	630	608
	<b>1,726</b>	<b>1,976</b>
<b>Loss on Assets Held for Sale</b>	<b>(116)</b>	<b>—</b>
<b>Financial Charges</b>		
Interest expense	578	621
Allowance for funds used during construction	(82)	(139)
Interest income and other	528	(163)
	<b>1,024</b>	<b>319</b>
<b>Income before Income Taxes</b>	<b>1,120</b>	<b>1,347</b>
<b>Income Tax (Recovery)/Expense</b>		
Current	91	160
Deferred	(255)	71
	<b>(164)</b>	<b>231</b>
<b>Net Income</b>	<b>1,284</b>	<b>1,116</b>
Net income attributable to non-controlling interests	96	101
<b>Net Income Attributable to Controlling Interests and to Common Shares</b>	<b>1,188</b>	<b>1,015</b>

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated statement of comprehensive income

(unaudited - millions of Canadian \$)	three months ended March 31	
	2020	2019
<b>Net Income</b>	<b>1,284</b>	1,116
<b>Other Comprehensive Income/(Loss), Net of Income Taxes</b>		
Foreign currency translation gains and losses on net investment in foreign operations	<b>1,702</b>	(370)
Change in fair value of net investment hedges	<b>(92)</b>	20
Change in fair value of cash flow hedges	<b>(495)</b>	(17)
Reclassification to net income of gains and losses on cash flow hedges	<b>4</b>	3
Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans	<b>(7)</b>	3
Other comprehensive income on equity investments	<b>4</b>	1
Other comprehensive income/(loss)	<b>1,116</b>	(360)
<b>Comprehensive Income</b>	<b>2,400</b>	756
Comprehensive income attributable to non-controlling interests	<b>230</b>	61
<b>Comprehensive Income Attributable to Controlling Interests and to Common Shares</b>	<b>2,170</b>	695

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated statement of cash flows

(unaudited - millions of Canadian \$)	three months ended March 31	
	2020	2019
<b>Cash Generated from Operations</b>		
Net income	1,284	1,116
Depreciation and amortization	630	608
Deferred income taxes	(255)	71
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	(355)	137
Net cash provided by operations	1,738	1,909
<b>Investing Activities</b>		
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)
<b>Financing Activities</b>		
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)
Advances from affiliate	37	60
Dividends on common shares	(704)	(634)
Distributions to non-controlling interests	(55)	(56)
Common shares issued	—	214
Net cash provided by financing activities	1,134	752
<b>Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>105</b>	<b>(7)</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>559</b>	<b>417</b>
<b>Cash and Cash Equivalents</b>		
Beginning of period	1,299	362
<b>Cash and Cash Equivalents</b>		
End of period	1,858	779

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated balance sheet

(unaudited - millions of Canadian \$)	March 31, 2020	December 31, 2019	
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	1,858	1,299	
Accounts receivable	2,358	2,445	
Inventories	430	452	
Assets held for sale	2,807	2,807	
Other	1,491	627	
	<b>8,944</b>	7,630	
<b>Plant, Property and Equipment</b>	net of accumulated depreciation of \$28,581 and \$27,318, respectively	72,273	65,489
<b>Loan Receivable from Affiliate</b>	1,257	1,434	
<b>Equity Investments</b>	7,005	6,506	
<b>Restricted Investments</b>	1,575	1,557	
<b>Regulatory Assets</b>	1,687	1,587	
<b>Goodwill</b>	14,037	12,887	
<b>Intangible and Other Assets</b>	990	2,151	
	<b>107,768</b>	99,241	
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Notes payable	7,561	4,300	
Accounts payable and other	5,045	4,545	
Dividends payable	761	704	
Due to affiliate	3,929	3,892	
Accrued interest	631	613	
Current portion of long-term debt	3,503	2,705	
	<b>21,430</b>	16,759	
<b>Regulatory Liabilities</b>	3,883	3,772	
<b>Other Long-Term Liabilities</b>	2,365	1,614	
<b>Deferred Income Tax Liabilities</b>	5,828	5,703	
<b>Long-Term Debt</b>	34,816	34,280	
<b>Junior Subordinated Notes</b>	9,257	8,614	
	<b>77,579</b>	70,742	
<b>Redeemable Non-Controlling Interest</b>	102	—	
<b>EQUITY</b>			
Common shares, no par value	23,531	23,531	
Issued and outstanding:	March 31, 2020 – 902 million shares	December 31, 2019 – 902 million shares	
Additional paid-in capital	35	32	
Retained earnings	5,288	4,861	
Accumulated other comprehensive loss	(577)	(1,559)	
<b>Controlling Interests</b>	28,277	26,865	
Non-controlling interests	1,810	1,634	
	<b>30,087</b>	28,499	
	<b>107,768</b>	99,241	

