

Q3 2026 REPORT



SOUTHBOW

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NEWS RELEASE

SOUTH BOW REPORTS THIRD-QUARTER 2026 RESULTS, PROVIDES 2027 OUTLOOK, AND DECLARES DIVIDEND

CALGARY, Alta. – Nov. 4, 2026 – South Bow Corp. (TSX & NYSE: SOBO) (South Bow or the Company) reports its third-quarter 2026 financial and operational results and provides its 2027 outlook. Unless otherwise noted, all financial figures in this news release are presented in U.S. dollars.

Highlights

Safety and operational performance

- Recorded third-quarter 2026 average throughput of approximately 586,000 barrels per day (bbl/d) on the Keystone Pipeline. Average throughput on the U.S. Gulf Coast segment of the Keystone Pipeline System was approximately 663,000 bbl/d, with pricing differentials tightening and demand for capacity moderating as the disruptions to global crude oil trade flows observed in the second quarter of 2026 eased.
    - Throughput on the Keystone Pipeline and the U.S. Gulf Coast segment of the Keystone Pipeline System averaged approximately 599,000 bbl/d and 724,000 bbl/d, respectively, for the nine months ended Sept. 30, 2026.
- Continued to advance remedial actions related to the Milepost 171 (MP-171) incident, including in-line inspections and integrity digs, while continuing to work closely with the Company's in-line inspection technology vendors. Findings from these activities are being incorporated into the Company's remedial work plan, which the Pipeline and Hazardous Materials Safety Administration approved in the third quarter of 2026. Following internal engineering reviews, South Bow began lifting pressure restrictions on certain segments of the Keystone Pipeline.
- During the third quarter of 2026, South Bow experienced a tragic contractor fatality at its Cushing, Okla. facility. The loss was deeply felt across the organization and reinforced South Bow's commitment to protecting the health and safety of everyone who works on or around its assets. The incident remains under investigation.

Financial performance

- Delivered third-quarter 2026 financial results reflecting tighter pricing differentials and moderated demand for capacity on the U.S. Gulf Coast segment of the Keystone Pipeline System compared to the second quarter of 2026.
    - Generated revenue of $503 million and net income of $99 million ($0.47/share).
        - For the nine months ended Sept. 30, 2026, revenue was $1,540 million and net income was $310 million ($1.49/share).
    - Recorded normalized earnings before interest, income taxes, depreciation, and amortization (normalized EBITDA)[1] of $248 million, in line with expectations and down 11% from the second quarter of 2026.
        - For the nine months ended Sept. 30, 2026, normalized EBITDA was $785 million.
    - Reported distributable cash flow[1] of $187 million, up 7% from the second quarter of 2026, supported by a one-time favourable current income tax adjustment.

[1] Non-GAAP financial measure or non-GAAP ratio that does not have a standardized meaning under generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other entities. See *"Specified financial measures"* in this news release.

    - For the nine months ended Sept. 30, 2026, distributable cash flow was $530 million.

- Continued to advance the Company's deleveraging priority, with total long-term debt and net debt[1] of $5.4 billion and $4.4 billion, respectively, at the end of the third quarter of 2026. As at Sept. 30, 2026, the Company's net debt-to-normalized EBITDA ratio[1] was 4.3 times, down from 4.4 times as at June 30, 2026.

    - Repurchased and extinguished $320 million aggregate principal amount of U.S. dollar-denominated senior unsecured notes for cash consideration of $314 million during the third quarter of 2026.

Returns to shareholders

- Returned $104 million or $0.50/share to shareholders in the third quarter of 2026 through South Bow's sustainable dividend.
- Declared a quarterly dividend of $0.50/share, payable on Jan. 15, 2027, to shareholders of record at the close of business on Dec. 31, 2026. The dividend will be designated as an eligible dividend for Canadian income tax purposes.

Corporate updates

- South Bow's board of directors (the Board) has approved the Company's 2027 budget, with a continued focus on advancing its growth strategy, strengthening its financial position, and delivering strong and sustainable returns to shareholders. Normalized EBITDA is projected to be approximately $1,070 million, within a range of 2%. See *"Outlook"* in this news release for additional details.
- Increased 2026 distributable cash flow guidance by 4% to $690 million, within a range of 2%, primarily reflecting lower-than-expected current income taxes. Reaffirmed all other 2026 financial guidance, including normalized EBITDA of $1,040 million, within a range of 2% at the upper end and 1% at the lower end. See *"Outlook"* in this news release for additional details.
- Continued execution planning, permitting activities, and stakeholder engagement across the Company's growth initiatives, including South Bow's proposed Prairie Connector project and the jointly proposed Liberty Bridge Pipeline project with Bridger Pipeline LLC (Bridger), which are advancing as planned toward a targeted mid-2027 final investment decision (FID). See *"Growth initiatives"* in this news release for additional details.
- Published South Bow's inaugural 2025 Sustainability Report, providing an overview of the Company's sustainability approach, priorities, and performance. The report is available on South Bow's website at www.southbow.com.

South Bow's unaudited consolidated interim financial statements and notes (the financial statements) as at and for the three and nine months ended Sept. 30, 2026, and related management's discussion and analysis (the Q3 2026 MD&A) are available on South Bow's website at www.southbow.com, under South Bow's SEDAR+ profile at www.sedarplus.ca, and in South Bow's filings with the U.S. Securities and Exchange Commission (SEC) at www.sec.gov. Certain disclosure within *"Specified Financial Measures"* in the Q3 2026 MD&A is incorporated by reference into this news release.

Financial and operational results

$ millions, unless otherwise noted	Three Months Ended			Nine Months Ended	
	June 30, 2026	**Sept. 30, 2026**	Sept. 30, 2025	**Sept. 30, 2026**	Sept. 30, 2025
FINANCIAL RESULTS					
Revenue	546	**503**	461	**1,540**	1,483
Income from equity investments	14	**13**	12	**40**	38
Net income	134	**99**	93	**310**	277
Per share [1]	0.64	**0.47**	0.45	**1.49**	1.33
Normalized net income [2]	104	**99**	99	**295**	284
Per share [1 2]	0.50	**0.47**	0.47	**1.41**	1.36
Income before income taxes	174	**108**	104	**382**	344
Normalized EBITDA [2]	280	**248**	254	**785**	770
Keystone Pipeline System	259	**234**	260	**726**	729
Marketing	2	**(3)**	(17)	**8**	(2)
Intra-Alberta & Other	19	**17**	11	**51**	43
Distributable cash flow [2]	175	**187**	236	**530**	560
Dividends declared	104	**104**	104	**312**	312
Per share [1]	0.50	**0.50**	0.50	**1.50**	1.50
Total capital expenditures [3]	13	**13**	39	**34**	146
Total long-term debt	5,734	**5,416**	5,751	**5,416**	5,751
Net debt [2 4]	4,594	**4,440**	4,836	**4,440**	4,836
Net debt-to-normalized EBITDA (ratio) [2]	4.4	**4.3**	4.6	**4.3**	4.6
Common shares outstanding, weighted average diluted (millions)	208.8	**208.8**	208.8	**208.7**	208.7
Common shares outstanding (millions)	208.6	**208.7**	208.3	**208.7**	208.3
OPERATIONAL RESULTS					
Keystone Pipeline System Operating Factor (SOF) (%) [5]	93	**95**	92	**95**	94
Keystone Pipeline throughput (Mbbl/d)	596	**586**	584	**599**	580
U.S. Gulf Coast segment of Keystone Pipeline System throughput (Mbbl/d) [6]	800	**663**	703	**724**	730
Marketlink throughput (Mbbl/d)	642	**513**	547	**564**	574

1. Per-share amounts, with the exception of dividends, are based on weighted average diluted common shares outstanding.
2. Non-GAAP financial measure or non-GAAP ratio that does not have a standardized meaning under GAAP and may not be comparable to similar measures presented by other entities. See *"Specified financial measures"* in this news release.
3. Supplementary financial measure. See *"Specified Financial Measures"* in the Q3 2026 MD&A, certain information from which is incorporated by reference into this news release.
4. Includes 50% equity treatment of South Bow's junior subordinated notes.
5. SOF measures South Bow's ability to deliver crude oil at the planned maximum rate of the Keystone Pipeline.
6. Comprises throughput originating in Hardisty, Alta. transported on the Keystone Pipeline, and throughput originating in Cushing, Okla. transported on Marketlink for destination in the U.S. Gulf Coast.

Growth initiatives

- South Bow remains focused on its growth strategy, including its proposed Prairie Connector project and the joint development of the proposed Liberty Bridge Pipeline project with Bridger. The projects are advancing as planned toward a targeted mid-2027 FID.
- Key activities that remain underway include advancing permitting and land acquisitions, pursuing government assurances related to permit durability, progressing execution planning, refining cost estimates, engaging with communities, landowners, Indigenous and Tribal Nations, and other stakeholders, and evaluating financing alternatives.

- As development activities progress, South Bow and Bridger remain focused on securing the regulatory certainty and permit durability required to support the FID. Any FID will remain subject to the successful completion of these activities and will be evaluated in accordance with South Bow's risk preferences and capital allocation framework.
- South Bow expects its share of total pre-FID development costs to be approximately $65 million in 2026 and approximately $65 million in 2027. The Company will evaluate accelerating certain pre-FID development spending as greater regulatory certainty and permit durability are achieved.
- South Bow continues to evaluate select organic and inorganic growth opportunities that would strengthen the competitiveness of its base business and further diversify its portfolio.

Outlook

Market outlook

- South Bow expects Western Canadian Sedimentary Basin (WCSB) crude oil supply to remain below total pipeline egress capacity in the near term, with supply growth anticipated to outpace incremental egress additions in 2027. This shift is expected to support wider pricing differentials and increased demand for uncommitted capacity on the Keystone Pipeline.
- Crude oil inventories in Cushing, Okla. remain low, contributing to relatively tight pricing differentials to the U.S. Gulf Coast. These market conditions are expected to remain volatile through 2027, potentially tempering demand for uncommitted capacity on the U.S. Gulf Coast segment of the Keystone Pipeline System.

Guidance

- South Bow's annual guidance aims to inform readers about Management's expectations for 2026 and 2027 financial and operational results. Readers are cautioned that these estimates may not be suitable for any other purpose. See *"Forward-looking information and statements"* in this news release for additional information regarding factors that could cause actual events to differ materially from those anticipated.

2026 guidance

- South Bow is reaffirming its 2026 normalized EBITDA guidance of $1,040 million, within a range of 2% at the upper end and 1% at the lower end.
- South Bow is increasing its 2026 distributable cash flow guidance by 4% to $690 million, within a range of 2%, reflecting lower-than-expected current income taxes.
- All other 2026 guidance items remain unchanged.

South Bow's updated 2026 annual guidance and results for the nine months ended Sept. 30, 2026 are outlined below:

$ millions, except percentages	2026 Guidance [1 2] (Aug. 2026)	2026 Guidance [2] (Nov. 2026)	2026 YTD Actuals [3]
Normalized EBITDA [4]	1,040 +2% / -1%	**1,040 +2% / -1%**	**785**
Financial charges [5]	315 +/- 2%	**315 +/- 2%**	**226**
Effective tax rate (%)	22% - 23%	**22% - 23%**	**19%**
Distributable cash flow [4]	665 +/- 2%	**690 +/- 2%**	**530**
Capital expenditures			
Growth [4 6 7]	80 +/- 10	**80 +/- 10**	**23**
Maintenance [4 6 8]	25 +/- 10	**25 +/- 10**	**12**

1. See South Bow's Aug. 5, 2026 news release *"South Bow Reports Second-quarter 2026 Results and Declares Dividend"*, available on South Bow's website at www.southbow.com, under South Bow's SEDAR+ profile at www.sedarplus.ca, and in South Bow's filings with the SEC at www.sec.gov.
2. Assumes average foreign exchange rate of C$/U.S.$1.39.
3. The historical results for the nine months ended Sept. 30, 2026 should not be relied upon as a basis for forecasting results for the year ended Dec. 31, 2026.
4. See the Company's MD&A for the year ended Dec. 31, 2025 for historical normalized EBITDA, distributable cash flow, growth capital expenditures, and maintenance capital expenditures. For such period, normalized EBITDA and distributable cash flow were $1,022 million and $709 million, respectively.
5. Comprised of interest expense and interest income and other.
6. Supplementary financial measure. See *"Specified Financial Measures"* in the Q3 2026 MD&A, certain information from which is incorporated by reference into this news release.
7. Includes approximately $65 million of anticipated pre-FID development costs associated with the proposed Prairie Connector and Liberty Bridge Pipeline projects, subject to development cost-sharing agreements with open season customers.
8. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

2027 guidance

- South Bow's financial outlook for 2027 is underpinned by the Company's highly contracted cash flows and structural demand for services. Normalized EBITDA is projected to be approximately $1,070 million, within a range of 2%, including increased contributions from the Blackrod Connection Project. The range primarily reflects variability in pricing differentials and the associated demand for uncommitted capacity on South Bow's pipeline systems, with tighter differentials contributing to the lower end of the range and wider differentials supporting the higher end. The majority of South Bow's normalized EBITDA is secured through committed arrangements that carry minimal commodity price or volumetric risk.
- South Bow anticipates that its 2027 financial charges will be approximately $300 million, within a range of 2%. The Company's effective tax rate is expected to range from 22% to 23%.
- Distributable cash flow is expected to be approximately $630 million, within a range of 4%, primarily reflecting higher expected current income taxes relative to 2026.
- South Bow plans to invest approximately $65 million in pre-FID development activities associated with the proposed Prairie Connector and Liberty Bridge Pipeline projects in 2027. The Company will evaluate accelerating certain pre-FID development spending as greater regulatory certainty and permit durability are achieved.
- 2027 maintenance capital expenditures are estimated to be approximately $40 million, within a range of $10 million, reflecting increased maintenance activity relative to 2026, including planned investments in operational systems and infrastructure. These expenditures are generally recoverable through South Bow's tolling arrangements.
- South Bow expects its net debt-to-normalized EBITDA ratio to decline modestly through 2027, reflecting continued progress on the Company's deleveraging priority.

South Bow's 2027 annual guidance is outlined below:

$ millions, except percentages	**2027 Guidance** [1]
Normalized EBITDA [2]	**1,070 +/- 2%**
Financial charges [3]	**300 +/- 2%**
Effective tax rate (%)	**22% - 23%**
Distributable cash flow [2]	**630 +/- 4%**
Capital expenditures	
Growth [2 4 5]	**65**
Maintenance [2 4 6]	**40 +/- 10**

1. Assumes average foreign exchange rate of C$/U.S.$1.39.
2. See the Company's MD&A for the year ended Dec. 31, 2025 for historical normalized EBITDA, distributable cash flow, growth capital expenditures, and maintenance capital expenditures. For such period, normalized EBITDA and distributable cash flow were $1,022 million and $709 million, respectively.
3. Comprised of interest expense and interest income and other.
4. Supplementary financial measure. See *"Specified Financial Measures"* in the Q3 2026 MD&A, certain information from which is incorporated by reference into this news release.
5. Includes approximately $65 million of anticipated pre-FID development costs associated with the proposed Prairie Connector and Liberty Bridge Pipeline projects, subject to development cost-sharing agreements with open season customers.
6. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

Capital allocation priorities

- South Bow takes a disciplined approach to capital allocation to preserve optionality and maximize total shareholder returns over the long term. The Company's capital allocation priorities are built on a foundation of financial strength and supported by South Bow's stable, predictable cash flows. South Bow's capital allocation priorities include:
  - paying a sustainable base dividend;
  - strengthening the Company's investment-grade financial position; and
  - leveraging existing infrastructure within South Bow's strategic corridor to offer customers competitive connections, enhanced optionality, and value chain expansions.

Organizational update

- Heather Krislock has been appointed Senior Vice President and Chief Operating Officer (COO), and Richard Prior has been appointed to the newly created role of Senior Vice President and Chief Commercial Officer (CCO), effective Oct. 19, 2026.
- Ms. Krislock is a professional engineer with 25 years of energy industry experience, including operational, technical, and commercial leadership experience at TC Energy Corp., Canadian Natural Resources Limited, and Devon Energy Corp. As COO, she will lead South Bow's safety, operations, and engineering functions.
- As CCO, Mr. Prior will lead South Bow's commercial, business development, and corporate development activities, with a focus on optimizing and growing the Company's asset base.

Conference call and webcast details

South Bow's senior leadership will host a conference call and webcast to discuss the Company's third-quarter 2026 results and 2027 outlook on Nov. 5, 2026 at 9 a.m. Alberta Time (10 a.m. Eastern Time).

Date	Nov. 5, 2026
Time	9 a.m. Alberta Time (10 a.m. Eastern Time)
Conference call link	https://register-conf.media-server.com/register/BIa7402a5cdcaa479db55c17f5398b28df
Webcast link	https://edge.media-server.com/mmc/p/n9ibtxdb

Register ahead of time to receive a unique PIN to access the conference call via telephone. Once registered, participants can dial into the conference call from their telephone via the unique PIN or click on the "Call Me" option to receive an automated call directly on their telephone.

Visit www.southbow.com/investors for the replay following the event.

Specified financial measures

Non-GAAP financial measures and non-GAAP ratios

In this news release, South Bow references certain non-GAAP financial measures and non-GAAP ratios that do not have standardized meanings under GAAP and may not be comparable to similar measures presented by other entities. These non-GAAP financial measures and non-GAAP ratios include adjustments to the composition of the most directly comparable GAAP measures. Management considers these non-GAAP financial measures and non-GAAP ratios to be important in evaluating and understanding the operational performance and liquidity of South Bow. These non-GAAP financial measures and non-GAAP ratios should not be considered in isolation or as a substitute for financial information or measures of performance presented in accordance with GAAP.

South Bow's non-GAAP financial measures used in this news release include:

- normalized EBITDA;
- segment normalized EBITDA;
- normalized net income;
- distributable cash flow; and
- net debt.

South Bow's non-GAAP ratios used in this news release include:

- normalized net income per share; and
- net debt-to-normalized EBITDA ratio.

These non-GAAP financial measures and non-GAAP ratios are further described below, with a reconciliation to their most directly comparable GAAP measure.

Normalizing items

Normalized measures are, or include, non-GAAP financial measures and non-GAAP ratios and include normalized EBITDA, segment normalized EBITDA, normalized net income, normalized net income per share, distributable cash flow, and net debt-to-normalized EBITDA ratio. Management uses these normalized measures to assess the financial performance of South Bow's operations and

compare period-over-period results. During certain reporting periods, the Company may incur costs that are not indicative of core operations or results. These normalized measures represent income (loss), adjusted for specific normalizing items that are believed to be significant; however, are not reflective of South Bow's underlying operations in the period.

These specific normalizing items include gains or losses on sales of assets or assets held for sale, unrealized fair value adjustments related to risk management activities, tariff charges, separation, acquisition, integration, and restructuring costs, and other charges, including but not limited to, impairment, contractual costs, preliminary costs associated with major business development projects, and settlements.

South Bow excludes the unrealized fair value adjustments related to risk management activities, as these represent the changes in the fair value of derivatives, but do not accurately reflect the gains and losses that will be realized at settlement and impact income. Therefore, South Bow does not consider these items reflective of the Company's underlying operations, despite providing effective economic hedges. Realized gains and losses on grade financial contracts are adjusted to improve comparability, as they settle in a subsequent period to the underlying transaction they are hedged against.

South Bow excludes tariff charges as they are not reflective of ongoing business conducted by the Company and are subject to uncertainty.

Separation costs relate to internal costs and external fees incurred in connection with the spinoff from TC Energy Corp. on Oct. 1, 2024. These items have been excluded from normalized measures, as Management does not consider them reflective of ongoing operations and they are non-recurring in nature.

Business development projects represent initial expenditures incurred by the Company for the evaluation of future growth projects. These costs have been excluded from normalized measures, as Management does not consider them reflective of ongoing operations conducted by the Company.

Normalized EBITDA and segment normalized EBITDA

Normalized EBITDA and segment normalized EBITDA are used as measures of earnings from ongoing operations. Management uses these measures to monitor and evaluate the financial performance of the Company's operations and to identify and evaluate trends. These measures are useful for investors as they allow for a more accurate comparison of financial performance of the Company across periods for ongoing operations. Normalized EBITDA and segment normalized EBITDA represent income (loss) before income taxes, adjusted for the normalizing items described above under the heading *"Normalizing items"*, in addition to excluding charges for depreciation and amortization, interest expense, interest income and other, and other income.

Normalized EBITDA guidance is a forward-looking non-GAAP financial measure. South Bow does not provide a reconciliation of such forward-looking measures to the most directly comparable financial measure calculated and presented in accordance with GAAP due to unknown variables and the uncertainty related to future results. These unknown variables may be inherently difficult to determine without unreasonable efforts. Guidance for normalized EBITDA is calculated in the same manner as described above for historical normalized EBITDA.