**Contingencies and Guarantees** (Note 12)**Variable Interest Entities** (Note 14)**Subsequent Events** (Note 15)

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated statement of equity

(unaudited - millions of Canadian \$)	three months ended March 31	
	2020	2019
<b>Common Shares</b>		
Balance at beginning of period	23,531	22,606
Proceeds from shares issued	—	214
Balance at end of period	23,531	22,820
<b>Additional Paid-In Capital</b>		
Balance at beginning of period	32	20
Issuance of stock options	3	3
Balance at end of period	35	23
<b>Retained Earnings</b>		
Balance at beginning of period	4,861	3,613
Net income attributable to controlling interests	1,188	1,015
Common share dividends	(761)	(693)
Balance at end of period	5,288	3,935
<b>Accumulated Other Comprehensive Loss</b>		
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)
<b>Equity Attributable to Controlling Interests</b>	<b>28,277</b>	<b>25,852</b>
<b>Equity Attributable to Non-Controlling Interests</b>		
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
<b>Total Equity</b>	<b>30,087</b>	<b>27,512</b>

See accompanying notes to the Condensed consolidated financial statements.

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## Notes to Condensed consolidated financial statements (unaudited)

### 1. Basis of presentation

These Condensed consolidated financial statements of TransCanada PipeLines Limited (TCPL or the Company) have been prepared by management in accordance with U.S. GAAP. The accounting policies applied are consistent with those outlined in TCPL'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.

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. 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, TCPL 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.

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## 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 11, 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.

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**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**

<b>three months ended March 31, 2020</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Corporate<sup>1</sup></b>	<b>Total</b>
Revenues	1,032	1,355	242	677	112	—	3,418
Intersegment revenues	—	42	—	—	7	(49) <sup>2</sup>	—
	1,032	1,397	242	677	119	(49)	3,418
Income from equity investments	3	74	40	20	128	303 <sup>3</sup>	568
Plant operating costs and other	(366)	(363)	(13)	(178)	(47)	47 <sup>2</sup>	(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)
<b>Segmented Earnings</b>	<b>291</b>	<b>838</b>	<b>239</b>	<b>411</b>	<b>64</b>	<b>301</b>	<b>2,144</b>
Interest expense							(578)
Allowance for funds used during construction							82
Interest income and other <sup>3</sup>							(528)
<b>Income before Income Taxes</b>							<b>1,120</b>
Income tax recovery							164
<b>Net Income</b>							<b>1,284</b>
Net income attributable to non-controlling interests							(96)
<b>Net Income Attributable to Controlling Interests and to Common Shares</b>							<b>1,188</b>

1 Includes intersegment eliminations.

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

3 Income from equity investments includes the Company's proportionate share of Sur de Texas foreign exchange gains on the peso-denominated loans from affiliates which are fully offset in Interest income and other. Refer to Note 11, Risk management and financial instruments, for additional information.



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three months ended March 31, 2019 (unaudited - millions of Canadian \$)	Canadian Natural Gas Pipelines	U.S. Natural Gas Pipelines	Mexico Natural Gas Pipelines	Liquids Pipelines	Power and Storage	Corporate <sup>1</sup>	Total
Revenues	967	1,304	152	728	336	—	3,487
Intersegment revenues	—	42	—	—	5	(47) <sup>2</sup>	—
	967	1,346	152	728	341	(47)	3,487
Income/(loss) from equity investments	1	76	6	14	72	(14) <sup>3</sup>	155
Plant operating costs and other	(343)	(362)	(12)	(166)	(88)	42 <sup>2</sup>	(929)
Commodity purchases resold	—	—	—	—	(252)	—	(252)
Property taxes	(69)	(88)	—	(28)	(2)	—	(187)
Depreciation and amortization	(287)	(180)	(30)	(88)	(23)	—	(608)
<b>Segmented Earnings/(Losses)</b>	269	792	116	460	48	(19)	1,666
Interest expense							(621)
Allowance for funds used during construction							139
Interest income and other <sup>3</sup>							163
<b>Income before Income Taxes</b>							1,347
Income tax expense							(231)
<b>Net Income</b>							1,116
Net income attributable to non-controlling interests							(101)
<b>Net Income Attributable to Controlling Interests and to Common Shares</b>							1,015

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 11, 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	5,940	4,705
	<b>107,768</b>	<b>99,241</b>

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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:

<b>three months ended March 31, 2020</b>	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Total</b>
(unaudited - millions of Canadian \$)						
Revenues from contracts with customers						
Capacity arrangements and transportation	1,032	1,158	152	582	—	2,924
Power generation	—	—	—	—	57	57
Natural gas storage and other <sup>1</sup>	—	178	90	1	21	290
	1,032	1,336	242	583	78	3,271
Other revenues <sup>2,3</sup>	—	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 TCPL.

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 11, 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.

<b>three months ended March 31, 2019</b>	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Power and Storage</b>	<b>Total</b>
(unaudited - millions of Canadian \$)						
Revenues from contracts with customers						
Capacity arrangements and transportation	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 <sup>1,2</sup>	—	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 11, 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	<b>1,418</b>	1,458	Accounts receivable
Contract assets	<b>272</b>	153	Other current assets
Long-term contract assets	<b>95</b>	102	Intangible and other assets
Contract liabilities <sup>1</sup>	<b>41</b>	61	Accounts payable and other
Long-term contract liabilities	<b>303</b>	226	Other long-term liabilities

<sup>1</sup> 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.

TCPL 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 \$)	
<b>Assets Held for Sale</b>	
Inventories	<b>13</b>
Other current assets	<b>2</b>
Plant, property and equipment	<b>2,504</b>
Equity investments	<b>272</b>
Intangible and other assets	<b>16</b>
<b>Total Assets Held for Sale</b>	<b>2,807</b>
<b>Liabilities Related to Assets Held for Sale</b>	
Other long-term liabilities	<b>(16)</b>
<b>Total Liabilities Related to Assets Held for Sale<sup>1</sup></b>	<b>(16)</b>

<sup>1</sup> Included in Accounts payable and other on the Condensed consolidated balance sheet.

On April 29, 2020, TCPL 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
<b>TRANSCANADA PIPELINES LIMITED</b> <sup>1</sup>				
	March 2020	Senior Unsecured Notes	US 750	4.60%

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

### CAPITALIZED INTEREST

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

## 8. Redeemable non-controlling interest

On March 31, 2020, TCPL 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 TCPL. 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 TCPL'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 TCPL 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. 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:

<b>three months ended March 31, 2020</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation gains on net investment in foreign operations	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
<b>Other Comprehensive Income</b>	<b>834</b>	<b>282</b>	<b>1,116</b>

<b>three months ended March 31, 2019</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation losses on net investment in foreign operations	(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
<b>Other Comprehensive Loss</b>	<b>(350)</b>	<b>(10)</b>	<b>(360)</b>

The changes in AOCI by component are as follows:

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

- 1 All amounts are net of tax. Amounts in parentheses indicate losses recorded to OCI.
- 2 Other comprehensive income/(loss) before reclassifications on currency translation adjustments, cash flow hedges and equity investments are net of non-controlling interest gains of \$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.