The following table reconciles income (loss) before income taxes to normalized EBITDA for the indicated periods:

	Three Months Ended			Nine Months Ended	
$ millions	June 30, 2026	**Sept. 30, 2026**	Sept. 30, 2025	**Sept. 30, 2026**	Sept. 30, 2025
Income before income taxes	174	**108**	104	**382**	344
Adjusted for specific items:					
Depreciation and amortization	65	**62**	64	**191**	189
Interest expense	84	**86**	84	**254**	248
Interest income and other	(5)	**(12)**	(9)	**(28)**	(23)
Other income	—	**—**	(20)	**—**	(20)
Risk management instruments	(37)	**7**	(16)	**2**	(25)
Keystone variable toll disputes	—	**—**	43	**(18)**	43
Separation costs	—	**—**	2	**1**	8
Business development projects	—	**1**	—	**6**	—
Tariff charges	—	**—**	—	**—**	1
Keystone XL costs and other	(1)	**(4)**	2	**(5)**	5
Normalized EBITDA	280	**248**	254	**785**	770

The following tables reconcile income (loss) before income taxes to normalized EBITDA by operating segment for the indicated periods:

	Three Months Ended June 30, 2026			
$ millions	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	202	41	(69)	174
Adjusted for specific items:				
Depreciation and amortization	60	—	5	65
Interest expense	—	—	84	84
Interest income and other	(2)	(2)	(1)	(5)
Other income	—	—	—	—
Risk management instruments	—	(37)	—	(37)
Keystone variable toll disputes	—	—	—	—
Separation costs	—	—	—	—
Business development projects	—	—	—	—
Tariff charges	—	—	—	—
Keystone XL costs and other	(1)	—	—	(1)
Segment normalized EBITDA	259	2	19	280

$ millions	Three Months Ended Sept. 30, 2026 Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	**179**	**(10)**	**(61)**	**108**
Adjusted for specific items:				
Depreciation and amortization	**59**	**—**	**3**	**62**
Interest expense	**2**	**—**	**84**	**86**
Interest income and other	**(2)**	**—**	**(10)**	**(12)**
Other income	**—**	**—**	**—**	**—**
Risk management instruments	**—**	**7**	**—**	**7**
Keystone variable toll disputes	**—**	**—**	**—**	**—**
Separation costs	**—**	**—**	**—**	**—**
Business development projects	**—**	**—**	**1**	**1**
Tariff charges	**—**	**—**	**—**	**—**
Keystone XL costs and other	**(4)**	**—**	**—**	**(4)**
Segment normalized EBITDA	**234**	**(3)**	**17**	**248**

$ millions	Three Months Ended Sept. 30, 2025 Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	178	1	(75)	104
Adjusted for specific items:				
Depreciation and amortization	60	—	4	64
Interest expense	1	—	83	84
Interest income and other	(4)	(2)	(3)	(9)
Other income	(20)	—	—	(20)
Risk management instruments	—	(16)	—	(16)
Keystone variable toll disputes	43	—	—	43
Separation costs	—	—	2	2
Business development projects	—	—	—	—
Tariff charges	—	—	—	—
Keystone XL costs and other	2	—	—	2
Segment normalized EBITDA	260	(17)	11	254

$ millions	Nine Months Ended Sept. 30, 2026 Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	**578**	**9**	**(205)**	**382**
Adjusted for specific items:				
Depreciation and amortization	**179**	**—**	**12**	**191**
Interest expense	**2**	**—**	**252**	**254**
Interest income and other	**(10)**	**(3)**	**(15)**	**(28)**
Other income	**—**	**—**	**—**	**—**
Risk management instruments	**—**	**2**	**—**	**2**
Keystone variable toll disputes	**(18)**	**—**	**—**	**(18)**
Separation costs	**—**	**—**	**1**	**1**
Business development projects	**—**	**—**	**6**	**6**
Tariff charges	**—**	**—**	**—**	**—**
Keystone XL costs and other	**(5)**	**—**	**—**	**(5)**
Segment normalized EBITDA	**726**	**8**	**51**	**785**

$ millions	Nine Months Ended Sept. 30, 2025 Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	530	24	(210)	344
Adjusted for specific items:				
Depreciation and amortization	178	—	11	189
Interest expense	1	—	247	248
Interest income and other	(8)	(2)	(13)	(23)
Other income	(20)	—	—	(20)
Risk management instruments	—	(25)	—	(25)
Keystone variable toll disputes	43	—	—	43
Separation costs	—	—	8	8
Business development projects	—	—	—	—
Tariff charges	—	1	—	1
Keystone XL costs and other	5	—	—	5
Segment normalized EBITDA	729	(2)	43	770

Normalized net income and normalized net income per share

Normalized net income represents net income adjusted for the normalizing items described above under the heading *"Normalizing items"* and is used by Management to assess the earnings that it believes are representative of South Bow's operations. By adjusting for non-recurring items and other factors that do not reflect the Company's ongoing performance, normalized net income provides a clearer picture of the Company's continuing operations. This measure is particularly useful for investors as it allows for a more accurate comparison of financial performance and trends across different periods. On a per-share basis, normalized net income is derived by dividing the normalized net income by the weighted average diluted common shares outstanding at the end of the period. Management believes this per-share measure is valuable for investors as it provides insight into South Bow's profitability on a per-share basis, assisting in evaluating the Company's performance.

The following table reconciles net income to normalized net income for the indicated periods:

$ millions, except common shares outstanding and per-share amounts	Three Months Ended June 30, 2026	**Sept. 30, 2026**	Sept. 30, 2025	Nine Months Ended **Sept. 30, 2026**	Sept. 30, 2025
Net income	134	**99**	93	**310**	277
Adjusted for specific items:					
Other income	—	**—**	(20)	**—**	(20)
Risk management instruments	(37)	**7**	(16)	**2**	(25)
Keystone variable toll disputes	—	**1**	40	**(18)**	40
Separation costs	—	**—**	2	**1**	8
Business development projects	—	**1**	—	**6**	—
Tariff charges	—	**—**	—	**—**	1
Gain on extinguishment of senior unsecured notes	—	**(5)**	—	**(5)**	—
Keystone XL costs and other	(1)	**(4)**	2	**(5)**	5
Tax effect of the above adjustments	8	**—**	(2)	**4**	(2)
Normalized net income	104	**99**	99	**295**	284
Common shares outstanding, weighted average diluted (millions)	208.8	**208.8**	208.8	**208.7**	208.7
Normalized net income per share - diluted	0.50	**0.47**	0.47	**1.41**	1.36

Distributable cash flow

Distributable cash flow is used to assess the cash generated through business operations that can be used for South Bow's capital allocation decisions, helping investors understand the Company's cash-generating capabilities and its potential for returning value to shareholders. Distributable cash flow is based on income (loss) before income taxes, adjusted for depreciation and amortization, the normalizing items described above under the heading *"Normalizing items"*, and further adjusted for specific items, including income and distributions from the Company's equity investments, maintenance capital expenditures, which are capitalized and generally recoverable through South Bow's tolling arrangements, and current income taxes.

Distributable cash flow guidance is a forward-looking non-GAAP financial measure. South Bow does not provide a reconciliation of such forward-looking measure to the most directly comparable financial measure calculated and presented in accordance with GAAP due to unknown variables and the uncertainty related to future results. These unknown variables may be inherently difficult to determine without unreasonable efforts. Guidance for distributable cash flow is calculated in the same manner as described above for historical distributable cash flow, as applicable.

The following table reconciles income (loss) before income taxes to distributable cash flow for the indicated periods:

	Three Months Ended			Nine Months Ended	
$ millions	June 30, 2026	**Sept. 30, 2026**	Sept. 30, 2025	**Sept. 30, 2026**	Sept. 30, 2025
Income before income taxes	174	**108**	104	**382**	344
Adjusted for specific items:					
Depreciation and amortization	65	**62**	64	**191**	189
Income from equity investments	(14)	**(13)**	(12)	**(40)**	(38)
Distributions from equity investments	3	**21**	14	**42**	51
Maintenance capital expenditures [1] [2]	(4)	**(4)**	(11)	**(12)**	(32)
Current income tax recovery (expense)	(19)	**13**	71	**(18)**	39
Normalizing items, net of tax [3]	(30)	**—**	6	**(15)**	7
Distributable cash flow	175	**187**	236	**530**	560

1. Supplementary financial measure. See *"Specified Financial Measures"* in the Q3 2026 MD&A, certain information from which is incorporated by reference into this news release.
2. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.
3. Refers to the adjustments made to normalized net income, net of tax, and includes other income, risk management instruments, Keystone variable toll disputes, separation costs, business development projects, tariff charges, gain on extinguishment of senior unsecured notes, and Keystone XL costs and other.

Net debt and net debt-to-normalized EBITDA ratio

Net debt is used as a key leverage measure to assess and monitor South Bow's financing structure, providing an overview of the Company's long-term debt obligations, net of cash and cash equivalents. Management believes this measure is useful for investors as it offers insights into the Company's financial health and its ability to manage and service its debt obligations. Net debt is defined as the sum of total debt with 50% equity treatment of the Company's junior subordinated notes, operating lease liabilities, and dividends payable, less cash and cash equivalents.

Net debt-to-normalized EBITDA ratio is used to monitor South Bow's leverage position relative to its normalized EBITDA for the trailing four quarters. This ratio provides investors with insight into the Company's ability to service its long-term debt obligations relative to its operational performance. A lower ratio indicates stronger financial health and greater capacity to meet its debt obligations.

The following table reconciles total long-term debt to net debt as at the dates indicated:

$ millions, except ratios	June 30, 2026	**Sept. 30, 2026**	Sept. 30, 2025
Senior unsecured notes	4,648	**4,330**	4,665
Junior subordinated notes	1,086	**1,086**	1,086
Total long-term debt	5,734	**5,416**	5,751
Adjusted for:			
Hybrid treatment for junior subordinated notes [1]	(543)	**(543)**	(543)
Operating lease liabilities	25	**27**	25
Dividends payable	104	**104**	104
Cash and cash equivalents	(726)	**(564)**	(501)
Net debt	4,594	**4,440**	4,836
Normalized EBITDA for the trailing four quarters [2]	1,043	**1,037**	1,060
Net debt-to-normalized EBITDA (ratio)	4.4	**4.3**	4.6

1. Includes 50% equity treatment of South Bow's junior subordinated notes.
2. Calculated as the normalized EBITDA for the trailing four quarters from the applicable period end.

Supplementary financial measures

The information under the heading *"Supplementary Financial Measures"* in South Bow's Q3 2026 MD&A is incorporated by reference into this news release. The Q3 2026 MD&A is available on South Bow's website at www.southbow.com, under South Bow's SEDAR+ profile at www.sedarplus.ca, and in South Bow's filings with the SEC at www.sec.gov.

Forward-looking information and statements

This news release contains certain forward-looking statements and forward-looking information (collectively, forward-looking statements), including forward-looking statements within the meaning of the "safe harbor" provisions of applicable securities legislation, that are based on South Bow's current expectations, estimates, projections, and assumptions in light of its experience and its perception of historical trends. All statements other than statements of historical facts may constitute forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as, "anticipate", "will", "expect", "estimate", "potential", "future", "outlook", "strategy", "maintain", "ongoing", "intend", and similar expressions suggesting future events or future performance.

In particular, this news release contains forward-looking statements, including certain financial outlooks, pertaining to, without limitation, the following: expectations regarding the remedial actions of the MP-171 incident, including the continued incorporation of findings into the Company's ongoing integrity management programs; expected dividends and the designation thereof; the Company's continued advancement of its growth strategy and its focuses; expectations regarding the advancement of the Prairie Connector project, including continued focus on obtaining regulatory certainty, anticipated timing of a FID, the Company's share of estimated total pre-FID development costs in 2026 and 2027, which are subject to development cost-sharing agreements with open season customers, and the Company's evaluation to accelerate certain pre-FID development spending as greater regulatory certainty and permit durability are achieved; expected pipelines and facilities associated with the Prairie Connector project; the Company's continued evaluation of select organic and inorganic growth opportunities that would strengthen the competitiveness of its base business and provide portfolio diversification; expectations regarding the Company's continued focus in 2027 on advancing its growth strategy, strengthening the Company's financial position, and delivering strong and sustainable returns to shareholders; expectations regarding the advancement of the Liberty Bridge Pipeline project, including continued focus on obtaining regulatory certainty, anticipated timing of a FID, the Company's share of estimated total pre-FID development costs in 2026 and 2027, which are subject to development cost-sharing agreements with open season customers, and the Company's evaluation to accelerate certain pre-FID development spending as

greater regulatory certainty and permit durability are achieved; that South Bow's strategically positioned infrastructure continues to play an important role in connecting growing Western Canadian crude oil supply to key refining and export markets; South Bow's updated financial guidance for 2026 and beyond, including 2026 and 2027 normalized EBITDA, 2026 and 2027 financial charges, 2026 and 2027 effective tax rates, 2026 and 2027 distributable cash flow, 2026 and 2027 growth and maintenance capital expenditures, and the Company's share of the total amount of pre-FID development costs anticipated to be incurred in 2026 and 2027; expectations that WCSB crude oil supply will remain below total pipeline egress capacity in the near term, that supply growth will outpace incremental egress additions in 2027, and the results and impacts thereof; expectations regarding demand for capacity on the U.S. Gulf Coast segment of the Keystone Pipeline System; expectations that crude oil inventories in Cushing, Okla. will remain low and associated market conditions could remain volatile through 2027, and the results and impacts thereof; South Bow's expectation that its net debt-to-normalized EBITDA ratio will decline modestly through 2026 and 2027; that South Bow's maintenance capital expenditures in 2026 and 2027 will generally be recoverable through its tolling arrangements; South Bow's corporate vision and strategy, including its strategic and capital allocation priorities, its satisfaction thereof, and outlook; and South Bow's financial strength and flexibility.

The forward-looking statements are based on certain assumptions that South Bow has made in respect thereof as of the date of this news release regarding, among other things: oil and gas industry development activity levels and the geographic region of such activity; WCSB crude oil supply; that favourable market conditions exist and that South Bow has and will have available capital to fund its capital expenditures and other planned spending; prevailing commodity prices, interest rates, inflation levels, carbon prices, tax rates, and exchange rates; the ability of South Bow to maintain current credit ratings; the availability of capital to fund future capital requirements; future operating costs; asset integrity costs; that all required regulatory and environmental approvals can be obtained on the necessary terms in a timely manner; the timely and effective implementation of the plan to remediate the material weakness in the Company's internal controls; and prevailing regulatory, tax, and environmental laws and regulations.

Although South Bow believes the assumptions and other factors reflected in these forward-looking statements are reasonable as of the date hereof, there can be no assurance that these assumptions and factors will prove to be correct and, as such, forward-looking statements are not guarantees of future performance. Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual events or results to differ materially, including, but not limited to: the regulatory environment and related decisions and requirements; the impact of competitive entities and pricing; reliance on third parties to successfully operate and maintain certain assets; the strength and operations of the energy industry; weakness or volatility in commodity prices; non-performance or default by counterparties; actions taken by governmental or regulatory authorities; the impacts of ongoing geopolitical events; the ability of South Bow to acquire or develop and maintain necessary infrastructure; fluctuations in operating results; adverse general economic and market conditions; the ability to access various sources of debt and equity capital on acceptable terms; the remediation of the material weakness in the Company's internal controls and the timing thereof; the identification of additional material weaknesses or deficiencies in the Company's internal controls; and adverse changes in credit. The foregoing list of assumptions and risk factors should not be construed as exhaustive. For additional information on the assumptions made, and the risks and uncertainties which could cause actual results to differ from the results implied by forward-looking statements, refer to South Bow's annual information form for the year ended Dec. 31, 2025, available under South Bow's SEDAR+ profile at www.sedarplus.ca and, from time to time, in South Bow's public disclosure documents, available on South Bow's website at www.southbow.com, under South Bow's SEDAR+ profile at www.sedarplus.ca, and in South Bow's filings with the SEC at www.sec.gov.

The forward-looking information in this news release also includes financial outlooks and other related forward-looking information. Management approved the financial outlooks contained in this

news release, including 2026 and 2027 normalized EBITDA, 2026 and 2027 financial charges, 2026 and 2027 effective tax rates, 2026 and 2027 distributable cash flow, 2026 and 2027 growth and maintenance capital expenditures, 2026 and 2027 net debt-to-normalized EBITDA ratio, and the Company's share of the total amount of pre-FID development costs for the proposed Prairie Connector and Liberty Bridge Pipeline projects anticipated to be incurred in 2026 and 2027, as of the date of this news release. This financial outlook information is based on, among other things, the various assumptions disclosed in this news release, including those under *"Forward-looking information and statements"* as of the date hereof. The internal projections, expectations, or beliefs are based on the 2026 and 2027 budgets, which are subject to change in light of ongoing results, prevailing economic conditions, commodity prices, and industry conditions and regulations. The purpose of these financial outlooks is to inform readers about Management's expectations for the Company's financial and operational results in 2026 and 2027, and such information may not be appropriate for other purposes.

South Bow's future shareholder distributions, including but not limited to the payment of dividends, if any, and the level thereof, is uncertain. Any decision to pay dividends on South Bow's shares (including the actual amount, the declaration date, the record date, and the payment date in connection therewith and any special dividends) will be subject to the discretion of the Board and may depend on a variety of factors, including, without limitation, South Bow's business performance, financial condition, financial requirements, growth plans, expected capital requirements, and other conditions existing at such future time, including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on South Bow under applicable corporate law. Further, the actual amount, the declaration date, the record date, and the payment date of any dividend are subject to the discretion of the Board. There can be no assurance that South Bow will pay dividends in the future.

The forward-looking statements contained in this news release speak only as of the date hereof. South Bow does not undertake any obligation to publicly update or revise any forward-looking statements or information contained herein, except as required by applicable laws. All forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

About South Bow

South Bow safely operates 4,900 kilometres (3,045 miles) of crude oil pipeline infrastructure, connecting Alberta crude oil supplies to U.S. refining markets in Illinois, Oklahoma, and the U.S. Gulf Coast through our unrivalled market position. We take pride in what we do—providing safe and reliable transportation of crude oil to North America's highest demand markets. As an investment-grade entity based in Calgary, Alberta, South Bow's common shares trade on the Toronto Stock Exchange and the New York Stock Exchange under the symbol SOBO. To learn more, visit www.southbow.com.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Basis of Presentation

The following management's discussion and analysis ("MD&A") was prepared as of November 4, 2026 and is a review of the results of operations and the liquidity and capital resources of South Bow Corporation and its subsidiaries (collectively, "South Bow" or the "Company"). This MD&A should be read in conjunction with the accompanying unaudited consolidated interim financial statements and notes thereto (the "accompanying financial statements") of South Bow as at and for the three and nine months ended September 30, 2026, the annual audited consolidated financial statements of South Bow as at and for the years ended December 31, 2025 and 2024 and notes thereto (the "annual financial statements") and the accompanying MD&A for the year ended December 31, 2025, as well as South Bow's annual information form ("AIF") for the year ended December 31, 2025, each of which are available on South Bow's website at www.southbow.com, under South Bow's electronic profile on SEDAR+ at www.sedarplus.ca, and in South Bow's filings with the U.S. Securities and Exchange Commission ("SEC") at www.sec.gov.

Unless otherwise noted, all financial figures in this MD&A are in United States ("U.S.") dollars.

This MD&A contains specified financial measures and forward-looking statements. Refer to the *Specified Financial Measures* and *Forward-looking Information* sections of this MD&A for additional details. Refer to the *Glossary* section for abbreviations and capitalized terms commonly used in this MD&A.

Corporate Profile

South Bow Overview

South Bow is an energy infrastructure company that owns and operates critical liquids pipelines and facilities extending across Canada and the U.S., safely and reliably connecting robust crude oil supplies to key refining and demand markets in the U.S. Midwest and U.S. Gulf Coast. South Bow seeks to optimize its assets, invest strategically to sustainably grow its cash flows, and pay a meaningful dividend, if, as, and when declared by South Bow's board of directors (the "Board"). The majority of South Bow's revenues are generated through long-term committed transportation arrangements, whereby customers receive liquids transportation or storage services in exchange for a committed monthly payment.

South Bow takes a disciplined approach to capital allocation to preserve optionality and maximize total shareholder returns over the long term. The Company's capital allocation priorities are built on a foundation of financial strength and are supported by South Bow's stable, predictable cash flows. South Bow's capital allocation priorities include: paying a sustainable base dividend; strengthening the Company's investment-grade financial position; and leveraging existing infrastructure within South Bow's strategic corridor to offer customers competitive connections, enhanced optionality, and value chain extensions.

South Bow has three reportable segments: Keystone Pipeline System, Marketing, and Intra-Alberta & Other.

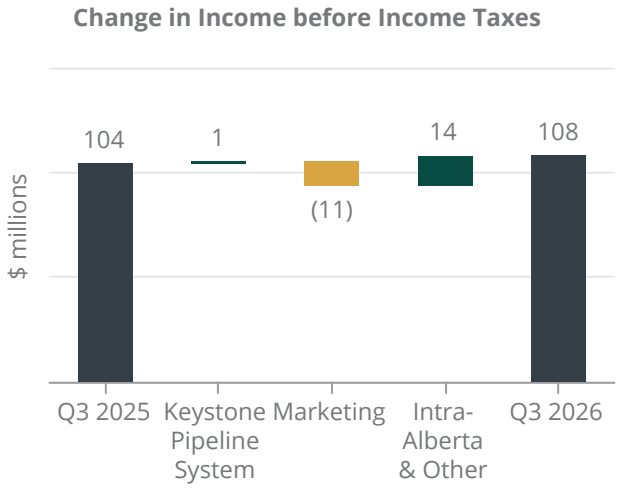
In 2024, the Company completed the spinoff from TC Energy Corporation (the "Former Parent") to form South Bow as a publicly traded company (the "Spinoff").