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

(unaudited - millions of Canadian \$)	Amounts Reclassified From AOCI		Affected line item in the Condensed consolidated statement of income
	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 <sup>1,3</sup>
Pension and other post-retirement benefit plan adjustments			
Amortization of actuarial gains/(losses)	9	(4)	Plant operating costs and other <sup>2</sup>
	(2)	1	Income tax (recovery)/expense
	7	(3)	Net of tax <sup>1</sup>
Equity investments			
Equity income	(4)	(3)	Income from equity investments
	1	—	Income tax (recovery)/expense
	(3)	(3)	Net of tax <sup>1,3</sup>

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 10, 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).

## 10. 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 <sup>1</sup>	38	33	1	1
Other components of net benefit cost <sup>1</sup>				
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
<b>Net Benefit Cost</b>	<b>27</b>	<b>16</b>	<b>2</b>	<b>2</b>

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

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## 11. Risk management and financial instruments

### RISK MANAGEMENT OVERVIEW

TCPL 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

TCPL'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 TCPL's customers. While the majority of the Company's credit exposure is to large creditworthy entities, TCPL has increased its monitoring of and communication with those counterparties experiencing greater financial pressures due to recent market volatility. Refer to TCPL's 2019 audited Consolidated financial statements 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. TCPL 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.

### LOAN RECEIVABLE FROM AFFILIATE

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 TCPL'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.



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**NET INVESTMENT IN FOREIGN OPERATIONS**

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

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

(unaudited - millions of Canadian \$, unless otherwise noted)	March 31, 2020		December 31, 2019	
	Fair value <sup>1,2</sup>	Notional amount	Fair value <sup>1,2</sup>	Notional amount
U.S. dollar cross-currency swaps (maturing 2020 to 2025)	(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)

**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, Due to affiliate, 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.

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**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 <sup>1,2</sup>	(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)

- 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.
- 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 <sup>1</sup>	LMCI restricted investments	Other restricted investments <sup>1</sup>
Fair values of fixed income securities <sup>2,3</sup>				
Maturing within 1 year	—	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 <sup>2,4</sup>	572	—	556	—
	1,466	94	1,444	106

- Other restricted investments have been set aside to fund insurance claim losses to be paid by the Company's wholly-owned captive insurance subsidiary.
- 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.
- Classified in Level II of the fair value hierarchy.
- Classified in Level I of the fair value hierarchy.

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

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

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## 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:

<b>at March 31, 2020</b>					
(unaudited - millions of Canadian \$)	Cash Flow Hedges	Fair Value Hedges	Net Investment Hedges	Held for Trading	Total Fair Value of Derivative Instruments <sup>1</sup>
Other current assets					
Commodities <sup>2</sup>	2	—	—	816	818
Foreign exchange	—	—	4	2	6
	2	—	4	818	824
Intangible and other assets					
Commodities <sup>2</sup>	—	—	—	1	1
Foreign exchange	—	—	3	—	3
	—	—	3	1	4
<b>Total Derivative Assets</b>	<b>2</b>	<b>—</b>	<b>7</b>	<b>819</b>	<b>828</b>
Accounts payable and other					
Commodities <sup>2</sup>	(1)	—	—	(743)	(744)
Foreign exchange	—	—	(68)	(216)	(284)
Interest rate <sup>3</sup>	(36)	—	—	—	(36)
	(37)	—	(68)	(959)	(1,064)
Other long-term liabilities					
Commodities <sup>2</sup>	(4)	—	—	(6)	(10)
Foreign exchange	—	—	(49)	—	(49)
Interest rate <sup>3</sup>	(688)	—	—	—	(688)
	(692)	—	(49)	(6)	(747)
<b>Total Derivative Liabilities</b>	<b>(729)</b>	<b>—</b>	<b>(117)</b>	<b>(965)</b>	<b>(1,811)</b>
<b>Total Derivatives</b>	<b>(727)</b>	<b>—</b>	<b>(110)</b>	<b>(146)</b>	<b>(983)</b>

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

1 Fair value equals carrying value.

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

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

### Derivatives in fair value hedging relationships

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

(unaudited - millions of Canadian \$)	<b>Carrying amount</b>		<b>Fair value hedging adjustments<sup>1</sup></b>	
	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
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:

<b>at March 31, 2020</b> (unaudited)	<b>Power</b>	<b>Natural Gas</b>	<b>Liquids</b>	<b>Foreign Exchange</b>	<b>Interest Rate</b>
Purchases <sup>1</sup>	451	18	48	—	—
Sales <sup>1</sup>	2,088	23	60	—	—
Millions of Canadian dollars <sup>2</sup>	—	—	—	—	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.

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

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

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

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

(unaudited - millions of Canadian \$)	<b>three months ended March 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Derivative Instruments Held for Trading<sup>1</sup></b>		
Amount of unrealized gains/(losses) in the period		
Commodities <sup>2</sup>	66	(88)
Foreign exchange	(272)	120
Amount of realized gains/(losses) in the period		
Commodities	36	107
Foreign exchange	(12)	(29)
<b>Derivative Instruments in Hedging Relationships</b>		
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 9) 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 <sup>1</sup>		
Commodities	4	(3)
Interest rate	(660)	(19)
	<b>(656)</b>	<b>(22)</b>

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
<b>Fair Value Hedges</b>		
Interest rate contracts <sup>1</sup>		
Hedged items	(3)	(6)
Derivatives designated as hedging instruments	1	(1)
<b>Cash Flow Hedges</b>		
Reclassification of (losses)/gains on derivative instruments from AOCI to net income <sup>2,3</sup>		
Interest rate contracts <sup>1</sup>	(3)	(4)
Commodity contracts <sup>4</sup>	(2)	—

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

2 Refer to Note 9, 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. TCPL has no master netting agreements, however, similar contracts are entered into containing rights to offset. The Company has elected to present the fair value of derivative instruments with the right to offset on a gross basis on the Condensed consolidated balance sheet. The following table shows the impact on the presentation of the fair value of derivative instrument assets and liabilities had the Company elected to present these contracts on a net basis:

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

<sup>1</sup> Amounts available for offset do not include cash collateral pledged or received.

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

<sup>1</sup> 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:

<b>at March 31, 2020</b>				
(unaudited - millions of Canadian \$)	Quoted prices in active markets (Level I)	Significant other observable inputs (Level II) <sup>1</sup>	Significant unobservable inputs (Level III) <sup>1</sup>	Total
Derivative instrument assets				
Commodities	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)

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

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

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

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

(unaudited - millions of Canadian \$)	three months ended March 31	
	2020	2019
Balance at beginning of period	(7)	(4)
Total gains included in Net income	4	—
<b>Balance at end of period<sup>1</sup></b>	<b>(3)</b>	<b>(4)</b>

<sup>1</sup> 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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## 12. Contingencies and guarantees

### CONTINGENCIES

TCPL 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, TCPL 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.

TCPL 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.

TCPL 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 TCPL 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 <sup>1</sup>	Carrying value	Potential exposure <sup>1</sup>	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
		<b>607</b>	<b>37</b>	597	37

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

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### 13. Related party transactions

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

The following amounts are included in Due to affiliate:

(unaudited - millions of Canadian \$)	Maturity Date	2020		2019	
		Outstanding March 31	Effective Interest Rate	Outstanding December 31	Effective Interest Rate
Credit Facility <sup>1</sup>	Demand	3,929	—%	3,892	—%

<sup>1</sup> TCPL has an unsecured \$4.5 billion credit facility with TC Energy Corporation (TC Energy). Interest on this facility was charged at prime rate per annum until November 28, 2019 when TC Energy and TCPL agreed to advance funds on a non-interest bearing basis.

In the three months ended March 31, 2020, there were no interest charges as a result of inter-affiliate borrowing (March 31, 2019 – \$35 million).

At March 31, 2020, Accounts payable and other included \$1 million due to TC Energy (December 31, 2019 – \$20 million). In the three months ended March 31, 2020, the Company made no interest payments to TC Energy (March 31, 2019 – \$36 million).

### 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:

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

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
<b>Balance sheet</b>		
Equity investments <sup>1</sup>	4,814	4,720
<b>Off-balance sheet</b>		
Potential exposure to guarantees	465	466
<b>Maximum exposure to loss</b>	<b>5,279</b>	<b>5,186</b>

<sup>1</sup> 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.

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## 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, TCPL 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.