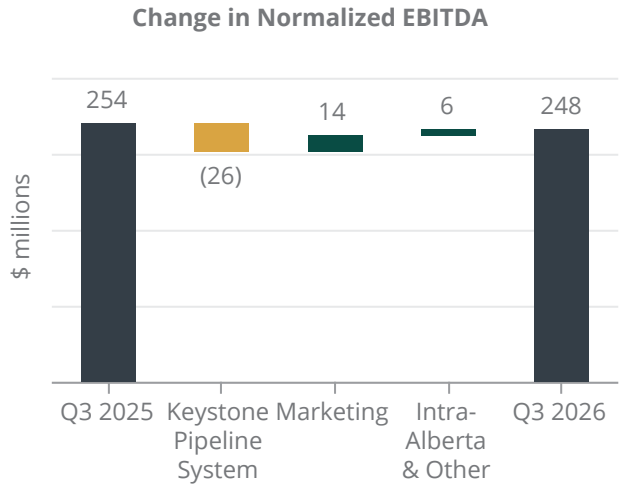
Financial Highlights

U.S.$ millions, except per-share amounts, ratios, and where noted	Three Months Ended September 30, 2026	2025	Nine Months Ended September 30, 2026	2025
Financial Results				
Revenue	**503**	461	**1,540**	1,483
Income from equity investments	**13**	12	**40**	38
Income before income taxes	**108**	104	**382**	344
Normalized earnings before interest, income taxes, depreciation, and amortization ("normalized EBITDA") [1]	**248**	254	**785**	770
Distributable cash flow [1]	**187**	236	**530**	560
Total capital expenditures [2]	**13**	39	**34**	146
Net income	**99**	93	**310**	277
Weighted average common shares outstanding - diluted (millions)	**208.8**	208.8	**208.7**	208.7
Net income per share - diluted	**0.47**	0.45	**1.49**	1.33
Normalized net income [1]	**99**	99	**295**	284
Normalized net income per share - diluted [1]	**0.47**	0.47	**1.41**	1.36
Dividends declared	**104**	104	**312**	312
Dividends declared per share	**0.50**	0.50	**1.50**	1.50
Total long-term debt [3]	**5,416**	5,751	**5,416**	5,751
Net debt [1]	**4,440**	4,836	**4,440**	4,836
Net debt-to-normalized EBITDA (ratio) [1]	**4.3**	4.6	**4.3**	4.6
Operational Results				
Keystone Pipeline System Operating Factor ("SOF") (%) [4]	**95**	92	**95**	94
Keystone Pipeline throughput (Mbbl/d)	**586**	584	**599**	580
U.S. Gulf Coast segment of Keystone Pipeline System throughput (Mbbl/d) [5]	**663**	703	**724**	730
Marketlink throughput (Mbbl/d)	**513**	547	**564**	574

1. Non-GAAP financial measure or ratio, which do not have standard meanings under generally accepted accounting principles ("GAAP") and may not be comparable to similar measures presented by other entities. Refer to the *Specified Financial Measures* section of this MD&A for additional details.
2. Total capital expenditures is a supplementary measure. Refer to the *Specified Financial Measures* section of this MD&A for additional details.
3. Total long-term debt includes the Company's current and long-term portion of senior unsecured notes ("Senior Notes") and junior subordinated notes ("Junior Notes") per the consolidated balance sheets of the accompanying financial statements. Refer to the *Long-Term Debt, including Credit Facilities* section of this MD&A for additional details.
4. SOF measures South Bow's ability to deliver crude oil at the planned maximum rate of the Keystone Pipeline System.
5. Comprises throughput originating in Hardisty, Alberta transported on the Keystone Pipeline System, and throughput originating in Cushing, Oklahoma transported on Marketlink for destination in the U.S. Gulf Coast.

Change in Income before Income Taxes and Normalized EBITDA (Three Months Ended September 30, 2026)



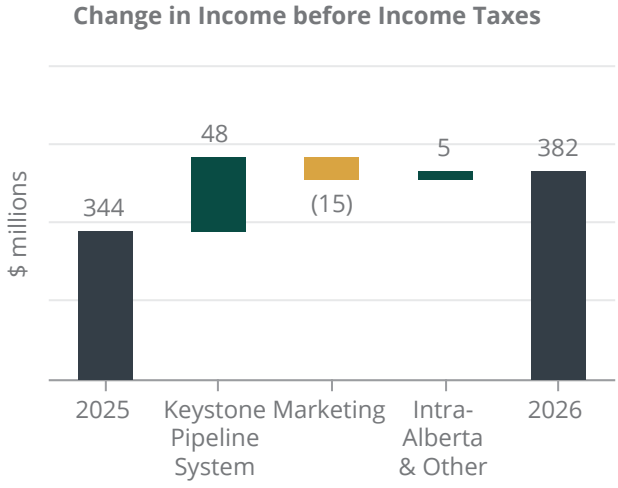


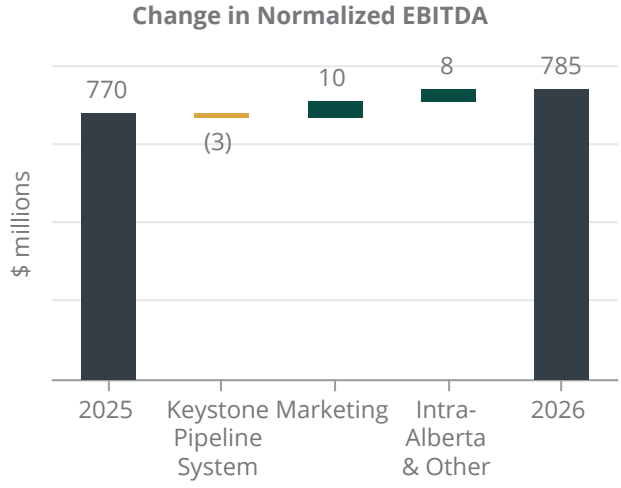
Income before income taxes for the three months ended September 30, 2026 increased slightly to $108 million from $104 million in the same period of 2025, attributable to higher contributions from the Intra-Alberta & Other segment, partially offset by lower contributions from the Marketing segment.

South Bow's normalized EBITDA for the three months ended September 30, 2026 decreased slightly to $248 million from $254 million in the same period of 2025, primarily driven by decreases in the Keystone Pipeline System, partially offset by increases in the Marketing and Intra-Alberta & Other segments.

Refer to the *Segment Results* section of this MD&A for additional details.

Change in Income before Income Taxes and Normalized EBITDA (Nine Months Ended September 30, 2026)





Income before income taxes for the nine months ended September 30, 2026 increased to $382 million from $344 million in the same period of 2025 due to increased contributions from the Keystone Pipeline System and Intra-Alberta & Other segments, partially offset by a decrease in income before income taxes for the Marketing segment.

Normalized EBITDA of $785 million for the nine months ended September 30, 2026 increased from normalized EBITDA of $770 million for the comparative 2025 period due to increases in the Marketing and Intra-Alberta & Other segments, partially offset by lower normalized EBITDA for the Keystone Pipeline System segment.

Refer to the *Segment Results* section of this MD&A for additional details.

Revenues and Income from Equity Investments

U.S.$ millions, except where noted	Three Months Ended September 30,			Nine Months Ended September 30,		
	2026	2025	Change	**2026**	2025	Change
Revenues	**503**	461	9 %	**1,540**	1,483	4 %
Income from equity investments	**13**	12	8 %	**40**	38	5 %

South Bow generated revenues of $503 million during the three months ended September 30, 2026 compared to $461 million in the same period of 2025, primarily as a result of higher revenue contributions from the Keystone Pipeline System segment. Higher Keystone Pipeline System revenues primarily reflected the net $43 million charge recorded against revenue in the third quarter of 2025 related to the Withdrawal of Keystone Variable Toll Disputes. This was partially offset by lower Marketlink revenue contributions due to lower contracted and uncommitted volumes in the third quarter of 2026 compared to 2025.

The Company's Marketing and Intra-Alberta & Other segments further contributed to higher revenue contributions during the three months ended September 30, 2026 compared to the same period in 2025. Refer to the *Segment Results* section of this MD&A for additional details.

During the nine months ended September 30, 2026, South Bow generated revenues of $1,540 million compared to $1,483 million in the same period of 2025, driven by higher revenues in the Keystone Pipeline System and the Intra-Alberta & Other segments, partially offset by lower revenues in the Marketing segment.

The Company's Keystone Pipeline System segment generated higher revenues during the nine months ended September 30, 2026 compared to the same period in 2025, primarily due to the net $43 million charge recorded against revenue in the prior year period related to the Withdrawal of Keystone Variable Toll Disputes. During the nine months ended September 30, 2026, higher revenues were also driven by increased uncommitted volumes resulting from higher demand to move oil towards the U.S. Gulf Coast and prior-period toll adjustments, partially offset by reduced contributions from the Marketlink pipeline attributable to lower throughput and tighter pricing differentials.

Income from equity investments was relatively unchanged during the three and nine months ended September 30, 2026 relative to the comparable periods in 2025 due to the long-term nature of the committed contracts associated with the Company's equity investments.

Refer to the *Segment Results* section of this MD&A for additional details.

Operating and Other Expenses

U.S.$ millions, except where noted	Three Months Ended September 30,			Nine Months Ended September 30,		
	2026	2025	Change	**2026**	2025	Change
Plant operating costs and other	**180**	168	7 %	**554**	535	4 %
Commodity purchases resold	**96**	80	20 %	**231**	243	(5)%
Depreciation and amortization	**62**	64	(3)%	**191**	189	1 %
Other	**(4)**	2	(300)%	**(4)**	5	(180)%
Total	**334**	314	6 %	**972**	972	— %

Plant operating costs and other

Plant operating costs and other increased during the three months ended September 30, 2026 compared to the 2025 period, primarily due to an increase in integrity-related activities and operations programs on the Keystone Pipeline System.

Plant operating costs and other increased during the nine months ended September 30, 2026, driven by higher integrity-related activities on the Keystone Pipeline System and higher share-based compensation expense resulting from an increase in the Company's share price. These increases were partially offset by lower costs from optimization initiatives, lower power prices, and the absence of separation costs in the 2026 period. South Bow also incurred costs associated with initial business development activities related to the proposed Prairie Connector project. Refer to the *Recent Developments* section of this MD&A for additional details.

Commodity purchases resold

Commodity purchases resold increased during the three months ended September 30, 2026 due to higher commodity prices relative to the comparative period in 2025, partially offset by lower third-party transportation costs.

Commodity purchases resold decreased during the nine months ended September 30, 2026 relative to the comparative period in 2025, due to lower quantities purchased and third-party transportation costs, partially offset by higher commodity prices.

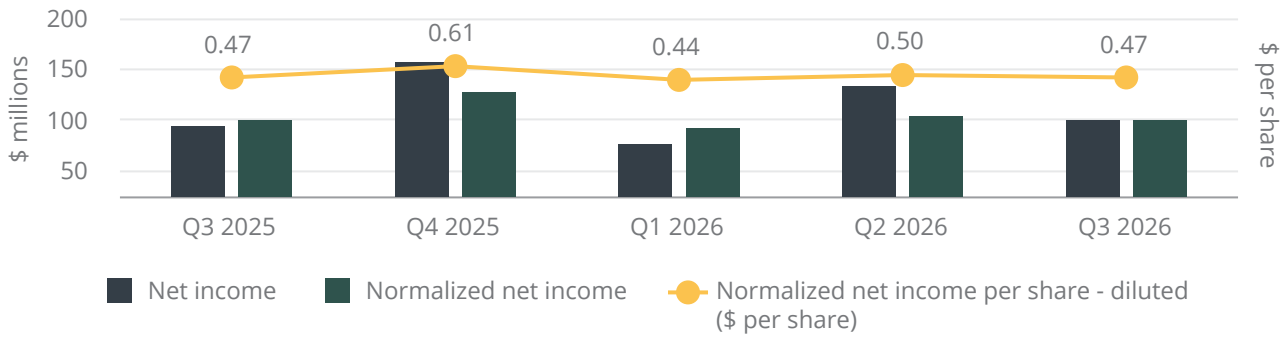
Depreciation and amortization

Depreciation and amortization remained relatively consistent during the three and nine months ended September 30, 2026 relative to the comparable periods in 2025.

Other expenses

Other expenses decreased in the 2026 periods due to a $4 million gain recognized on provision adjustments related to the Company's long-term monitoring and close-out obligations for the historical Keystone XL project. During the comparative 2025 periods, South Bow recorded other expenses related to the write-off of amounts relating to its Keystone XL contractual recoveries.

Net Income and Normalized Net Income



South Bow recognized net income and normalized net income of $99 million during the three months ended September 30, 2026, compared to net income and normalized net income of $93 million and $99 million, respectively, during the comparative period of 2025.

The increase in net income during the three months ended September 30, 2026 compared to the same period in 2025 was primarily attributable to lower income taxes due to favourable adjustments, and the lower loss before income taxes for the Intra-Alberta & Other segment discussed in the *Segment Results* section of this MD&A.

Normalized net income for the three months ended September 30, 2026 was consistent with the same period in 2025.

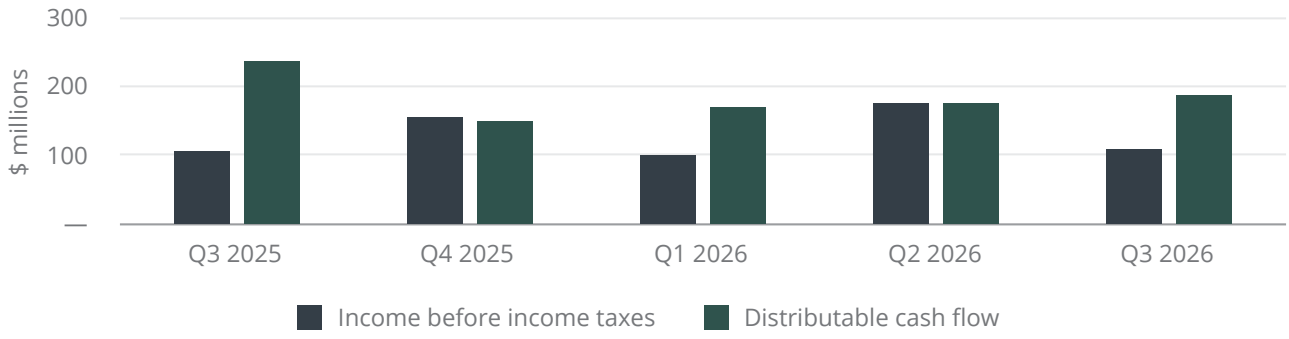
During the nine months ended September 30, 2026, the Company recognized net income and normalized net income of $310 million and $295 million, respectively, compared to net income and normalized net income of $277 million and $284 million, respectively, during the nine months ended September 30, 2025.

The increase in net income during the nine months ended September 30, 2026 relative to the comparative period in 2025 was due to increases in income before income taxes discussed above, partially offset by a modest increase in income tax expense.

During the nine months ended September 30, 2026, normalized net income increased relative to the comparative period in 2025 due to higher normalized EBITDA, partially offset by a modest increase in income tax expense.

Normalized net income was $0.47 per share (diluted) in the third quarter of 2026 and 2025.

Distributable Cash Flow

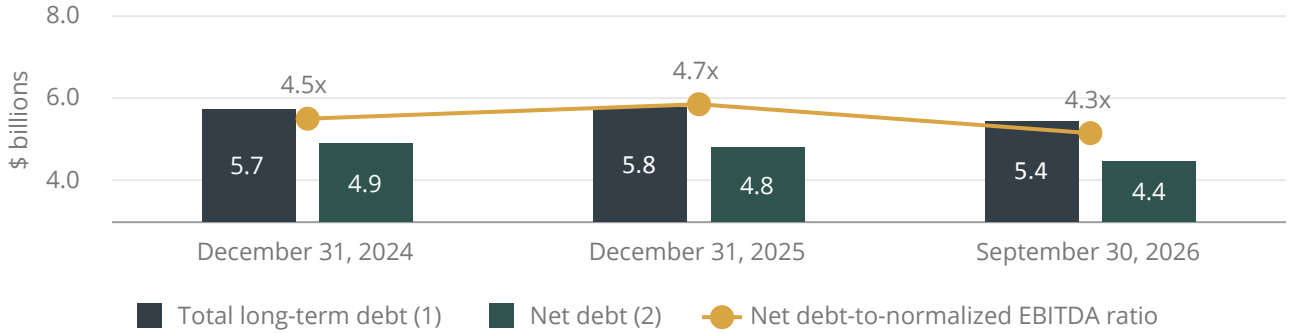


Distributable cash flow generated during the three and nine months ended September 30, 2026 decreased to $187 million and $530 million, respectively, from $236 million and $560 million during the three and nine months ended September 30, 2025, respectively.

The decrease in distributable cash flow for the three months ended September 30, 2026 was primarily driven by lower current income tax recoveries in the third quarter of 2026, partially offset by higher income before income taxes and higher distributions from equity investments.

The decrease in distributable cash flow for the nine months ended September 30, 2026 was primarily driven by a current income tax expense position in 2026, compared to a current income tax recovery position in the 2025 period, and lower distributions from equity investments, partially offset by higher income before taxes.

Total Long-term Debt and Net Debt



1. Total long-term debt includes the current and long-term portion of the Company's Senior Notes and Junior Notes. Refer to the *Long-term Debt, including Credit Facilities* section of this MD&A for additional details.
2. Net debt includes 50 per cent equity treatment of the Company's Junior Notes. Refer to the *Specified Financial Measures* section of this MD&A for additional details on composition of net debt.

The Company's total long-term debt of $5.4 billion at September 30, 2026 decreased from December 31, 2025 as the Company repurchased and extinguished $320 million aggregate principal amount of its U.S. dollar-denominated Senior Notes during the third quarter of 2026. Net debt at September 30, 2026 was $4.4 billion, a decrease from December 31, 2025, driven by lower total debt and a modest increase in cash balances at September 30, 2026 relative to December 31, 2025. The Company's nearest-term debt maturity is in September 2027. Refer to the *Long-Term Debt, including Credit Facilities* section of this MD&A for additional details on the Company's debt and capital structure.

South Bow continued to advance its deleveraging priority, reducing the Company's net debt-to-normalized EBITDA ratio from 4.7 times at December 31, 2025 to 4.3 times at September 30, 2026, due to lower net debt described above and a higher trailing-four quarter normalized EBITDA relative to the comparative period.

Segment Results

Keystone Pipeline System

	Three Months Ended September 30,			Nine Months Ended September 30,		
U.S.$ millions, except where noted	**2026**	2025	Change	**2026**	2025	Change
Revenues	**393**	362	9 %	**1,230**	1,156	6 %
Income before income taxes	**179**	178	1 %	**578**	530	9 %
Normalized EBITDA	**234**	260	(10)%	**726**	729	— %
Total capital expenditures [1]	**2**	9	(78)%	**13**	22	(41)%
Keystone Pipeline throughput (Mbbl/d)	**586**	584	— %	**599**	580	3 %
U.S. Gulf Coast segment of Keystone Pipeline System throughput (Mbbl/d)	**663**	703	(6)%	**724**	730	(1)%
Marketlink throughput (Mbbl/d)	**513**	547	(6)%	**564**	574	(2)%
Keystone SOF (%)	**95**	92	3 %	**95**	94	1 %

1. Refer to the *Capital Program* section of this MD&A for additional details.

Keystone Pipeline System revenues increased during the three months ended September 30, 2026 as compared to the 2025 period, primarily due to the net $43 million charge recorded against revenue in the comparative 2025 period related to the Withdrawal of Keystone Variable Toll Disputes, which was partially offset by lower Marketlink contracted and uncommitted volumes in the third quarter of 2026 compared to 2025.

During the nine months ended September 30, 2026, the Keystone Pipeline System recognized higher revenues than in the comparative period, primarily due to increased demand for uncommitted capacity on the Keystone Pipeline, partially offset by lower contracted throughput on Marketlink. Revenues during the nine months ended September 30, 2026 included $18 million related to historical variable toll adjustments recorded during the first quarter of 2026 and revenue during the three and nine months ended September 30, 2025 included a $43 million charge relating to the Withdrawal of Keystone Variable Toll Disputes.

Income before income taxes remained consistent during the three months ended September 30, 2026 relative to the three months ended September 30, 2025.

Income before income taxes increased during the nine months ended September 30, 2026 compared to the prior year primarily due to higher revenues as discussed above and a gain on reduction in the provisions related to the long-term monitoring and close-out obligations of the historical Keystone XL project. This was partially offset by higher operating costs in the third quarter of 2026 and decreased revenue contributions from the Marketlink pipeline. The increase was also impacted by $20 million of other income recorded in the third quarter of 2025 related to separation terms with the Former Parent.

Normalized EBITDA decreased for the three months ended September 30, 2026, driven by decreased revenue contributions in the third quarter of 2026 and increased operating costs on the Marketlink pipeline compared to the 2025 period.

Normalized EBITDA remained relatively consistent during the nine months ended September 30, 2026 compared to the 2025 period.

Total capital expenditures invested in the Keystone Pipeline System segment during the three and nine months ended September 30, 2026 decreased from 2025. Investments during the 2026 periods include $5 million in land purchases in the second quarter of 2026 and lower planned maintenance capital expenditures following an active maintenance and integrity program in 2025. Refer to the *Capital Program* and *Outlook and Guidance* sections of this MD&A for additional details on South Bow's capital expenditures and outlook for 2026.

The Keystone Pipeline System SOF increased during the three and nine months ended September 30, 2026, reflecting lower scheduled maintenance activities relative to the comparative 2025 periods.

Marketing

	Three Months Ended September 30,			Nine Months Ended September 30,		
U.S.$ millions	**2026**	2025	Change	**2026**	2025	Change
Revenues	**101**	94	7 %	**288**	313	(8)%
Income before income taxes	**(10)**	1	(1100)%	**9**	24	(63)%
Normalized EBITDA	**(3)**	(17)	82 %	**8**	(2)	500 %

Revenues for the Marketing segment increased during the third quarter of 2026 compared to the same period of 2025, primarily driven by higher margins on physical volumes and lower realized losses on risk management contracts in 2026 compared to 2025. These increases were partially offset by unrealized losses on risk management contracts in 2026 compared to unrealized gains in the comparative period. During the nine months ended September 30, 2026, revenues decreased compared to the same period in 2025 due to realized losses on risk management contracts in 2026 compared to realized gains in the comparative period, and unrealized losses on risk management contracts compared to unrealized gains in 2025. These decreases were partially offset by higher sales prices on physical volumes.

The decrease in the Marketing segment's income before income taxes during the three months ended September 30, 2026, compared to the same period of 2025, was primarily driven by higher costs to purchase and market crude oil, partially offset by the increase in revenues discussed above. The decrease in the Marketing segment's income before income taxes during the nine months ended September 30, 2026 compared to the same period in 2025 was due to lower revenues discussed above, partially offset by lower costs to purchase and market crude oil.

The increase in normalized EBITDA for the Marketing segment during the three months ended September 30, 2026, compared to 2025 was a result of higher physical volumes sold at higher average sales prices, partially offset by higher costs to purchase and market crude oil. Normalized EBITDA for the Marketing segment for the nine months ended September 30, 2026 increased compared to 2025, driven by higher sales prices on physical volumes, and lower costs to purchase and market crude oil. The increases were partially offset by higher realized losses on risk management contracts in 2026 relative to the comparative period.

Intra-Alberta & Other

	Three Months Ended September 30,			Nine Months Ended September 30,		
U.S.$ millions	**2026**	2025	Change	**2026**	2025	Change
Revenues	**9**	5	80 %	**22**	14	57 %
Income from equity investments	**10**	10	— %	**31**	31	— %
Interest expense	**84**	83	1 %	**252**	247	2 %
Loss before income taxes	**(61)**	(75)	(19)%	**(205)**	(210)	(2)%
Normalized EBITDA	**17**	11	55 %	**51**	43	19 %
Total capital expenditures [1]	**11**	30	(63)%	**21**	124	(83)%

1. Refer to the *Capital Program* section of this MD&A for additional details.

The Intra-Alberta & Other segment's loss before income taxes decreased during the three months ended September 30, 2026 compared to the same period in 2025, primarily due to the $5 million gain on debt extinguishment and higher interest income, partially offset by lower capitalized interest. During the nine months ended September 30, 2026, the Intra-Alberta & Other segment's loss before income taxes decreased due to revenue contributions from the Blackrod Connection Project, which was placed into commercial service in the first quarter of 2026. The gain on debt extinguishment and higher interest income also contributed to the lower year-over-year loss, partially offset by lower capitalized interest relating to the Blackrod Connection Project.

Normalized EBITDA for the Intra-Alberta & Other segment increased during the three and nine months ended September 30, 2026, primarily as a result of revenues from the Blackrod Connection Project.

During the three and nine months ended September 30, 2026, total capital expenditures included investments of $11 million and $21 million, respectively, for the Blackrod Connection Project and the Prairie Connector project (refer to *Recent Developments* section of this MD&A). During the three and nine months ended September 30, 2025, South Bow invested $18 million and $92 million, respectively, in the Blackrod Connection Project, in addition to corporate infrastructure investments to support the Spinoff. Refer to the *Outlook and Guidance* and *Capital Program* section of this MD&A for information on the Company's capital expenditures and 2026 outlook.

Recent Developments

Growth Initiatives

South Bow continues to advance its growth initiatives with its proposed Prairie Connector project and the joint development of the proposed Liberty Bridge Pipeline project with Bridger Pipeline LLC ("Bridger").

In the second quarter of 2026, South Bow announced the successful outcome of its open season, securing 20-year binding commitments for firm transportation service from Hardisty, Alberta to U.S. delivery points, for a total of 465,000 barrels per day from nine customers. The successful open season represents a significant commercial milestone and supports the continued advancement of the project toward a targeted final investment decision ("FID") in mid-2027. Key activities underway include advancing permitting and regulatory approvals, land acquisitions, pursuing government assurances related to permit durability, progressing execution planning, refining cost estimates, engaging with communities, landowners, Indigenous and Tribal Nations, and other stakeholders, and evaluating financing alternatives. The timing and magnitude of future expenditures will depend on the achievement of project milestones, regulatory approvals, commercial arrangements, and other factors. To support pre-FID spending associated with these projects, the Company has entered into development cost-sharing agreements with its open season customers.

The proposed Prairie Connector project would extend from Hardisty, Alberta, to the Canada-U.S. border, where it would connect to Bridger's downstream facilities. The 530-kilometre Prairie Connector project includes the construction of approximately 380 kilometres of new 36-inch pipeline and associated facilities, as well as leveraging approximately 150 kilometres of previously installed and preserved 36-inch pipeline and two pump stations.

The proposed Liberty Bridge Pipeline project is being jointly advanced by South Bow and Bridger, which if sanctioned, would extend from Guernsey, Wyoming to Cushing, Oklahoma where it would connect to the U.S. Gulf Coast segment of the Keystone Pipeline System and other downstream facilities.

During the nine months ended September 30, 2026, the Company incurred $17 million related to the Prairie Connector project, of which $12 million has been capitalized and included in plant, property and equipment, and $5 million for preliminary project costs recognized in the first quarter of 2026. Capitalized costs primarily relate to engineering, regulatory, commercial, and other development activities that Management determined were directly attributable to the development and construction of the proposed project. Refer to the *Outlook and Guidance* section of this MD&A for additional details on South Bow's growth capital expenditures for 2026.

Withdrawal of Keystone Variable Toll Disputes

Effective September 30, 2025, South Bow and associated parties agreed to withdraw all complaints and protests associated with the variable toll disputes previously filed with the Canada Energy Regulator ("CER"), Federal Energy Regulatory Commission ("FERC"), Court of King's Bench of Alberta, and D.C. Circuit Court (collectively, the "Withdrawal of Keystone Variable Toll Disputes"). Pursuant to an associated partial release of indemnification agreement and the Separation Agreement, the Former Parent was obligated to indemnify South Bow for certain amounts agreed to under the Withdrawal of Keystone Variable Toll Disputes.

During the three months ended September 30, 2026, the Company made $8 million in payments relating to indemnified liabilities and $6 million related to non-indemnified liabilities associated with the Withdrawal of Keystone Variable Toll Disputes. As a result of these payments, the Company has reached the maximum liability under the Separation Agreement (refer to *Note 5, Spinoff Transaction* for additional details). As at September 30, 2026, the Company has additional liabilities of $22 million, discounted at the Company's credit-adjusted rate, that are not subject to indemnification terms, due in the third quarter of each of the next four years.

CER Ruling

During the fourth quarter of 2025, the CER approved the Company's application for collection of the final adjusted variable tolls for the 2020 to 2024 period. As a result of the approval of the final tolls, South Bow is no longer subject to interim tolling and, as of March 31, 2026, had collected the final adjusted variable tolls for the 2020 to 2024 period from its Keystone Pipeline Canada customers. During the three months ended March 31, 2026, the Company recorded $1 million of interest income relating to the final tolls.

Milepost 171 Incident

On April 8, 2025, the Company responded to an oil release of approximately 3,500 barrels at Milepost 171 ("MP-171") on the Keystone Pipeline, near Fort Ransom, North Dakota. On April 11, 2025, the Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued a Corrective Action Order ("CAO"), requiring South Bow to undertake certain corrective actions in response to the MP-171 incident, including the completion of an independent third-party root cause analysis ("RCA") along with mechanical and metallurgical testing. On April 15, 2025, South Bow safely restarted the Keystone Pipeline under certain operating pressure restrictions after receiving regulatory approval from PHMSA. In early June 2025, South Bow completed the cleanup and reclamation of the incident site.

Findings and recommendations from the independent third-party RCA were released by PHMSA on February 11, 2026 and have been incorporated into South Bow's remedial work plan. The Company continues to advance remedial actions through its operations programs and continues to be able to meet all contractual transportation services while operating under the CAO.

During the third quarter of 2026, PHMSA approved South Bow's remedial work plan. Following internal engineering reviews, South Bow began lifting pressure restrictions on certain segments of the Keystone Pipeline.

Milepost 14 Incident

In December 2022, the Milepost 14 ("MP-14") incident occurred on the Keystone Pipeline in Washington County, Kansas. As a result of the incident, the Company was subject to an Amended Corrective Action Order ("ACAO") issued by PHMSA. By June 2023, the recovery of all released volumes was completed, and by October 2023, creek restoration was finished, returning natural flows to Mill Creek. In January 2025, the Company received PHMSA's approval of its remedial work plan. This approval culminated the completion of 2,145 miles of in-line inspections across the Keystone Pipeline System and 68 investigative digs over a two-year period. In March 2025, South Bow received approval from PHMSA to lift the pressure restriction on the affected segment to 72 per cent of the specified minimum yield strength of the pipeline.

The remaining balance related to ongoing long-term monitoring reflected in accounts payable and other and other long-term liabilities on the consolidated balance sheets was $1 million and $1 million, respectively, at September 30, 2026 (December 31, 2025 – $3 million and $7 million, respectively).

In July 2026, the U.S. Department of Justice, on behalf of the U.S. Environmental Protection Agency and the State of Kansas, announced a Clean Water Act consent decree with South Bow related to the MP-14 incident. Under the proposed consent decree, South Bow agreed to pay a total of $30 million in fines and penalties and perform pipeline integrity and other preventative measures on the Keystone Pipeline. The Company has recorded a payable for amounts under the consent decree and a corresponding receivable from the Former Parent pursuant to the indemnification provisions of the Separation Agreement. South Bow has reached the maximum liability under the Separation Agreement (refer to *Note 5, Spinoff Transaction* of the Company's accompanying financial statements for additional details).

Outlook and Guidance

Market Outlook

Recent geopolitical events have caused significant market volatility, underscoring the importance of a secure and reliable North American energy supply. In this environment, South Bow's strategically positioned infrastructure continues to play an important role in connecting growing Western Canadian crude oil supply to key refining and export markets.

South Bow expects Western Canadian Sedimentary Basin ("WCSB") crude oil supply to remain below total pipeline egress capacity in the near term, with supply growth anticipated to outpace incremental egress additions in 2027. This shift is expected to support wider pricing differentials and increased demand for uncommitted capacity on the Keystone Pipeline.

Crude oil inventories in Cushing, Oklahoma remain low, contributing to relatively tight pricing differentials to the U.S. Gulf Coast. These market conditions are expected to remain volatile through 2027, potentially tempering demand for uncommitted capacity on the U.S. Gulf Coast segment of the Keystone Pipeline System.

Guidance

South Bow's annual guidance aims to inform readers about Management's expectations for 2026 and 2027 financial and operational results. Readers are cautioned that these estimates may not be suitable for any other purpose. Refer to the *Forward-Looking Information* section of this MD&A for additional information regarding the material factors or assumptions used to develop South Bow's guidance and the material factors that could cause actual events and results to be significantly different from those anticipated.

2026 Guidance

South Bow is reaffirming its 2026 normalized EBITDA guidance of $1,040 million, within a range of two per cent at the upper end and one per cent at the lower end.

South Bow is increasing its 2026 distributable cash flow guidance by four per cent to $690 million, within a range of two per cent, reflecting lower-than-expected current income taxes.

All other 2026 guidance items remain unchanged. South Bow's 2026 annual guidance is outlined below:

$ millions, except percentages	**2026 Guidance** [1 2] (August 2026)	**2026 Guidance** [2] (November 2026)
Normalized EBITDA [3]	1,040 +2% / -1%	**1,040 +2% / -1%**
Financial charges [4]	315 +/- 2%	**315 +/- 2%**
Effective tax rate (%)	22% - 23%	**22% - 23%**
Distributable cash flow [3]	665 +/- 2%	**690 +/- 2%**
Capital expenditures		
Growth [5, 6]	80 +/- 10	**80 +/- 10**
Maintenance [5, 7]	25 +/- 10	**25 +/- 10**

1. See South Bow's August 5, 2026 news release *"South Bow Reports Second-quarter 2026 Results and Declares Dividend"*, available on South Bow's website at www.southbow.com, under South Bow's SEDAR+ profile at www.sedarplus.ca, and in South Bow's filings with the SEC at www.sec.gov.
2. Assumes average foreign exchange rate of C$/U.S.$1.39.
3. Normalized EBITDA and distributable cash flow for the year ended December 31, 2025 were $1,022 million and $709 million, respectively.
4. Comprised of interest expense and interest income and other.
5. Supplementary financial measure. See the *Specified Financial Measures* section of this MD&A for additional details.
6. Includes approximately $65 million of anticipated pre-FID development costs associated with the proposed Prairie Connector and Liberty Bridge Pipeline projects, subject to development cost-sharing agreements with open season customers.
7. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

2027 Guidance

South Bow's financial outlook for 2027 is underpinned by the Company's highly contracted cash flows and structural demand for services. Normalized EBITDA is projected to be approximately $1,070 million, within a range of two per cent, including increased contributions from the Blackrod Connection Project. The range primarily reflects variability in pricing differentials and the associated demand for uncommitted capacity on South Bow's pipeline systems, with tighter differentials contributing to the lower end of the range and wider differentials supporting the higher end. The majority of South Bow's normalized EBITDA is secured through committed arrangements that carry minimal commodity price or volumetric risk.

South Bow anticipates that its 2027 financial charges will be approximately $300 million, within a range of two per cent. The Company's effective tax rate is expected to range from 22 per cent to 23 per cent.

Distributable cash flow is expected to be approximately $630 million, within a range of four per cent, primarily reflecting higher expected current income taxes relative to 2026.

South Bow plans to invest approximately $65 million in pre-FID development activities associated with the proposed Prairie Connector and Liberty Bridge Pipeline projects in 2027. The Company will evaluate accelerating certain pre-FID development spending as greater regulatory certainty and permit durability are achieved.

2027 maintenance capital expenditures are estimated to be approximately $40 million, within a range of $10 million, reflecting increased maintenance activity relative to 2026, including planned investments in operational systems and infrastructure. These expenditures are generally recoverable through South Bow's tolling arrangements.

South Bow expects its net debt-to-normalized EBITDA ratio to decline modestly through 2027, reflecting continued progress on the Company's deleveraging priority.

South Bow's 2027 annual guidance is outlined below:

$ millions, except percentages	**2027 Guidance** [1]
Normalized EBITDA [2]	1,070 +/- 2%
Financial charges [3]	300 +/- 2%
Effective tax rate (%)	22% - 23%
Distributable cash flow [2]	630 +/- 4%
Capital expenditures	
Growth [4, 5]	65
Maintenance [4, 6]	40 +/- 10

1. Assumes average foreign exchange rate of C$/U.S.$1.39.
2. Normalized EBITDA and distributable cash flow for the year ended December 31, 2025 were $1,022 million and $709 million, respectively.
3. Comprised of interest expense and interest income and other.
4. Supplementary financial measure. See the Specified Financial Measures section of this MD&A for additional details.
5. Includes approximately $65 million of anticipated pre-FID development costs associated with the proposed Prairie Connector and Liberty Bridge Pipeline projects, subject to development cost-sharing agreements with open season customers.
6. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

Capital Program

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
U.S.$ millions	**2026**	2025	**2026**	2025
Growth capital expenditures [1]	**9**	17	**23**	92
Maintenance capital expenditures [1, 2]	**4**	11	**12**	32
Separation capital expenditures [1]	**—**	11	**(1)**	22
Total Capital Expenditures [1]	**13**	39	**34**	146

1. Supplementary financial measure to assist the reader in understanding the Company's capital investments and capital allocation decisions. Refer to the *Supplementary Financial Measures* section of this MD&A for additional details.
2. Maintenance capital expenditures are generally recoverable through South Bow's tolling arrangements.

Total capital expenditures were $13 million and $34 million, respectively, for the three and nine months ended September 30, 2026, compared to $39 million and $146 million in the respective 2025 comparative periods.

Growth capital expenditures were lower during the three and nine months ended September 30, 2026 compared to the same periods in 2025, due to the Blackrod Connection Project being designated commercially in-service in March 2026. Growth capital investments in 2026 included the Blackrod Connection Project, land purchases, and the Prairie Connector project (refer to *Recent Developments* section of this MD&A for additional details).

Maintenance capital expenditures include investments to support the Company's operations and key infrastructure. Lower maintenance capital expenditures during the three and nine months ended September 30, 2026 compared to the same periods in 2025 primarily reflected one-time investments made in 2025 to support the Spinoff, including information systems and leasehold improvements, as well as lower spending on the Keystone Pipeline System in 2026.

Separation capital expenditures during the three and nine months ended September 30, 2025 related to one-time investments to support the Spinoff transition, including information system infrastructure.

Blackrod Connection Project

Supported by long-term committed contracts, South Bow's first major growth initiative, the Blackrod Connection Project, consists of a 25-km (16-mi) crude oil pipeline and a 25-km (16-mi) natural gas lateral, as well as associated facilities, providing crude oil transportation from International Petroleum Corporation's Blackrod Project to South Bow's Grand Rapids Pipeline in intra-Alberta.

The project was designated commercially in-service in March 2026, completed on time and on budget, with zero safety incidents. Associated cash flows from the project are expected to increase throughout the remainder of 2026 and into 2027.

Liquidity, Capital Resources, and Share Capital

Liquidity

The following table summarizes the Company's sources and uses of cash for the periods ended September 30, 2026 and 2025:

	Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions	**2026**	2025	**2026**	2025
Cash from (Used in):				
Operating activities	**273**	196	**714**	515
Investing activities	**(18)**	(52)	**(62)**	(115)
Financing activities	**(416)**	(103)	**(617)**	(307)
Effect of foreign exchange rate changes on cash and cash equivalents	**(1)**	8	**(20)**	11
Net Increase (Decrease) in Cash and Cash Equivalents	**(162)**	49	**15**	104

At September 30, 2026, cash and cash equivalents were $564 million (September 30, 2025 - $501 million).

Operating Activities

Cash from operating activities is primarily impacted by changes in operations, fluctuations in demand for uncommitted capacity, commodity prices, changes in cost environment, and timing of cash receipts and payments made. The increase in cash from operating activities for the three and nine months ended September 30, 2026 compared to the same periods in 2025 was primarily attributable to higher net income and an increase in non-cash working capital.

Investing Activities

Cash used in investing activities is primarily related to maintenance and growth capital expenditures. Cash used in investing activities during the three and nine months ended September 30, 2026 was attributable to the Company's cash capital investments of $18 million and $63 million, respectively, compared to cash capital investments of $52 million and $118 million, respectively, in the comparative period of 2025. The decreases were primarily driven by the Company investing in its Blackrod Connection Project in 2025 which was designated as commercially in-service in March 2026.

Financing Activities

Cash used in financing activities primarily relates to dividends paid, debt financing transactions, and share capital transactions. During the three months ended September 30, 2026, the Company allocated $104 million for dividends and repurchased and extinguished debt for $314 million. This was partially offset by $2 million in cash received from option exercises compared to $1 million in cash received from option exercises during the three months ended September 30, 2025.

During the nine months ended September 30, 2026, the Company allocated $312 million for dividends and repurchased and extinguished debt for $314 million. This was partially offset by $9 million in cash received from option exercises compared to $5 million in cash received from option exercises during the nine months ended September 30, 2025.

Long-Term Debt, including Credit Facilities

Long-Term Debt

South Bow's long-term debt is comprised of U.S. and Canadian dollar-denominated Senior Notes (collectively, the "Senior Notes") and U.S. dollar-denominated Junior Notes ("Junior Notes"). Interest rates are fixed on the Senior Notes and Junior Notes, subject to reset at regular intervals for the Junior Notes, and interest is paid semi-annually.

During the three months ended September 30, 2026, the Company repurchased and extinguished $320 million aggregate principal amount of its U.S. dollar-denominated Senior Notes for cash consideration of $314 million, resulting in a $5 million gain on extinguishment, net of unamortized debt issuance costs, recorded in interest income and other in the consolidated statements of income.

The table below summarizes the Senior Notes and Junior Notes issued and outstanding as at September 30, 2026:

U.S.$ millions, except where noted		Principal Repayments [1]					
Debt Instrument	**Amount**	**2026**	**2027**	**2028**	**2029**	**2030**	**After 2030**
Senior Unsecured Notes							
U.S. Dollar-denominated Debt							
Due September 2027 ($700 million, 4.91%)	**591**	—	591	—	—	—	—
Due October 2029 ($1,000 million, 5.03%)	**905**	—	—	—	905	—	—
Due October 2034 ($1,250 million, 5.58%)	**1,156**	—	—	—	—	—	1,156
Due October 2054 ($700 million, 6.18%)	**678**	—	—	—	—	—	678
	3,330	—	591	—	905	—	1,834
Canadian Dollar-denominated Debt							
Due February 2030 (C$450 million, 4.32%)	**317**	—	—	—	—	317	—
Due February 2032 (C$500 million, 4.62%)	**352**	—	—	—	—	—	352
Due February 2035 (C$500 million, 4.93%)	**352**	—	—	—	—	—	352
	1,021	—	—	—	—	317	704
Less: Unamortized Debt Issue Costs	**(21)**						
Total Senior Unsecured Notes	**4,330**	—	591	—	905	317	2,538
Less current portion of Senior Notes	(590)						
Total Non-current Senior Unsecured Notes	**3,740**						
Junior Subordinated Notes							
U.S. Dollar-denominated Debt							
Due March 2055 ($450 million, 7.63%) [2]	**450**	—	—	—	—	—	450
Due March 2055 ($650 million, 7.50%) [3]	**650**	—	—	—	—	—	650
Junior Subordinated Notes	**1,100**	—	—	—	—	—	1,100
Less: Unamortized Debt Issue Costs	**(14)**						
Total Junior Subordinated Notes	**1,086**	—	—	—	—	—	1,100
Total Long-term Debt	**5,416**	**—**	**591**	**—**	**905**	**317**	**3,638**

1. Represents principal amounts to be repaid at maturity.
2. Subject to first rate reset on March 1, 2030 and every fifth year after 2030.
3. Subject to first rate reset on March 1, 2035 and every fifth year after 2035.

Credit Facilities

At September 30, 2026, $1.4 billion (C$2.0 billion) was available and nil was drawn on the Company's four-year, senior unsecured revolving credit facility (the "Facility"), which matures on October 1, 2029. The Company is required to maintain approximately $352 million (C$500 million) of availability under the Facility for financial resource commitments under the Canadian Energy Regulator Act.

South Bow is subject to certain financial covenants on its Facility and was in compliance with its covenants as at September 30, 2026.

Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions	**2026**	2025	**2026**	2025
Interest on Senior Notes	**62**	61	**183**	183
Interest on Junior Notes	**21**	21	**62**	62
Amortization and other financial charges [1]	**3**	5	**10**	9
Capitalized interest	**—**	(3)	**(1)**	(6)
	86	84	**254**	248

1. Includes amortization of debt issuance, premium, and discount costs associated with the Senior Notes and Junior Notes. Other financial charges include bank service charges and carrying charges.

Interest expense increased modestly for the three and nine months ended September 30, 2026, compared to the same periods in 2025, primarily attributable to lower capitalized interest as a result of the Blackrod Connection Project being designated commercially in service in March 2026.

Interest Income and Other

	Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions	**2026**	2025	**2026**	2025
Interest income	**9**	11	**26**	20
Gain on debt extinguishment	**5**	—	**5**	—
Foreign exchange gains (losses)	**(2)**	(2)	**(3)**	3
	12	9	**28**	23

Interest income and other increased during the three months ended September 30, 2026 compared to the same period in 2025, primarily due to a $5 million gain on debt extinguishment, partially offset by lower interest income on the Company's variable tolls. For the nine months ended September 30, 2026, the increase was primarily due to the $5 million gain on debt extinguishment and interest income on the Company's sales-type lease arrangement, partially offset by foreign exchange losses compared to gains in 2025.

Capital Management

U.S.$ millions, except where noted	**September 30, 2026**	December 31, 2025
Cash and cash equivalents	**564**	549
Senior Notes [1]	**4,330**	4,682
Junior Notes	**1,086**	1,086
Net debt	**4,440**	4,806
Net Debt-to-normalized EBITDA Ratio [2]	**4.3**	4.7

1. Includes current and long-term portion of the Company's Senior Notes.
2. For purposes of calculating the net debt-to-normalized EBITDA ratio, normalized EBITDA is calculated using the trailing four quarters of normalized EBITDA from the relevant period end.

A significant portion of South Bow's revenues are from long-term committed contracts. The Company has no material restrictions on its cash and cash equivalents and has no amounts drawn on the Facility, with its nearest long-term debt maturity in 2027. South Bow is well positioned to meet its operating obligations, including quarterly dividend payments, if, as, and when declared by the Board, by utilizing its cash flow from operating activities and available borrowing capacity if, and as, required.

Maintaining a strong balance sheet and financial flexibility is fundamental to South Bow's strategy. At September 30, 2026, the Company's net debt-to-normalized EBITDA ratio was 4.3 times. The Company is committed to prudently managing leverage and expects to enhance its financial resilience, reduce debt service charges, and create additional capacity to fund future growth initiatives and potentially grow shareholder returns.

Share Capital

The Company is authorized to issue an unlimited number of common shares and a number of first and second preferred shares, up to 20 per cent of the number of issued common shares outstanding. As at the date of this MD&A, no first or second preferred shares have been issued.

The following table summarizes South Bow's share capital at September 30, 2026:

U.S.$ millions, except where noted	**Common Shares**	**Common Shares ($)**
Balance at December 31, 2024	208,041,109	2,196
Issued on exercise of stock options	209,403	5
Balance at December 31, 2025	208,250,512	2,201
Issued on exercise of stock options	412,493	9
Balance at September 30, 2026	**208,663,005**	**2,210**

As of the date of this MD&A, the Company has 208,663,005 common shares outstanding and 124,259 stock options outstanding. All outstanding stock options are fully vested and exercisable for one common share.

Dividends

Dividends become payable, if, as, and when declared by the Board. Dividends are declared at the discretion of the Board and subject to various factors, including but not limited to, the Company's distributable cash flow and overall financial performance. The Company’s dividends are designated as eligible dividends for Canadian tax purposes.

On August 5, 2026, the Board approved a quarterly dividend of $0.50 per share, which was paid on October 15, 2026 to shareholders of record at the close of business on September 29, 2026.

On November 4, 2026, the Board approved a quarterly dividend of $0.50 per share, payable on January 15, 2027 to shareholders of record at the close of business on December 31, 2026.

Contractual Obligations and Off-balance Sheet Arrangements

Contractual Obligations

South Bow's contractual obligations include operating leases, purchase obligations, and other liabilities incurred within the business.

U.S.$ millions	Total	2026	2027	2028	2029	2030	After 2030
Operating commitments [1]	**111**	9	8	25	14	15	40
Capital expenditures [2]	**16**	4	—	12	—	—	—
Total	**127**	13	8	37	14	15	40

1. Includes commitments for in-line inspection runs and power.
2. Capital expenditures relate to the remaining post-construction expenditures for the Blackrod Connection Project, in addition to other capital commitments by the Company. Amounts are estimates and subject to variability based on timing of construction and project requirements. Expenditures include obligations for growth projects and are presented based on projects proceeding as currently planned. Any changes to projects, including timing or possible cancellation, could change these estimates.

Guarantees

The Company has guaranteed the Senior Notes and Junior Notes issued by certain subsidiaries. Refer to the *Parental Guarantees of Debt* section of this MD&A for additional details.

South Bow and its partners in certain jointly owned entities have guaranteed the financial performance of these jointly owned entities to a maximum term to 2043. At September 30, 2026, the Company's share of maximum potential exposure under the guarantees is C$56 million (December 31, 2025 - C$56 million). Under these guarantees, if the Company makes a payment that exceeds its share of ownership interest, the additional amount must be reimbursed by the partners of such jointly owned entities.

Off-balance Sheet Arrangements

Except for the guarantees discussed above, as at September 30, 2026, South Bow does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial performance or financial condition.

Specified Financial Measures

Non-GAAP Financial Measures

Throughout this MD&A, South Bow references certain non-GAAP financial measures and non-GAAP ratios which do not have any standardized meaning as prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. These non-GAAP financial measures and non-GAAP ratios include adjustments to the composition of the most directly comparable GAAP measures. Management considers these non-GAAP financial measures and non-GAAP ratios to be important in evaluating and understanding the operating performance and liquidity of South Bow. These non-GAAP financial measures should not be considered in isolation or as a substitute for financial information or measures of performance presented in accordance with GAAP.

South Bow's non-GAAP financial measures presented in this MD&A include normalized EBITDA, segment normalized EBITDA, normalized net income, distributable cash flow, and net debt. Non-GAAP ratios include normalized net income per share and net debt-to-normalized EBITDA. These non-GAAP financial measures and non-GAAP ratios are further described with a reconciliation to their most directly comparable GAAP measure below.

Normalizing Items

Normalized measures are (or include) non-GAAP financial measures and include normalized EBITDA, segment normalized EBITDA, normalized net income, normalized net income per share, distributable cash flow, and net debt-to-normalized EBITDA. Management uses these normalized measures as a way to assess the financial performance of South Bow's operations and compare period-over-period results. During certain reporting periods, the Company may incur costs which are not indicative of core operations or results. These normalized measures represent income (loss) adjusted for specific normalizing items that are believed to be significant; however, are not reflective of South Bow's underlying operations in the period.

These specific normalizing items include gains or losses on sales of assets or assets held for sale, unrealized fair value adjustments related to risk management activities, tariff charges, separation, acquisition, integration, and restructuring costs, and other charges, including but not limited to, impairment, contractual costs, preliminary costs associated with major business development activities (referred to as "Business Development Projects"), and settlements.

South Bow excludes the unrealized fair value adjustments related to risk management activities as these represent the changes in the fair value of derivatives, but do not accurately reflect the gains and losses that will be realized at settlement and impact income. Therefore, the Company does not consider these items reflective of its underlying operations, despite providing effective economic hedges. Realized gains and losses on grade financial contracts are adjusted to improve comparability as they settle in a subsequent period to the underlying transaction they are hedged against.

South Bow excludes tariff charges as they are not reflective of ongoing business conducted by the Company and are subject to uncertainty.

Separation costs relate to internal costs and external fees incurred specific to the Spinoff. These items have been excluded from normalized measures as Management does not consider them reflective of ongoing operations and they are non-recurring in nature.

Business development projects represent initial expenditures incurred by the Company for the evaluation of future growth projects. These costs have been excluded from normalized measures, as Management does not consider them reflective of ongoing operations conducted by the Company.

Gains on the extinguishment of debt have been excluded from normalized measures as Management does not consider them reflective of ongoing operations and they are non-recurring in nature.

Normalized EBITDA and Segment Normalized EBITDA

Normalized EBITDA is a measure indicative of earnings from ongoing operations. Management uses this measure to monitor and evaluate the financial performance of the Company's operations and to identify and evaluate trends. This measure is useful for investors as Management believes it allows for a more accurate comparison of financial performance of the Company across periods for ongoing operations. Normalized EBITDA represents income (loss) before income taxes adjusted for the normalizing items including gains or losses on sales of assets or assets held for sale, unrealized fair value adjustments related to risk management activities, tariff charges, separation, acquisition, integration, and restructuring costs, and other charges, including but not limited to, impairment, contractual costs, preliminary costs associated with major business development projects, and settlements, in addition to excluding charges for depreciation and amortization, interest expense, interest income and other, and other income.

Normalized EBITDA guidance is a forward-looking non-GAAP financial measure. South Bow does not provide a reconciliation of such forward-looking measure to the most directly comparable financial measure calculated and presented in accordance with GAAP due to unknown variables and the uncertainty related to future results. These unknown variables may be inherently difficult to determine without unreasonable efforts. Guidance for normalized EBITDA is calculated in the same manner as described above for historical normalized EBITDA, as applicable.

The following table reconciles income before income taxes to normalized EBITDA for the three and nine months ended September 30, 2026 and 2025, and the three months ended June 30, 2026:

	Three Months Ended			Nine Months Ended	
U.S.$ millions	June 30, 2026	**September 30, 2026**	September 30, 2025	**September 30, 2026**	September 30, 2025
Income before income taxes [1]	174	**108**	104	**382**	344
Adjusted for specific items:					
Depreciation and amortization [1]	65	**62**	64	**191**	189
Interest expense [1]	84	**86**	84	**254**	248
Interest income and other [1]	(5)	**(12)**	(9)	**(28)**	(23)
Other income [1]	—	**—**	(20)	**—**	(20)
Risk management instruments [2]	(37)	**7**	(16)	**2**	(25)
Keystone variable toll disputes [3]	—	**—**	43	**(18)**	43
Separation costs [4]	—	**—**	2	**1**	8
Business development projects [5]	—	**1**	—	**6**	—
Tariff charges [6]	—	**—**	—	**—**	1
Keystone XL costs and other [7]	(1)	**(4)**	2	**(5)**	5
Normalized EBITDA	280	**248**	254	**785**	770

1. Per the consolidated statements of income.
2. Unrealized (gains) losses on risk management instruments recognized by the Marketing segment.
3. Adjustments recorded to revenues in the consolidated statements of income related to historical variable toll disputes. Refer to the *Recent Developments* section of this MD&A for additional details.
4. Expenses recorded within plant operating costs and other in the consolidated statements of income in relation to non-recurring separation-related activities incurred to establish South Bow as an independent company.
5. Expenses recorded within plant operating costs and other in the consolidated statements of income relating to preliminary stages of the Prairie Connector project and transaction costs for unsuccessful projects.
6. Tariff charges incurred on the Company's Marketing activities recorded within plant operating costs and other in the consolidated statements of income.
7. Adjustments and charges recorded in other expenses in the consolidated statements of income relating to Keystone XL termination activities.

The following tables reconcile income (loss) before income tax to normalized EBITDA by operating segment for the three and nine months ended September 30, 2026 and 2025:

	Three Months Ended September 30, 2026			
U.S.$ millions	**Keystone Pipeline System**	**Marketing**	**Intra-Alberta & Other**	**Total**
Income (loss) before income taxes	**179**	**(10)**	**(61)**	**108**
Adjusted for specific items:				
Depreciation and amortization	**59**	**—**	**3**	**62**
Interest expense	**2**	**—**	**84**	**86**
Interest income and other	**(2)**	**—**	**(10)**	**(12)**
Other income	**—**	**—**	**—**	**—**
Risk management instruments	**—**	**7**	**—**	**7**
Keystone variable toll disputes	**—**	**—**	**—**	**—**
Separation costs	**—**	**—**	**—**	**—**
Business development projects	**—**	**—**	**1**	**1**
Tariff charges	**—**	**—**	**—**	**—**
Keystone XL costs and other	**(4)**	**—**	**—**	**(4)**
Segment Normalized EBITDA	**234**	**(3)**	**17**	**248**

U.S.$ millions	Three Months Ended September 30, 2025 Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	178	1	(75)	104
Adjusted for specific items:				
Depreciation and amortization	60	—	4	64
Interest expense	1	—	83	84
Interest income and other	(4)	(2)	(3)	(9)
Other income	(20)	—	—	(20)
Risk management instruments	—	(16)	—	(16)
Keystone variable toll disputes	43	—	—	43
Separation costs	—	—	2	2
Business development projects	—	—	—	—
Tariff charges	—	—	—	—
Keystone XL costs and other	2	—	—	2
Segment Normalized EBITDA	260	(17)	11	254

U.S.$ millions	Nine Months Ended September 30, 2026 Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	**578**	**9**	**(205)**	**382**
Adjusted for specific items:				
Depreciation and amortization	**179**	**—**	**12**	**191**
Interest expense	**2**	**—**	**252**	**254**
Interest income and other	**(10)**	**(3)**	**(15)**	**(28)**
Other income	**—**	**—**	**—**	**—**
Risk management instruments	**—**	**2**	**—**	**2**
Keystone variable toll disputes	**(18)**	**—**	**—**	**(18)**
Separation costs	**—**	**—**	**1**	**1**
Business development projects	**—**	**—**	**6**	**6**
Tariff charges	**—**	**—**	**—**	**—**
Keystone XL costs and other	**(5)**	**—**	**—**	**(5)**
Segment Normalized EBITDA	**726**	**8**	**51**	**785**

U.S.$ millions	Nine Months Ended September 30, 2025 Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Income (loss) before income taxes	530	24	(210)	344
Adjusted for specific items:				
Depreciation and amortization	178	—	11	189
Interest expense	1	—	247	248
Interest income and other	(8)	(2)	(13)	(23)
Other income	(20)	—	—	(20)
Risk management instruments	—	(25)	—	(25)
Keystone variable toll disputes	43	—	—	43
Separation costs	—	—	8	8
Business development projects	—	—	—	—
Tariff charges	—	1	—	1
Keystone XL costs and other	5	—	—	5
Segment Normalized EBITDA	729	(2)	43	770

Normalized Net Income and Normalized Net Income per Share

Normalized net income represents net income adjusted for the normalizing items described above and is used by Management to assess the earnings that it believes are representative of South Bow's operations. By adjusting for non-recurring items and other factors that do not reflect the Company's ongoing performance, the Company believes that normalized net income provides a clearer picture of its continuing operations. These specific normalizing items include gains or losses on sales of assets or assets held for sale, unrealized fair value adjustments related to risk management activities, tariff charges, separation, acquisition, integration, and restructuring costs, and other charges, including but not limited to, impairment, contractual costs, preliminary costs associated with major business development projects, and settlements. This measure is particularly useful for investors as it allows for a more accurate comparison of financial performance and trends across different periods. On a per-share basis, normalized net income is derived by dividing the normalized net income by the weighted average common shares outstanding at the end of the period. Management believes this per-share measure is valuable to investors as it provides insight into the Company's profitability on a per-share basis, making it easier to evaluate the Company's performance.

The following table reconciles net income to normalized net income for the three and nine months ended September 30, 2026 and 2025:

	Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions, except share and per share amounts	**2026**	2025	**2026**	2025
Net income	**99**	93	**310**	277
Adjusted for specific items:				
Other income	**—**	(20)	**—**	(20)
Risk management instruments [1]	**7**	(16)	**2**	(25)
Keystone variable toll disputes [2]	**1**	40	**(18)**	40
Separation costs [3]	**—**	2	**1**	8
Business development projects [4]	**1**	—	**6**	—
Tariff charges [5]	**—**	—	**—**	1
Gain on extinguishment of Senior Notes [6]	**(5)**	—	**(5)**	—
Keystone XL costs and other [7]	**(4)**	2	**(5)**	5
Tax effect of the above adjustments [8]	**—**	(2)	**4**	(2)
Normalized Net Income	**99**	99	**295**	284
Weighted average common shares outstanding - diluted (millions)	**208.8**	208.8	**208.7**	208.7
Normalized Net Income per Share - Diluted	**0.47**	0.47	**1.41**	1.36

1. Unrealized (gains) losses on risk management instruments recognized by the Marketing segment. Recorded within revenues in the consolidated statements of income.
2. Adjustments recorded to revenue and interest income and other in the consolidated statements of income related to historical variable toll disputes and the Withdrawal of Keystone Variable Toll Disputes. Refer to the *Recent Developments* section of this MD&A for additional details.
3. Expenses recorded within plant operating costs and other as adjusted in normalized EBITDA, in addition to interest expense, interest income and other, and other income in the consolidated statements of income. Amounts relate to non-recurring separation-related costs incurred to establish South Bow as an independent company.
4. Expenses incurred within plant operating costs and other in the consolidated statements of income relating to preliminary stages of the Prairie Connector project and transaction costs for unsuccessful projects.
5. Tariff charges incurred on the Company's Marketing business activities recorded within plant operating costs and other in the consolidated statements of income.
6. Gains on the extinguishment of Senior Notes recorded within interest income and other.
7. Adjustments and charges recorded in other expenses in the consolidated statements of income relating to Keystone XL termination activities and other non-recurring charges.
8. Tax effect of the adjustments added to, and deducted from, net income.

Distributable Cash Flow

Distributable cash flow is used to assess the cash generated through business operations that can be used for South Bow's capital allocation decisions, helping investors understand the Company's cash-generating capabilities and its potential for returning value to shareholders. Distributable cash flow is based on income (loss) before income taxes, adjusted for depreciation and amortization, the normalizing items discussed above, and further adjusted for specific items, including income and distributions from the Company's equity investments, maintenance capital expenditures, which are capitalized and generally recoverable through South Bow's tolling arrangements, and current income taxes.

Distributable cash flow guidance is a forward-looking non-GAAP financial measure. South Bow does not provide a reconciliation of such forward-looking measure to the most directly comparable financial measure calculated and presented in accordance with GAAP due to unknown variables and the uncertainty related to future results. These unknown variables may be inherently difficult to determine without unreasonable efforts. Guidance for distributable cash flow is calculated in the same manner as described above for historical distributable cash flow, as applicable.

The following table reconciles income before income taxes to distributable cash flow for the three and nine months ended September 30, 2026 and 2025:

	Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions, except where noted	**2026**	2025	**2026**	2025
Income before income taxes [1]	**108**	104	**382**	344
Adjusted for specific items:				
Depreciation and amortization [1]	**62**	64	**191**	189
Income from equity investments [2]	**(13)**	(12)	**(40)**	(38)
Distributions from equity investments [2]	**21**	14	**42**	51
Maintenance capital expenditures [3]	**(4)**	(11)	**(12)**	(32)
Current income tax recovery (expense) [1]	**13**	71	**(18)**	39
Normalizing items, net of tax [4]	**—**	6	**(15)**	7
Distributable Cash Flow	**187**	236	**530**	560

1. Per the consolidated statements of income.
2. Per the consolidated statements of cash flows.
3. Maintenance capital expenditures are generally recoverable from customers through South Bow's tolling arrangements and are capitalized for GAAP purposes. Refer to the *Capital Program* section of this MD&A for additional details on maintenance capital expenditures.
4. Refers to the adjustments made to normalized net income, net of tax, and includes risk management instruments, Keystone variable toll disputes, separation costs, business development projects, tariff charges, gain on extinguishment of Senior Notes, and Keystone XL costs and other.

Net Debt and Net Debt-to-normalized EBITDA Ratio

Net debt is used as a key leverage measure to assess and monitor South Bow's financing structure. It provides an overview of the Company's long-term debt obligations, net of cash and cash equivalents. This measure is useful for investors as South Bow believes it offers insights into the Company's financial health and its ability to manage and service its debt obligations. Net debt is defined as the sum of total long-term debt less 50 per cent equity treatment of Junior Notes, plus operating lease liabilities and dividends payable, less cash and cash equivalents.

Net debt-to-normalized EBITDA ratio is used to monitor the Company's leverage position relative to its normalized EBITDA for the trailing four quarters. This ratio provides investors with insight into the Company's ability to service its long-term debt obligations relative to its operational performance. A lower ratio indicates stronger financial health and greater capacity to meet its debt obligations.

The following table reconciles total long-term debt to net debt at September 30, 2026, December 31, 2025, and September 30, 2025:

U.S.$ millions, except where noted	**September 30, 2026**	December 31, 2025	September 30, 2025
Senior Notes [1]	**4,330**	4,682	4,665
Junior Notes [1]	**1,086**	1,086	1,086
Total long-term debt	**5,416**	5,768	5,751
Adjusted for:			
Hybrid treatment for Junior Notes [2]	**(543)**	(543)	(543)
Operating lease liabilities [3]	**27**	26	25
Dividends payable [1]	**104**	104	104
Cash and cash equivalents [1]	**(564)**	(549)	(501)
Net Debt	**4,440**	4,806	4,836
Normalized EBITDA for trailing four quarters [4]	**1,037**	1,022	1,060
Net Debt-to-normalized EBITDA Ratio	**4.3**	4.7	4.6

1. Per the consolidated balance sheets. Includes current and long-term portion of the Company's Senior Notes.
2. The Company's Junior Notes receive 50 per cent equity treatment from credit rating agencies. This treatment is captured in the Company's net debt calculation above.
3. Represents the current and long-term operating lease liabilities recorded on the consolidated balance sheets. Current operating lease liabilities are recorded within accounts payable and other and long-term lease liabilities are recorded in other long-term lease liabilities.
4. Calculated as the normalized EBITDA for the trailing four quarters from the applicable period end.

Supplementary Financial Measures

South Bow uses certain supplementary financial measures that are not defined under GAAP but are commonly used in the energy infrastructure industry to evaluate capital allocation and operational performance. These measures include growth capital expenditures, maintenance capital expenditures, separation capital expenditures, and total capital expenditures.

Growth capital expenditures represent capital investments attributable to new projects or expansions that are intended to enhance the Company's capacity or service offerings. Maintenance capital expenditures refer to routine capital investments required to sustain the Company's existing operations and asset base and are generally recoverable through South Bow's tolling arrangements. Separation capital expenditures represent non-recurring capital investments in connection with the Spinoff and are not expected to be recovered through the Company's tolling arrangements. Total capital expenditures represents the sum of the Company's growth capital expenditures, maintenance capital expenditures, and separation capital expenditures.

Accounting Matters

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P"), which are designed to provide reasonable assurance that the material information relating to the Company is made known to the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") by others, particularly during the periods in which annual and interim filings are prepared, and that information required to be disclosed by the Company in its annual, interim filings, or other reports filed or submitted by the Company under Canadian and U.S. securities laws is recorded, processed, summarized, and reported within the time periods specified under those laws and the related rules.

South Bow's Management, including the CEO and CFO, concluded, as a result of the general information technology ("IT") control deficiencies described below, that the Company's DC&P, as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), were not effective as at September 30, 2026, to ensure that information required to be disclosed by the Company in reports that are filed or submitted to Canadian and U.S. securities authorities is recorded, processed, summarized, and reported within the time periods specified in applicable Canadian and U.S. securities laws.

Management's Report on Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"), as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. South Bow's financial reporting process and associated internal controls, including operational controls and procedures for non-financial disclosures, were all designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's accompanying financial statements for external reporting in accordance with GAAP. This design included certain compensating controls and procedures. As previously disclosed, in connection with the audit of the Company's annual consolidated financial statements for the year ended December 31, 2025, Management, with the participation of the CEO and CFO, assessed the effectiveness of the Company's ICFR as of December 31, 2025. Management based its assessment on criteria established in the Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "2013 Framework"). Based on this assessment and the existence of the material weakness described below, Management concluded that the Company did not maintain effective ICFR as of December 31, 2025.

In April 2025, the Company implemented a new enterprise resource planning ("ERP") system and ancillary applications across the entire organization in conjunction with the termination of the use of its Former Parent's ERP system under the Transition Services Agreement. As a result, the Company modified a number of internal controls to accommodate related changes to its information systems and business processes. These changes introduced increased complexity and transition risks within the control environment, resulting in control deficiencies related to general IT controls. Management identified a material weakness related to the design and operating effectiveness of certain general IT controls that are relevant to the preparation of the Company's consolidated financial statements. The Company did not (i) maintain certain change management controls to ensure configuration changes affecting certain IT applications were appropriate; (ii) design and maintain certain program development controls to ensure the data migration, program testing, and approval of a new software development is aligned with business and IT requirements; and (iii) maintain user access controls in all instances to ensure segregation of duties in the Company's financial applications. As a result of these control deficiencies, process-level automated controls that are dependent on configuration in the affected IT environment and manual controls that rely on system-generated data or reports from the affected IT environments were ineffective because certain data derived from IT applications could have been adversely impacted.

A material weakness is a deficiency, or a combination of deficiencies, in ICFR, such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Although Management has performed procedures to gain comfort that the consolidated financial statements are fairly stated in all material respects, the aggregation of these control deficiencies gives rise to the possibility that a material misstatement could occur that may not be prevented or detected in a timely manner. Accordingly, these control deficiencies aggregate within the risk assessment, the control activities, and the information and communication components of the 2013 Framework and constitute a material weakness. The material weakness did not result in any identified material misstatements to the accompanying financial statements, and no adjustments were made to previously issued consolidated financial statements. Management believes the accompanying financial statements as at and for the three and nine months ended September 30, 2026 fairly present, in all material respects, the Company's financial position, results of operations, and cash flows.

Changes in Internal Control over Financial Reporting

Other than with respect to the material weakness and remediation efforts described herein, there were no other changes in the ICFR, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), that occurred during the three months ended September 30, 2026, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. Management will continue to periodically evaluate the Company's DC&P and ICFR, and will make modifications from time to time, as deemed necessary.

The Company continues to monitor and maintain appropriate internal controls during the post-implementation period following the new ERP system implementation, including performance and modification of controls, verifications, and testing to ensure data integrity and completeness.

Based on their inherent limitations, DC&P and ICFR may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Remedial Measures

Management, under the oversight of the Audit Committee, has completed the design and implementation of most remedial measures aimed at addressing the control deficiencies that contributed to the previously identified material weakness in ICFR. Most of the remediation activities were completed during 2025 and the first half of 2026, with the remaining remediation activities completed in the third quarter of 2026 and designed to ensure that the relevant controls are appropriately designed and implemented.

The Company engaged third-party advisors to assist Management in the execution of its remediation plan. Remediation actions implemented to date include the following:

- enhancing the Company's risk assessment and control identification procedures for system and application changes;
- strengthening IT general controls related to new system implementations and application change management; and
- enhancing the training program for IT general controls and related policies, to educate control owners on the principles and requirements of each control and to reinforce expectations for control documentation and evidence of performance, focusing on user access, change management, and segregation of duties over IT systems impacting financial reporting.

While Management believes that the remediation actions described above address the underlying control deficiencies, the material weakness will not be considered remediated (and cannot be deemed fully remediated) until the controls have operated for a sufficient period of time and Management has concluded, through testing, that such controls are operating effectively. In addition, the effectiveness of these controls is subject to independent evaluation by the Company's external auditor. Management will continue to monitor the effectiveness of the remediation efforts as part of its ongoing evaluation of ICFR. If necessary, Management may implement additional measures or modifications to further strengthen the control environment.

Critical Accounting Estimates

In preparing the accompanying financial statements in accordance with GAAP, Management is required to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Critical accounting estimates may significantly impact South Bow's financial position, changes in financial position, and financial performance. There were no changes to South Bow's critical accounting estimates and judgments during the nine months ended September 30, 2026.

Changes in Accounting Policies

The Company has not adopted any new accounting standards during the nine months ended September 30, 2026. Refer to *Note 2, Accounting Policy Changes* of the Company's accompanying financial statements for details on new and amended standards issued but not yet adopted by the Company.

Select Quarterly Financial & Operational Information

The following table presents select quarterly financial and operational information over the last eight quarters:

U.S.$ millions, except per-share, ratios, and operational data, and where noted	2026			2025				2024
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	**503**	546	491	503	461	524	498	488
Income from equity investments	**13**	14	13	14	12	13	13	12
Income before income taxes	**108**	174	100	153	104	126	114	72
Normalized EBITDA [1]	**248**	280	257	252	254	250	266	290
Distributable cash flow [1]	**187**	175	168	149	236	167	157	155
Total capital expenditures [2]	**13**	13	8	42	39	43	64	39
Net income	**99**	134	77	156	93	96	88	55
Weighted average common shares outstanding - diluted (millions)	**208.8**	208.8	208.5	208.8	208.8	208.8	208.7	208.4
Net income per share - diluted	**0.47**	0.64	0.37	0.75	0.45	0.46	0.42	0.26
Normalized net income [1]	**99**	104	92	127	99	87	98	112
Normalized net income per share - diluted [1]	**0.47**	0.50	0.44	0.61	0.47	0.42	0.47	0.54
Dividends declared	**104**	104	104	104	104	104	104	104
Dividends declared per share	**0.50**	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Total long-term debt [3]	**5,416**	5,734	5,751	5,768	5,751	5,774	5,719	5,716
Net debt [1]	**4,440**	4,594	4,738	4,806	4,836	4,903	4,910	4,901
Net debt-to-normalized EBITDA ratio [1]	**4.3**	4.4	4.7	4.7	4.6	4.6	4.6	4.5
Operational Information								
Keystone Pipeline SOF (%) [4]	**95**	93	95	94	92	93	98	96
Keystone Pipeline throughput (Mbbl/d)	**586**	596	616	594	584	544	613	621
U.S. Gulf Coast segment of Keystone Pipeline System throughput (Mbbl/d) [5]	**663**	800	709	680	703	760	726	784
Marketlink throughput (Mbbl/d)	**513**	642	537	531	547	625	549	615

1. Non-GAAP financial measure or ratio that does not have a standard meaning under GAAP. Refer to the *Specified Financial Measures* section of this MD&A for additional details.
2. Total capital expenditures is a supplementary measure. Refer to the *Specified Financial Measures* section of this MD&A for additional details.
3. Total long-term debt includes the Company's Senior Notes and Junior Notes per the consolidated balance sheets of the accompanying financial statements.
4. SOF measures South Bow's ability to deliver crude oil at the planned maximum rate of the Keystone Pipeline System.
5. Comprises throughput originating in Hardisty, Alberta transported on the Keystone Pipeline System, and throughput originating in Cushing, Oklahoma transported on Marketlink for destination in the U.S. Gulf Coast.

Fluctuations in quarterly revenues and earnings are and can be impacted by regulatory decisions, timing of newly constructed assets being placed into service, acquisitions and divestitures, demand for uncommitted transportation services, marketing activities and commodity prices, developments outside of the normal course of operations, certain fair value adjustments, and foreign exchange rates. Over the last eight quarters, the Company's results have been impacted primarily by the following:

- Charges as a result of the Withdrawal of the Keystone Variable Toll Disputes with the CER and FERC that were recorded in the third quarter of 2025. Refer to the *Recent Developments* section of this MD&A for additional details.
- Separation expenses related to the planning, execution, and completion of the Spinoff. The associated costs were primarily recorded beginning in 2024 through 2025.
- Changes in market demand and opportunity for shipping uncommitted volumes, which can impact revenue recorded between quarters.
- Impacts on throughput volumes and revenues associated with the MP-171 incident, which occurred in the second quarter of 2025. Refer to the *Recent Developments* section of this MD&A for additional details.

Third-quarter 2026 Review

The third quarter of 2026 was highlighted by the following events:

- Generated revenues of $503 million and income from equity investments of $13 million compared to revenues of $546 million and income from equity investments of $14 million during the second quarter of 2026. The decrease in revenues was primarily attributable to decreased throughput on the Keystone Pipeline System and unrealized losses on the Marketing segment's risk management instruments.
- Delivered normalized EBITDA of $248 million, compared to $280 million in the second quarter of 2026, reflecting tighter pricing differentials and moderated demand for capacity on the U.S. Gulf Coast segment of the Keystone Pipeline System.
- South Bow declared its quarterly dividend of $0.50 per share on August 5, 2026, which was paid on October 15, 2026 to shareholders of record on September 29, 2026.
- Total Keystone Pipeline System throughput was approximately 586,000 bbl/d, a decrease of approximately 10,000 bbl/d from the second quarter of 2026. Throughput on the U.S. Gulf Coast segment was approximately 663,000 bbl/d, a decrease of approximately 137,000 bbl/d from the second quarter of 2026, as a result of pricing differentials tightening.
- Repurchased and extinguished $320 million of Senior Notes, exiting the period with net debt of $4.4 billion and a net debt-to-normalized EBITDA ratio of 4.3 times compared to net debt of $4.8 billion and a net debt-to-normalized EBITDA ratio of 4.7 times at December 31, 2025.

Risk Management

South Bow is subject to various risks which could have a potential material impact on the Company's financial results and operations. These risks include, but are not limited to, financial risk, operational risk, regulatory risk, market risk, commodity price risk, liquidity risk, foreign exchange risk, and counterparty credit risk.

For details on the risk factors impacting South Bow, refer to the Company's AIF for the year ended December 31, 2025, which is available on South Bow's website at www.southbow.com, under South Bow's SEDAR+ profile at www.sedarplus.ca, and in South Bow's filings with the SEC at www.sec.gov.

Net Investment Hedge

A portion of the Company's entities generate all or most of their earnings in Canadian dollars and, since the Company reports its financial results in U.S. dollars, changes in the value of the Canadian dollar against the U.S. dollar can impact its comprehensive income. If the Company's Canadian dollar-denominated operations continue to grow, this exposure increases.

The Company is exposed to foreign exchange risk in its Canadian-dollar functional currency entity which holds U.S. dollar-denominated debt. This foreign exchange risk is offset by the designation of its U.S. dollar-denominated Junior Notes as a net investment hedge in foreign operations. The net investment hedge is perfectly effective and any foreign exchange gain or loss, as determined by the respective period-end rate, is reported as cumulative translation adjustment within accumulated other comprehensive income ("AOCI").

U.S.$ millions	**September 30, 2026**	December 31, 2025
Notional amount of U.S. dollar-denominated Junior Notes	**1,100**	1,100
Fair value of U.S. dollar-denominated Junior Notes	**1,119**	1,165
Cumulative translation adjustment recognized in AOCI	**(50)**	(12)

Counterparty Credit Risk

South Bow's exposure to counterparty credit risk includes its cash and cash equivalents, accounts receivable, environmental provision and certain contractual recoveries, available-for-sale assets, and the fair value of derivative assets.

The Company had no significant credit losses and no significant amounts impaired at September 30, 2026 and 2025 within normal trade accounts receivable. At September 30, 2026 and 2025, there were no significant credit risk concentrations.

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	This category includes 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 commodity derivatives where fair value is determined using the market approach. Inputs include yield curves and broker quotes from external data service providers.
Level III	This category includes long-dated transactions in certain markets where liquidity is low and the Company uses the most observable inputs available or, alternatively, long-term broker quotes or negotiated commodity prices that have been contracted for under similar terms in determining an appropriate estimate of these transactions. There is uncertainty caused by using unobservable market data which may not accurately reflect possible future changes in fair value.

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

U.S.$ millions	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II) [1]	Significant Unobservable Inputs (Level III) [1]	Total
Derivative instrument assets	**146**	**63**	**—**	**209**
Derivative instrument liabilities	**(146)**	**(60)**	**—**	**(206)**
As at September 30, 2026	**—**	**3**	**—**	**3**
Derivative instrument assets	30	4	—	34
Derivative instrument liabilities	(28)	(1)	—	(29)
As at December 31, 2025	2	3	—	5

1. There were no transfers from Level II to Level III for the periods presented.

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, environmental provision recovery, contractual recoveries, other current assets, other long-term assets, accounts payable and other, 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.

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

Balance Sheet Presentation of Non-derivative Financial Instruments

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

	September 30, 2026		December 31, 2025	
U.S.$ millions	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Senior Notes [1]	**4,330**	**4,218**	4,682	4,745
Junior Notes [1]	**1,086**	**1,119**	1,086	1,165

1. The carrying amount of the Senior Notes and Junior Notes include unamortized debt issuance costs of $21 million and $14 million, respectively (December 31, 2025 - $26 million and $14 million, respectively).

Available-for-sale Assets Summary

The following tables summarize additional information about the Company's Land Matters Consultation Initiative ("LMCI") restricted investments that were classified as available-for-sale assets:

U.S.$ millions	**September 30, 2026**	December 31, 2025
Fair Value of Fixed Income Securities [1, 2]		
Maturing within 5 to 10 years	**89**	—
Maturing after 10 years	**—**	88
	89	88

1. Available-for-sale assets are recorded at fair value and included in other long-term assets on the Company's consolidated balance sheets.
2. Classified in Level II of the fair value hierarchy.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
U.S.$ millions	**2026**	2025	**2026**	2025
Net unrealized gains (losses) [1]	**(4)**	—	**10**	(1)
Net realized gains (losses) [1, 2]	**—**	(1)	**(13)**	(2)

1. Net realized and unrealized gains (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 within other long-term assets and liabilities on the consolidated balance sheets.
2. Net realized losses on the sale of LMCI restricted investments are determined using the average cost basis.

Derivative Instruments

Fair Value of Derivative Instruments

The fair value of 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 binomial 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.

Even though the derivatives are considered to be effective economic hedges, they do not meet the specific criteria for hedge accounting treatment or are not designated as a hedge, and are accounted for at fair value with changes in fair value recorded in net income in the period of change. This may expose the Company to increased variability in reported earnings because the fair value of the derivative instruments can fluctuate significantly from period to period.

Balance Sheet Presentation of Derivative Instruments

The balance sheet classification of the fair value of held-for-trading, commodity derivative instruments was as follows:

U.S.$ millions	**September 30, 2026**	December 31, 2025
Total Derivative Assets (other current assets)	**209**	34
Total Derivative Liabilities (accounts payable and other)	**(206)**	(29)
Total Derivatives [1, 2]	**3**	5

1. Fair value equals carrying value.
2. Includes purchases and sales of crude oil.

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

Notional and Maturity Summary

The maturity and notional amount or quantity outstanding related to the Company's liquids commodity derivative instruments was as follows:

	September 30, 2026	December 31, 2025
Gross purchases volumes (millions of barrels)	**(21)**	(33)
Gross sales volumes (millions of barrels)	**20**	22
Net Purchases Volumes (millions of barrels)	**(1)**	(11)
Maturity dates (year)	**2026-2027**	2026

Unrealized and Realized Gains and Losses on Commodity Derivative Instruments

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
U.S.$ millions	**2026**	2025	**2026**	2025
Derivative Instruments Held for Trading [1]				
Unrealized (losses) gains	**(7)**	17	**(2)**	25
Realized gains	**108**	77	**290**	288
Gains on Derivatives	**101**	94	**288**	313

1. Unrealized (losses) gains and realized gains on derivative instruments held for trading used to purchase and sell crude oil are included on a net basis in revenues on the consolidated statements of income.

Offsetting of Derivative Instruments

South Bow enters into commodity derivative contracts with the right to offset in the normal course of business as well as in the event of default. The Company 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 consolidated balance sheets.

The following tables show 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:

As at September 30, 2026 *U.S.$ millions*	**Gross Derivative Instruments**	**Amounts Available for Offset** [1]	**Net Amounts**
Derivative instrument assets	209	(180)	**29**
Derivative instrument liabilities	(206)	180	**(26)**

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

As at December 31, 2025 *U.S.$ millions*	**Gross Derivative Instruments**	**Amounts Available for Offset** [1]	**Net Amounts**
Derivative instrument assets	34	(28)	**6**
Derivative instrument liabilities	(29)	28	**(1)**

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

With respect to the derivative instruments presented above, the Company provided cash collateral of $13 million and letters of credit of $11 million at September 30, 2026 (at December 31, 2025 – $26 million and $11 million, respectively) to its counterparties. At September 30, 2026, the Company held nil cash collateral and $60 million in letters of credit (at December 31, 2025 – nil and $70 million, respectively) from counterparties on asset exposures.

Credit Risk-related Contingent Features of Derivative Instruments

Derivative contracts entered into to manage market risk often contain financial assurance provisions that allow parties to the contracts to manage credit risk. These provisions may require collateral to be provided if a credit risk-related contingent event occurs, such as a downgrade in South Bow'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. The Company has provided collateral for the derivative instruments with credit risk-related contingent features, recorded within other current assets on the consolidated balance sheets. At September 30, 2026 and December 31, 2025, there were no other derivative instruments that had credit risk-related features for which collateral was not provided.

Parental Guarantees of Debt

On August 28, 2024, the Company completed its initial debt offering which included U.S. and Canadian dollar-denominated Senior Notes and U.S. dollar-denominated Junior Notes issued by certain subsidiaries of South Bow Corporation. The guarantees are full and unconditional. The issuers and guarantors of the U.S. dollar-denominated Senior Notes and Junior Notes are summarized below:

	Issuer and Guarantors ("Obligor Group")
Senior Notes	
Due September 2027 ($591 million, 4.91%) Due October 2029 ($905 million, 5.03%) Due October 2034 ($1,156 million, 5.58%) Due October 2054 ($678 million, 6.18%)	Issued by South Bow USA Infrastructure Holdings LLC and guaranteed by South Bow Infrastructure Holdings Ltd., South Bow Canadian Infrastructure Holdings Ltd., and South Bow Corporation.
Due February 2030 (C$450 million, 4.32%) Due February 2032 (C$500 million, 4.62%) Due February 2035 (C$500 million, 4.93%)	Issued by South Bow Canadian Infrastructure Holdings Ltd. and guaranteed by South Bow Infrastructure Holdings Ltd., South Bow USA Infrastructure Holdings LLC, and South Bow Corporation.
Junior Notes	
Due March 2055 ($450 million, 7.63%) Due March 2055 ($650 million, 7.50%)	Issued by South Bow Canadian Infrastructure Holdings Ltd. and guaranteed by South Bow Infrastructure Holdings Ltd., South Bow USA Infrastructure Holdings LLC, and South Bow Corporation.

The Senior Notes guarantees rank above all subordinated debts, including the Junior Notes, and are equal in payment priority with other non-subordinated debts. They are subordinated to secured debts to the extent of the value of the securing assets. Additionally, they are structurally subordinated to the debts and liabilities of subsidiaries that do not guarantee the Senior Notes. The indentures governing the Senior Notes limit South Bow's ability to: create liens without equally and ratably securing the notes; and engage in certain sale and leaseback transactions. Such indentures also limit South Bow's ability to consolidate, merge, or transfer all or substantially all its assets.

The Junior Notes guarantees are unsecured and rank below all senior debts, including the Senior Notes. They are equal in payment priority with other specified unsecured subordinated debts and are structurally subordinated to the debts of subsidiaries that do not guarantee the Junior Notes. In the event of bankruptcy or insolvency, they rank above common and preferred shares in asset distribution.

The guarantees on the Senior Notes and Junior Notes do not limit the amount of senior indebtedness that South Bow may incur or the amount of other indebtedness or liabilities that South Bow or its subsidiaries may incur, and do not contain any financial or other similar restrictive covenants.

Summarized Financial Information of the Obligor Group

In accordance with Rule 3-10 of the SEC's Regulation S-X, South Bow has provided the following summarized information and disclosures in lieu of filing separate financial statements for each of the guarantors of the securities. The summarized financial information of the Obligor Group is presented on a combined basis and has eliminated intercompany balances and transactions between the entities in the Obligor Group. The summarized financial information excludes information of any subsidiaries who are not issuers or guarantors as well as income from equity method investments. South Bow's credit ratings are based on the accompanying financial statements and therefore the accompanying financial statements provide a more appropriate view of the Company's financial position. The summarized financial information of the Obligor Group is below:

U.S.$ millions	**September 30, 2026**	December 31, 2025
Select Asset Information:		
Current assets	**606**	586
Receivables from non-obligor subsidiaries	**—**	—
Non-current assets	**261**	262
Non-current receivables from non-obligor subsidiaries	**2,137**	2,137
Select Liability Information:		
Current liabilities	**788**	206
Payables to non-obligor subsidiaries	**1,835**	2,493
Non-current liabilities, including guaranteed debt	**4,926**	5,818
Non-current liabilities to non-obligor subsidiaries	**4,137**	4,137

U.S.$ millions	**Nine Months Ended September 30, 2026**
Revenues - external	**—**
Revenues from non-obligor subsidiaries	**—**
Operating loss of Obligor Group	**(467)**
Net loss of Obligor Group	**(538)**

Forward-looking Information

To help the reader understand Management's assessment of South Bow's future plans and financial outlook and future prospects overall, this MD&A includes certain statements and information which constitute forward-looking statements or forward-looking information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "could", "would", "believe", "plan", "intend", "design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential", "outlook", "aim", "purpose", "goal", and similar expressions suggesting future events or future performance.

In particular, forward-looking statements in this MD&A include information and certain financial outlooks, about the following, among other things:

- the Company's financial and operational performance;
- expectations about strategies and goals for optimization, growth, and expansion and the methods South Bow expects to employ to implement such strategies;
- South Bow's capital allocation priorities;
- expectations regarding the advancement of the Prairie Connector project, including anticipated timing of the FID, that the successful open season supports the continued advancement of the project and the Company's share of estimated total pre-FID development costs;
- expectations regarding the advancement of the proposed Liberty Bridge Pipeline project with Bridger and the Company's share of estimated total pre-FID development costs;
- that development cost-sharing agreements with open-season customers related to the Prairie Connector project and the proposed Liberty Bridge Pipeline project will support pre-FID spending associated with these projects;
- that the Company will evaluate accelerating certain pre-FID development spending on the proposed Prairie Connector and Liberty Bridge projects as greater regulatory certainty and permit durability are achieved;
- that the Company will continue to advance remedial actions relating to the MP-171 incident, and the expectation that it will continue to be able to meet all contractual transportation services while operating under the CAO;
- that South Bow's strategically positioned infrastructure continues to play an important role in connecting growing Western Canadian crude oil supply to key refining and export markets;
- expectations that WCSB crude oil supply will remain below available pipeline egress capacity in the near term, that supply growth will outpace incremental egress additions in 2027, and the results and impacts thereof;
- expectations regarding demand for capacity on the U.S. Gulf Coast segment of the Keystone Pipeline System;
- expectations regarding crude oil inventories in Cushing, Oklahoma, and the results and impacts thereof;
- South Bow's financial outlook and annual guidance for 2026 and 2027, including normalized EBITDA, financial charges, expected effective tax rate, distributable cash flow, and capital expenditures;
- South Bow's forecast of normalized EBITDA for each of its segments;
- expected normalized EBITDA in the fourth quarter of 2026 and the reasons therefor;
- expectations that South Bow's net debt-to-normalized EBITDA ratio will decrease modestly through 2027;
- the expected timing of principal repayments and certain other terms of South Bow's Senior Notes and Junior Notes;
- the timing of the Company's nearest debt maturity;
- South Bow's belief that it is well positioned to meet its operating obligations, including quarterly dividend payments, if, as, and when declared by the Board, and anticipated sources of funds;
- the Company's continued commitment to prudently managing leverage and the expectation that it will enhance its financial resilience, reduce debt service charges and create additional capacity to fund future growth initiatives and potentially grow shareholder returns;
- expected dividends and the designation thereof;
- expectations regarding cash flows associated with the Blackrod Connection Project throughout the remainder of 2026 and into 2027;

- South Bow's contractual obligations from 2026 through 2030 and thereafter and the categories thereof;
- the maximum term of South Bow's guarantees for certain jointly-owned entities and the potential exposure thereunder;
- that separation capital expenditures are not expected to be recovered through the Company's tolling arrangements;
- that maintenance capital expenditures are generally expected to be recovered through the Company's tolling arrangements;
- expected capital expenditures, contractual obligations, commitments, and contingent liabilities;
- expected regulatory processes and outcomes;
- the expected impact of future legal and accounting changes;
- the remediation plan and the effectiveness of the actions taken pursuant to the remediation plan to remediate the identified material weakness in the Company's internal controls;
- the possibility that South Bow may need to provide collateral if a credit risk-related contingent event occurs or if the fair value of its derivative financial instruments exceeds pre-defined exposure limits; and
- expected industry, market, and economic conditions, including their impact on South Bow and on its customers and suppliers.

Forward-looking statements do not guarantee future performance. Actual events and results could be significantly different from those implied by forward-looking statements, including because of assumptions, risks, or uncertainties related to South Bow's business or events that happen after the date of this MD&A.

Forward-looking statements are based on a number of different assumptions, predictions, or projections and subject to a number of different risks, including but not limited to the following key assumptions and subject to the following risks and uncertainties:

Assumptions

- realization of expected benefits from acquisitions, divestitures, and the Spinoff;
- regulatory decisions and outcomes;
- forward pricing estimates;
- assumptions regarding the continuation of global trade policies and agreements currently in effect including tariffs;
- planned and unplanned outages and the use of the Company's pipelines;
- integrity and reliability of the Company's assets;
- anticipated construction costs, schedules, and completion dates;
- access to capital markets, including portfolio management;
- expected industry, market and economic conditions, including the impact of these on the Company and on its customers and suppliers;
- future operating costs being consistent with Management's current expectations;
- the Company's ability to maintain current credit ratings;
- the timely and effective implementation of the remediation plan to remediate the material weakness in the Company's internal controls;
- prevailing inflation rates, commodity, and labour prices;
- prevailing interest, tax, and foreign exchange rates;
- changes in U.S. tax legislation and its impacts on lowering current taxes; and
- nature and scope of hedging.

Risks and Uncertainties

- failure to realize the expected benefits from acquisitions, divestitures, and the Spinoff;
- the Company's ability to successfully implement its strategic priorities and whether they will yield the expected benefits;
- the Company's ability to implement a capital allocation strategy aligned with maximizing shareholder value;
- operating performance of the Company's pipelines and storage assets;
- amount of capacity sold and rates achieved in the Company's business;
- changing global trade policies, including tariffs and the impact on the Company's business, financial results, and operations;

- production levels within supply basins;
- construction and completion of capital projects;
- the implementation and effectiveness of the Company's new ERP and supervisory control and data acquisition systems;
- the remediation of the material weakness in the Company's internal controls and the timing thereof;
- identification of additional material weaknesses or deficiencies in the Company's internal controls;
- cost and availability of, and inflationary pressures on, labour, equipment, and materials;
- availability and market prices of commodities;
- access to capital and insurance markets on competitive terms;
- interest, tax, and foreign exchange rates;
- performance and credit risk of the Company's counterparties;
- regulatory decisions and outcomes of legal proceedings, including arbitration and insurance claims;
- the Company's ability to effectively anticipate and assess changes to government policies and regulations, including those related to the environment;
- the Company's ability to realize the value of tangible assets and contractual recoveries;
- competition in the business in which the Company operates;
- unexpected or unusual weather;
- acts of civil disobedience;
- cyber security and technological developments, including artificial intelligence;
- sustainability-related risks;
- impact of energy transition on the Company's business;
- economic conditions in North America as well as globally;
- global health crises, such as pandemics and epidemics, and the impacts related thereto;
- risks involving ongoing geopolitical events including the conflicts in the Middle-East and the impacts related thereto;
- recovery of costs resulting from unexpected pollution or environmental events related to the Company's operations; and
- the other factors discussed under *Risk Management* herein and in the Company's AIF for the year ended December 31, 2025, which is available at www.sedarplus.ca.

The foregoing lists should not be construed as exhaustive. As actual results could vary significantly from the results implied by forward-looking statements, readers should not put undue reliance on forward-looking statements and should not use future-oriented information or financial outlooks for anything other than their intended purpose. South Bow does not update its forward-looking statements due to new information or future events unless required to by law.

Management approved the financial outlooks contained in this MD&A, including 2026 and 2027 normalized EBITDA, 2026 and 2027 financial charges, 2026 and 2027 distributable cash flow, 2026 and 2027 effective tax rates, 2026 and 2027 capital expenditures (including growth and maintenance capital expenditures), and fourth quarter 2026 normalized EBITDA, and the Company’s share of the total amount of pre-FID development costs expected to be incurred in 2026 and 2027 on the proposed Prairie Connector project and the Liberty Bridge projects, which are based on, among other things, the various assumptions disclosed in this MD&A, including those under Forward-looking Information as of the date of this MD&A. The internal projections, expectations, or beliefs are based on the 2026 and 2027 budget, as applicable, which are subject to change in light of ongoing results, prevailing economic conditions, commodity prices, and industry conditions and regulations. The purpose of these financial outlooks is to inform readers about Management's expectations for the Company's financial and operational results in 2026 and 2027, and such information may not be appropriate for other purposes. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and may be material and adverse and, as such, undue reliance should not be placed on such financial outlooks.

South Bow's future shareholder distributions, including but not limited to the payment of dividends, if any, and the level thereof is uncertain. Any decision to pay dividends on South Bow's shares (including the actual amount, the declaration date, the record date and the payment date in connection therewith and any special dividends) will be subject to the discretion of the Board and may depend on a variety of factors, including, without limitation, South Bow's business performance, financial condition, financial requirements, growth plans, expected capital requirements and other conditions existing at such future time including, without limitation, contractual restrictions and satisfaction of the solvency tests imposed on South Bow under applicable corporate law. Further, the actual amount, the declaration date, the record date and the payment date of any dividend are subject to the discretion of the Board. There can be no assurance that South Bow will pay dividends in the future.

Glossary

Below are common abbreviations used within this MD&A:

ACAO	Amended Corrective Action Order
bbl	barrel
bbl/d	barrels per day
C$ or CAD	Canadian dollar
CAO	Corrective Action Order
CER	Canada Energy Regulator
EBITDA	earnings before interest, taxes, depreciation and amortization
ERP	enterprise resource planning
FERC	Federal Energy Regulatory Commission
LMCI	Land Matters Consultation Initiative
Mbbl	thousand barrels
Mbbl/d	thousand barrels per day
MP-14	Refers to the Milepost 14 pipeline incident in December 2022 involving the release of oil from the Keystone Pipeline System into a creek in Washington County, Kansas. Discussed in the *Recent Developments* section.
MP-171	Refers to the Milepost 171 pipeline incident in April 2025 involving the release of oil from the Keystone Pipeline System near Fort Ransom, North Dakota. Discussed in the *Recent Developments* section.
NYSE	New York Stock Exchange
PHMSA	Pipeline and Hazardous Materials Safety Administration
RCA	root cause analysis
TSX	Toronto Stock Exchange
U.S.$ or USD	United States dollar
U.S. GAAP	United States Generally Accepted Accounting Principles
WCSB	Western Canadian Sedimentary Basin

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Balance Sheets

(Unaudited) *U.S.$ millions*	Note	**September 30, 2026**	December 31, 2025
ASSETS			
Current Assets			
Cash and cash equivalents		**564**	549
Accounts receivable		**1,068**	1,107
Inventories		**127**	100
Other current assets		**356**	259
Total Current Assets		**2,115**	2,015
Plant, Property and Equipment, Net		**7,989**	8,210
Equity Investments		**718**	743
Deferred Tax Assets		**27**	23
Other Long-term Assets		**188**	202
TOTAL ASSETS		**11,037**	11,193
LIABILITIES			
Current Liabilities			
Accounts payable and other		**1,339**	1,135
Dividends payable	6	**104**	104
Senior unsecured notes - current	8	**590**	—
Accrued interest		**94**	102
Total Current Liabilities		**2,127**	1,341
Other Long-term Liabilities		**172**	179
Senior Unsecured Notes	8	**3,740**	4,682
Junior Subordinated Notes	8	**1,086**	1,086
Deferred Income Tax Liabilities		**1,249**	1,196
Total Liabilities		**8,374**	8,484
SHAREHOLDERS' EQUITY			
Common shares (2026 - 209 million shares, 2025 - 208 million shares)	6	**2,210**	2,201
Additional paid-in capital		**661**	661
Accumulated deficit		**(34)**	(32)
Accumulated other comprehensive loss		**(174)**	(121)
Total Shareholders' Equity		**2,663**	2,709
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**11,037**	11,193

Contingencies (Note 10)
Variable Interest Entities (Note 11)

See accompanying notes to the consolidated interim financial statements.

Consolidated Statements of Income

(Unaudited)		Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions, except share and per-share amounts	Note	**2026**	2025	**2026**	2025
Revenues	4	**503**	461	**1,540**	1,483
Income from Equity Investments		**13**	12	**40**	38
Operating and Other Expenses					
Plant operating costs and other		**180**	168	**554**	535
Commodity purchases resold		**96**	80	**231**	243
Depreciation and amortization		**62**	64	**191**	189
Other		**(4)**	2	**(4)**	5
		334	314	**972**	972
Other Income		**—**	(20)	**—**	(20)
Financial Charges					
Interest expense	8	**86**	84	**254**	248
Interest income and other	8	**(12)**	(9)	**(28)**	(23)
		74	55	**226**	205
Income before Income Taxes		**108**	104	**382**	344
Income tax expense (recovery)					
Current		**(13)**	(71)	**18**	(39)
Deferred		**22**	82	**54**	106
		9	11	**72**	67
Net Income		**99**	93	**310**	277
Net Income per Common Share - Basic	7	**0.47**	0.45	**1.49**	1.33
Net Income per Common Share - Diluted	7	**0.47**	0.45	**1.49**	1.33
Weighted Average Number of Common Shares (millions) - Basic	7	**208.6**	208.2	**208.5**	208.2
Weighted Average Number of Common Shares (millions) - Diluted	7	**208.8**	208.8	**208.7**	208.7

Consolidated Statements of Comprehensive Income

(Unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions	**2026**	2025	**2026**	2025
Net income	**99**	93	**310**	277
Foreign currency translation - net investment hedge	**—**	(25)	**(38)**	37
Foreign currency translation - other	**1**	22	**(15)**	7
Comprehensive Income	**100**	90	**257**	321

See accompanying notes to the consolidated interim financial statements.

Consolidated Statements of Cash Flows

(Unaudited) *U.S.$ millions*	Note	Three Months Ended September 30, 2026	2025	Nine Months Ended September 30, 2026	2025
Operating Activities					
Net income		**99**	93	**310**	277
Depreciation and amortization		**62**	64	**191**	189
Deferred income tax expense		**22**	82	**54**	106
Income from equity investments		**(13)**	(12)	**(40)**	(38)
Distributions received from operating activities of equity investments		**21**	14	**42**	51
Unrealized loss (gain) on financial instruments	9	**7**	(17)	**2**	(25)
Unrealized foreign exchange loss (gain)		**1**	(11)	**9**	(3)
Gain on debt extinguishment	8	**(5)**	—	**(5)**	—
Other		**—**	(2)	**—**	—
Increase (decrease) in operating working capital		**79**	(15)	**151**	(42)
Net Cash Provided by Operating Activities		**273**	196	**714**	515
Investing Activities					
Capital expenditures		**(18)**	(52)	**(63)**	(118)
Keystone XL contractual recoveries		**—**	—	**—**	3
Proceeds from sales of assets, net of transaction costs		**—**	—	**1**	—
Net Cash Used in Investing Activities		**(18)**	(52)	**(62)**	(115)
Financing Activities					
Repurchase and extinguishment of senior unsecured notes	8	**(314)**	—	**(314)**	—
Exercised stock options	6	**2**	1	**9**	5
Dividends paid		**(104)**	(104)	**(312)**	(312)
Net Cash Used in Financing Activities		**(416)**	(103)	**(617)**	(307)
Effect of foreign exchange rate changes on cash and cash equivalents		**(1)**	8	**(20)**	11
Increase (Decrease) in Cash and Cash Equivalents		**(162)**	49	**15**	104
Cash and Cash Equivalents, Beginning of Period		**726**	452	**549**	397
Cash and Cash Equivalents, End of Period		**564**	501	**564**	501
Supplementary Cash Flow Information					
Cash income taxes paid		**3**	—	**30**	38
Cash interest paid		**83**	66	**248**	260
Capital expenditures non-cash accruals		**5**	(13)	**29**	28

See accompanying notes to the consolidated interim financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited) *U.S.$ millions*	Note	Share Capital	APIC [1]	Accumulated Deficit	AOCI [2]	Total
December 31, 2024		2,196	661	(49)	(198)	2,610
Net income		—	—	277	—	277
Exercise of stock options	6	5	—	—	—	5
Dividends	6	—	—	(312)	—	(312)
Foreign currency translation - net investment hedge		—	—	—	37	37
Foreign currency translation - other		—	—	—	7	7
September 30, 2025		2,201	661	(84)	(154)	2,624
December 31, 2025		2,201	661	(32)	(121)	2,709
Net income		**—**	**—**	**310**	**—**	**310**
Exercise of stock options	6	**9**	**—**	**—**	**—**	**9**
Dividends	6	**—**	**—**	**(312)**	**—**	**(312)**
Foreign currency translation - net investment hedge		**—**	**—**	**—**	**(38)**	**(38)**
Foreign currency translation - other		**—**	**—**	**—**	**(15)**	**(15)**
September 30, 2026		**2,210**	**661**	**(34)**	**(174)**	**2,663**

1. Additional paid-in capital.
2. Accumulated other comprehensive income (loss).

See accompanying notes to the consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Notes to the Consolidated Interim Financial Statements

1. Basis of Presentation and Accounting Policies

These consolidated interim financial statements (the "interim financial statements") of South Bow Corporation ("South Bow" or the "Company") are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and presented in United States dollars ("U.S.$" or "U.S. dollars"). The accounting policies applied are consistent with those outlined in South Bow's annual audited consolidated financial statements for the year ended December 31, 2025, and should be read in conjunction with these interim financial statements.

These interim financial statements reflect all 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. The Company's results for the interim period may not be indicative of results for the fiscal year primarily due to fluctuations in throughput volumes on the Keystone Pipeline System and the marketing activities undertaken by the Company. Results, including revenues, may be impacted by fluctuations in foreign exchange rates, primarily related to the Company's Canadian dollar-denominated operations.

The presentation of certain prior period comparatives has been updated for consistency with the current year's presentation.

Use of Estimates and Judgments

In preparing the interim financial statements, South Bow 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.

2. Accounting Policy Changes

Future Accounting Changes Not Yet Adopted

Disaggregation of Income Statement Expenses

In November 2024, the Financial Accounting Standards Board issued Accounting Standards Update 2024-03 *Disaggregation of Income Statement Expenses*, which requires additional disclosures pertaining to certain costs and expenses in the notes to the consolidated financial statements. This new guidance is effective for annual periods beginning after December 15, 2026, and interim periods within annual periods beginning after December 15, 2027, with early adoption permitted. The guidance is to be applied prospectively, with retrospective application permitted. The Company will adopt the guidance for the year ended December 31, 2027, and is currently evaluating the impact on its consolidated financial statements and related disclosures.

3. Operating Segments Results

South Bow operates through three reportable segments: Keystone Pipeline System, Marketing, and Intra-Alberta & Other, which includes corporate activities. These segments are aligned with the Company's internal management structure and represent distinct business operations that provide products and services within areas of operation.

The following table summarizes segment results for the three months ended September 30, 2026:

Three Months Ended September 30, 2026 *U.S.$ millions*	**Keystone Pipeline System**	**Marketing**	**Intra-Alberta & Other**	**Total**
Revenue from contracts with customers [1]	393	—	9	**402**
Marketing activities	—	101	—	**101**
Other revenues	—	—	—	**—**
Segment Revenues	**393**	**101**	**9**	**503**
Income from equity investments	3	—	10	**13**
Plant operating costs and other [1]	(162)	(15)	(3)	**(180)**
Commodity purchases resold	—	(96)	—	**(96)**
Other segment items [2]	—	7	1	**8**
Segment Normalized EBITDA	**234**	**(3)**	**17**	**248**
Reconciliation to consolidated income (loss) before income taxes				
Interest expense [3]	(2)	—	(84)	**(86)**
Depreciation and amortization	(59)	—	(3)	**(62)**
Interest income and other	2	—	10	**12**
Normalizing items [4]	4	(7)	(1)	**(4)**
Segment Income (Loss) before Income Taxes	**179**	**(10)**	**(61)**	**108**
Capital expenditures [5]	2	—	11	**13**

1. The Chief Operating Decision Maker ("CODM") reviews segment normalized EBITDA with intersegment transactions between entities eliminated. During the three months ended September 30, 2026, the Marketing segment transacted with the Keystone Pipeline System, resulting in $29 million of intercompany revenue in the Keystone Pipeline System segment, with an offsetting expense in the Marketing segment. These transactions are eliminated in segment normalized EBITDA reported to the CODM.
2. Other segment items for all segments include normalizing items that are not representative of the segments' core operations and are adjusted out of segment normalized EBITDA. These include other expenses per the consolidated statements of income, unrealized gains (losses) on derivatives, and Keystone XL costs and other.
3. Interest expense is primarily associated with the Company's long-term debt, recorded in entities within the Intra-Alberta & Other segment. These amounts are not allocated to other segments.
4. Normalizing items are added back to normalized EBITDA to reconcile to consolidated income (loss) before income taxes.
5. Capital expenditures for additions to plant, property and equipment include non-cash accruals.

The following table summarizes segment results for the three months ended September 30, 2025:

Three Months Ended September 30, 2025 *U.S.$ millions*	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Revenue from contracts with customers [1]	237	—	5	**242**
Marketing activities	—	94	—	**94**
Other revenues	125	—	—	**125**
Segment Revenues	**362**	**94**	**5**	**461**
Income from equity investments	2	—	10	**12**
Plant operating costs and other [1]	(147)	(15)	(6)	**(168)**
Commodity purchases resold	—	(80)	—	**(80)**
Other segment items [2]	43	(16)	2	**29**
Segment Normalized EBITDA	**260**	**(17)**	**11**	**254**
Reconciliation to consolidated income (loss) before income taxes				
Interest expense [3]	(1)	—	(83)	**(84)**
Depreciation and amortization	(60)	—	(4)	**(64)**
Interest income and other	4	2	3	**9**
Other income	20	—	—	**20**
Normalizing items [4]	(45)	16	(2)	**(31)**
Segment Income (Loss) before Income Taxes	**178**	**1**	**(75)**	**104**
Capital expenditures [5]	9	—	30	**39**

1. The CODM reviews segment normalized EBITDA with intersegment transactions between entities eliminated. During the three months ended September 30, 2025, the Marketing segment transacted with the Keystone Pipeline System, resulting in $29 million of intercompany revenue in the Keystone Pipeline System segment, with an offsetting expense in the Marketing segment. These transactions are eliminated in segment normalized EBITDA reported to the CODM.
2. Other segment items for all segments include normalizing items that are not representative of the segments' core operations. These include other expenses per the consolidated statements of income, unrealized gains (losses) on derivatives, adjustments relating to Keystone variable toll disputes, separation costs associated with the spinoff from TC Energy Corporation ("Former Parent") to form South Bow as a new publicly traded company, completed on October 1, 2024 (the "Spinoff"), and Keystone XL costs and other.
3. Interest expense is primarily associated with the Company's long-term debt, recorded in entities within the Intra-Alberta & Other segment. These amounts are not allocated to other segments.
4. Normalizing items are added back to normalized EBITDA to reconcile to consolidated income (loss) before income taxes.
5. Capital expenditures for additions to plant, property and equipment include non-cash accruals.

The following table summarizes segment results for the nine months ended September 30, 2026:

Nine Months Ended September 30, 2026 *U.S.$ millions*	**Keystone Pipeline System**	**Marketing**	**Intra-Alberta & Other**	**Total**
Revenue from contracts with customers [1]	1,229	—	21	**1,250**
Marketing activities	—	288	—	**288**
Other revenues	1	—	1	**2**
Segment Revenues	**1,230**	**288**	**22**	**1,540**
Income from equity investments	9	—	31	**40**
Plant operating costs and other [1]	(494)	(51)	(9)	**(554)**
Commodity purchases resold	—	(231)	—	**(231)**
Other segment items [2]	(19)	2	7	**(10)**
Segment Normalized EBITDA	**726**	**8**	**51**	**785**
Reconciliation to consolidated income (loss) before income taxes				
Interest expense [3]	(2)	—	(252)	**(254)**
Depreciation and amortization	(179)	—	(12)	**(191)**
Interest income and other	10	3	15	**28**
Normalizing items [4]	23	(2)	(7)	**14**
Segment Income (Loss) before Income Taxes	**578**	**9**	**(205)**	**382**
Capital expenditures [5]	13	—	21	**34**

1. The CODM reviews segment normalized EBITDA with intersegment transactions between entities eliminated. During the nine months ended September 30, 2026, the Marketing segment transacted with the Keystone Pipeline System, resulting in $100 million of intercompany revenue in the Keystone Pipeline System segment, with an offsetting expense in the Marketing segment. These transactions are eliminated in segment normalized EBITDA reported to the CODM.
2. Other segment items for all segments include normalizing items that are not representative of the segments' core operations and are adjusted out of segment normalized EBITDA. These include other expenses per the consolidated statements of income, unrealized gains (losses) on derivatives, Keystone variable toll disputes, separation costs associated with the Spinoff, expenses for preliminary business development project activities, and charges relating to Keystone XL costs and other.
3. Interest expense is primarily associated with the Company's long-term debt, recorded in entities within the Intra-Alberta & Other segment. These amounts are not allocated to other segments.
4. Normalizing items are added back to normalized EBITDA to reconcile to consolidated income (loss) before income taxes.
5. Capital expenditures for additions to plant, property and equipment include non-cash accruals.

The following table summarizes segment results for the nine months ended September 30, 2025:

Nine Months Ended September 30, 2025 *U.S.$ millions*	Keystone Pipeline System	Marketing	Intra-Alberta & Other	Total
Revenue from contracts with customers [1]	1,029	—	14	**1,043**
Marketing activities	—	313	—	**313**
Other revenues	127	—	—	**127**
Segment Revenues	**1,156**	**313**	**14**	**1,483**
Income from equity investments	7	—	31	**38**
Plant operating costs and other [1]	(477)	(48)	(10)	**(535)**
Commodity purchases resold	—	(243)	—	**(243)**
Other segment items [2]	43	(24)	8	**27**
Segment Normalized EBITDA	**729**	**(2)**	**43**	**770**
Reconciliation to consolidated income (loss) before income taxes				
Interest expense [3]	(1)	—	(247)	**(248)**
Depreciation and amortization	(178)	—	(11)	**(189)**
Interest income and other	8	2	13	**23**
Other income	20	—	—	**20**
Normalizing items [4]	(48)	24	(8)	**(32)**
Segment Income (Loss) before Income Taxes	**530**	**24**	**(210)**	**344**
Capital expenditures [5]	22	—	124	**146**

1. The CODM reviews segment normalized EBITDA with intersegment transactions between entities eliminated. During the nine months ended September 30, 2025, the Marketing segment transacted with the Keystone Pipeline System, resulting in $97 million of intercompany revenue in the Keystone Pipeline System segment, with an offsetting expense in the Marketing segment. These transactions are eliminated in segment normalized EBITDA reported to the CODM.
2. Other segment items for all segments include normalizing items that are not representative of the segments' core operations. These include other expenses per the consolidated statements of income, unrealized gains (losses) on derivatives, adjustments relating to Keystone variable toll disputes, separation costs associated with the Spinoff, tariff charges, and Keystone XL costs and other.
3. Interest expense is primarily associated with the Company's long-term debt, recorded in entities within the Intra-Alberta & Other segment. These amounts are not allocated to other segments.
4. Normalizing items are added back to normalized EBITDA to reconcile to consolidated income (loss) before income taxes.
5. Capital expenditures for additions to plant, property and equipment include non-cash accruals.

The following table summarizes total long-term assets by segment:

U.S.$ millions	**September 30, 2026**	December 31, 2025
Keystone Pipeline System	7,838	8,063
Marketing	12	18
Intra-Alberta & Other	1,072	1,097
	8,922	**9,178**

4. Revenues

Disaggregation of Revenues

U.S.$ millions	Three Months Ended September 30, 2026	Three Months Ended September 30, 2025	Nine Months Ended September 30, 2026	Nine Months Ended September 30, 2025
Revenues from contracts with customers				
Capacity arrangements and transportation [1]	**402**	411	**1,250**	1,212
Other [2]	**—**	(169)	**—**	(169)
	402	242	**1,250**	1,043
Marketing activities [3]	**101**	94	**288**	313
Other revenues	**—**	125	**2**	127
Total Revenues	**503**	461	**1,540**	1,483

1. For the three and nine months ended September 30, 2026, capacity arrangements and transportation revenues include $9 million and $22 million, respectively (2025 – $5 million and $14 million, respectively) relating to the Intra-Alberta & Other segment. The remaining revenue relates to the Company's Keystone Pipeline System segment.
2. Other revenues from contracts with customers of $169 million for the three and nine months ended September 30, 2025, relate to amounts accrued under the Withdrawal of Variable Toll Disputes. Other revenues also include $126 million accrued for the indemnification asset from the Former Parent in connection with the Withdrawal of Variable Toll Disputes.
3. Relates to revenue from the Company's marketing activities and financial instruments. Refer to *Note 9, Risk Management and Financial Instruments* for additional information.

For the three months ended September 30, 2026, four major customers accounted for $151 million, $82 million, $44 million, and $44 million, respectively, in revenues, each representing more than 10 per cent of total revenues from contracts with customers (2025 – three major customers accounted for $156 million, $83 million, and $48 million, respectively).

For the nine months ended September 30, 2026, four major customers accounted for $461 million, $243 million, $133 million, and $125 million, respectively, in revenues, each representing more than 10 per cent of total revenues from contracts with customers (2025 – three major customers accounted for $471 million, $240 million, and $135 million, respectively).

Contract Balances

U.S.$ millions	September 30, 2026	December 31, 2025	Affected Line Item on the Consolidated Balance Sheets
Receivables from contracts with customers	**228**	475	Accounts receivable
Contract liabilities [1]	**17**	16	Accounts payable and other
Long-term contract liabilities	**23**	24	Other long-term liabilities

1. During the three and nine months ended September 30, 2026, $3 million and $9 million, respectively (2025 – $3 million and $9 million, respectively), of revenues were recognized that were included in contract liabilities at the beginning of the year.

Contract liabilities and long-term contract liabilities represent unearned revenue for contracted services.

Future Revenues from Remaining Performance Obligations

As at September 30, 2026, future revenues from long-term pipeline capacity arrangements and transportation contracts extending through 2048 are approximately $5.9 billion, of which approximately $256 million is expected to be recognized through the remainder of 2026.

Revenues related to the following are not included in the future revenues above:

- contracts with performance obligations that have original expected duration of one year or less; and
- constrained variable considerations from uncontracted capacity as volumes cannot be estimated.

5. Spinoff Transaction

The Spinoff was executed under a Separation Agreement with various other agreements outlining the governance of the Company's relationship with its Former Parent during a transition period, including, but not limited to, the Transition Services Agreement ("TSA"), the Tax Matters Agreement, and the Employee Matters Agreement. During the nine months ended September 30, 2026, the Former Parent billed the Company nominal charges for services pursuant to the TSA (2025 - $8 million).

The Separation Agreement outlines key provisions of the separation of South Bow into a standalone entity and specifies the assets, liabilities, and contracts assigned to the Company in the Spinoff, as well as certain indemnification obligation arrangements for ongoing matters which existed prior to Spinoff. Under this agreement, the Former Parent agreed to indemnify South Bow for 86 per cent of total assets, liabilities, and costs associated with the Milepost 14 ("MP-14") incident, Keystone XL contractual recoveries, and the variable toll disputes on the Keystone Pipeline System up to October 1, 2024, subject to a maximum liability to South Bow of $21 million (C$30 million), in aggregate.

During the three months ended September 30, 2026, the Company paid $8 million relating to indemnified liabilities associated with the Withdrawal of Keystone Variable Toll Disputes. As a result of this payment, the Company reached the maximum liability provided for under the Separation Agreement.

At September 30, 2026, the Company has remaining liabilities of $30 million relating to the MP-14 costs as well as a $30 million receivable from its Former Parent under the indemnification terms. Refer to *Note 10, Contingencies* for additional information.

6. Common Shares

The Company is authorized to issue an unlimited number of common shares and first and second preferred shares up to 20 per cent of the issued common shares outstanding.

U.S.$ millions, except where noted	Common Shares	Common Shares ($)
Balance at December 31, 2024	208,041,109	2,196
Issued on exercise of stock options	209,403	5
Balance at December 31, 2025	208,250,512	2,201
Issued on exercise of stock options	412,493	9
Balance at September 30, 2026	**208,663,005**	**2,210**

Dividends Declared

The Company's dividend payable of $104 million ($0.50 per share) was declared on August 5, 2026, and paid on October 15, 2026, to shareholders of record at the close of business on September 29, 2026.

7. Net Income per Share

The following table summarizes the Company's net income per share for the three and nine months ended September 30, 2026 and 2025:

	Three Months Ended September 30,		Nine Months Ended September 30,	
U.S.$ millions, except share and per-share amounts	**2026**	2025	**2026**	2025
Net income	**99**	93	**310**	277
Weighted average common shares outstanding (millions) - basic	**208.6**	208.2	**208.5**	208.2
Net Income per Share - Basic	**0.47**	0.45	**1.49**	1.33
Dilutive impact of share-based awards (millions) [1]	**0.2**	0.6	**0.2**	0.5
Weighted average common shares outstanding (millions) - diluted	**208.8**	208.8	**208.7**	208.7
Net Income per Share - Diluted	**0.47**	0.45	**1.49**	1.33

1. The dilutive impact considers the effect of the potential exercise of share-based awards and excludes any effect where the potential exercise would be anti-dilutive. At September 30, 2026, nil options were considered anti-dilutive (September 30, 2025 - nil options).

8. Debt

Long-term Debt

The Company completed its initial debt offering on August 28, 2024, comprised of U.S. and Canadian dollar-denominated senior unsecured notes (collectively, the "Senior Notes") and U.S. dollar-denominated junior subordinated notes (the "Junior Notes"). Interest rates are fixed on these notes, and interest is paid semi-annually. The Senior Notes are unsecured and rank equal in right of payment with all existing and future senior indebtedness. The Senior Notes rank senior in right of payment to all future indebtedness that is expressly subordinated in right of payment to the notes (including the Junior Notes).

During the three months ended September 30, 2026, the Company repurchased and extinguished $320 million aggregate principal amount of its U.S. dollar-denominated Senior Notes for cash consideration of $314 million, resulting in a $5 million gain on extinguishment, net of unamortized debt issuance costs, recorded in interest income and other in the consolidated statements of income. The following tables summarize the Senior Notes and Junior Notes outstanding as at September 30, 2026 and December 31, 2025:

U.S.$ millions, except where noted			September 30, 2026	December 31, 2025
Debt Instrument	**Maturity**	**Rate**	**Amount Outstanding**	
U.S. Dollar-denominated Debt				
Senior unsecured notes	September 2027	4.91 %	**591**	700
Senior unsecured notes	October 2029	5.03 %	**905**	1,000
Senior unsecured notes	October 2034	5.58 %	**1,156**	1,250
Senior unsecured notes	October 2054	6.18 %	**678**	700
			3,330	3,650
Canadian Dollar-denominated Debt				
Senior unsecured notes (C$450 million)	February 2030	4.32 %	**317**	328
Senior unsecured notes (C$500 million)	February 2032	4.62 %	**352**	365
Senior unsecured notes (C$500 million)	February 2035	4.93 %	**352**	365
			1,021	1,058
Less: unamortized debt issue costs and other			**(21)**	(26)
Total Senior Notes			**4,330**	4,682
Less current portion of Senior Notes			(590)	—
Total Non-current Senior Notes			**3,740**	**4,682**

U.S.$ millions, except where noted			September 30, 2026	December 31, 2025
Debt Instrument	**Maturity**	**Rate**	**Amount Outstanding**	
U.S. Dollar-denominated Debt				
Junior subordinated notes [1]	March 2055	7.63 %	**450**	450
Junior subordinated notes [2]	March 2055	7.50 %	**650**	650
			1,100	1,100
Less: unamortized debt issue costs and other			**(14)**	(14)
Total Junior Notes			**1,086**	1,086

1. Subject to first rate reset on March 1, 2030 and every fifth year after 2030.
2. Subject to first rate reset on March 1, 2035 and every fifth year after 2035.

Principal Repayments

At September 30, 2026, principal repayments on the Company's long-term debt were as follows:

U.S.$ millions	Total	2026	2027	2028	2029	2030	Thereafter
Long-term debt principal repayments	**5,451**	—	591	—	905	317	3,638

Interest Expense

U.S.$ millions	Three Months Ended September 30, 2026	2025	Nine Months Ended September 30, 2026	2025
Interest on Senior Notes [1]	**62**	61	**183**	183
Interest on Junior Notes [1]	**21**	21	**62**	62
Amortization and other financial charges [2]	**3**	5	**10**	9
Capitalized interest	**—**	(3)	**(1)**	(6)
	86	84	**254**	248

1. Interest on Senior Notes and Junior Notes is paid semi-annually. At September 30, 2026, accrued interest for the Senior Notes was $87 million (December 31, 2025 - $74 million) and accrued interest on the Junior Notes was $7 million (December 31, 2025 - $28 million).
2. Includes amortization of debt issuance, premium, and discount costs associated with Senior Notes and Junior Notes. Other financial charges include bank service charges and carrying charges.

Credit Facilities

On October 3, 2025, the Company renewed its four-year senior unsecured revolving credit facility of $1.4 billion (C$2.0 billion), extending its maturity to October 1, 2029. The commitment remains at C$2.0 billion with no modifications made to the Facility's financial covenants. At September 30, 2026, $1.4 billion (C$2.0 billion) of capacity was available and nil was drawn on the Facility.

The Company's Facility includes affirmative, negative, and financial covenants that require the Company to comply with certain operational and financial requirements on an ongoing basis, which, if breached, could result in accelerated repayment or termination of the agreement. As at September 30, 2026, the Company was in compliance with the covenants in all material respects.

The Company has three additional Canadian dollar-denominated bi-lateral credit facilities in place. At September 30, 2026, the total capacity of these facilities was $106 million (C$150 million), with outstanding letters of credit of $19 million (C$28 million) currently drawn against them.

Interest Income and Other

U.S.$ millions	Three Months Ended September 30, 2026	2025	Nine Months Ended September 30, 2026	2025
Interest income	**9**	11	**26**	20
Gain on debt extinguishment	**5**	—	**5**	—
Foreign exchange gains (losses)	**(2)**	(2)	**(3)**	3
	12	9	**28**	23

9. Risk Management and Financial Instruments

Risk Management Overview

The Company has exposure to various financial risks and has strategies, policies, and limits in place to manage the impact of these risks on its earnings and cash flows.

Risk management strategies, policies, and limits are designed to ensure the Company's risks and related exposures are in line with South Bow's business objectives and risk tolerance. The Company's risks are managed within limits that are established by the Board of Directors (the "Board"), implemented by Management, and monitored by the risk management, internal audit, and business segment groups. South Bow's Audit Committee and Governance & Risk Committee of the Board oversee how Management monitors compliance with risk management policies and procedures, as well as Management's review of the adequacy of the Company's risk management framework.

Market Risk

The Company constructs and invests in crude oil pipeline systems, purchases and sells commodities, including amounts in foreign currencies, and invests in foreign operations. Certain of these activities expose the Company to market risk from changes in commodity prices, foreign exchange, and liquidity risk, which may impact the Company's earnings, cash flows, and the value of its financial assets and liabilities. The Company assesses contracts used to manage market risk to determine whether all, or a portion, meets the definition of a derivative.

Derivative contracts that the Company uses to assist in managing exposure to market risk may include the following:

- forwards and futures contracts – agreements to purchase or sell a specific financial instrument or liquids commodity at a specified price and date in the future; and
- options – agreements that convey the right, but not the obligation, of the purchaser to buy or sell a specific amount of a financial instrument or commodity at a fixed price, either at a fixed date or at any time within a specified period.

Commodity Price Risk

The Company's marketing business enters into pipeline and storage terminal capacity contracts as well as crude oil purchase and sale agreements, fixing a portion of the exposure on these contracts by entering into financial instruments to manage price fluctuations that arise from physical commodity transactions.

Crude oil prices could impact investment in upstream development, expansion, and production, which could impact opportunities for the Company to expand its asset base or re-contract with customers as contractual agreements expire.

Liquidity Risk

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. South Bow manages liquidity risk by maintaining bank credit facilities, continuously managing forecasted and actual cash flows, and monitoring the maturity profiles of financial assets and liabilities. The Company has access to a wide range of funding at competitive rates through capital markets and banks to meet the immediate and ongoing requirements of the business.

Foreign Exchange Risk

A portion of the Company's entities generate all or most of their earnings in Canadian dollars and, since the Company reports its financial results in U.S. dollars, changes in the value of the Canadian dollar against the U.S. dollar can impact its comprehensive income. If the Company's Canadian dollar-denominated operations continue to grow, this exposure increases.

South Bow is exposed to foreign exchange risk in its Canadian-dollar functional currency entity which holds U.S. dollar-denominated debt. This foreign exchange risk is offset by the designation of its U.S. dollar-denominated Junior Notes as a net investment hedge in foreign operations. The net investment hedge is perfectly effective and any foreign exchange gain or loss, as determined by the respective period-end rate, is reported as cumulative translation adjustment within AOCI.

U.S.$ millions	**September 30, 2026**	December 31, 2025
Notional amount of U.S. dollar-denominated Junior Notes	**1,100**	1,100
Fair value of U.S. dollar-denominated Junior Notes	**1,119**	1,165
Cumulative translation adjustment recognized in AOCI	**(50)**	(12)

Counterparty Credit Risk

South Bow's exposure to counterparty credit risk includes its cash and cash equivalents, accounts receivable, environmental provision recovery, contractual recoveries and certain available-for-sale financial assets, and derivative assets.

At times, the Company's counterparties may endure financial challenges resulting from commodity price and market volatility, economic instability, and political or regulatory changes. In addition to actively monitoring these situations, there are a number of factors that reduce the Company's counterparty credit risk exposure in the event of default, including:

- contractual rights and remedies, together with the utilization of contractually-based financial assurances;
- the competitive position of the Company's assets and the demand for the Company's services; and
- the potential recovery of unpaid amounts through bankruptcy and similar proceedings.

South Bow 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. The Company uses historical credit loss and recovery data, adjusted for Management's judgment regarding current economic and credit conditions, along with reasonable and supportable forecasts to determine any impairment, which is recognized in plant operating costs and other in the consolidated statements of income.

Entering into derivative instruments may result in exposure to credit risk from the possibility that a counterparty will default on its contractual obligations. In order to mitigate this risk, the Company enters into derivative transactions primarily with institutions that possess strong investment-grade credit ratings. Credit risk relating to derivative counterparties is mitigated through the maintenance and monitoring of credit exposure limits, contractual requirements, and netting arrangements. The Company also reviews counterparty credit exposure using external credit rating services and other analytical tools to manage credit risk.

The Company had no significant credit losses and no significant amounts impaired at September 30, 2026 and 2025, respectively, within trade accounts receivable. At September 30, 2026 and 2025, there were no significant credit risk concentrations.

The Company has significant credit and performance exposure to financial institutions that hold cash. The Company's portfolio of financial sector exposure consists primarily of highly rated investment-grade, systemically important financial institutions.

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	This category includes 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 commodity derivatives where fair value is determined using the market approach. Inputs include yield curves and broker quotes from external data service providers.
Level III	This category includes long-dated transactions in certain markets where liquidity is low and the Company uses the most observable inputs available or, alternatively, long-term broker quotes or negotiated commodity prices that have been contracted for under similar terms in determining an appropriate estimate of these transactions. There is uncertainty caused by using unobservable market data which may not accurately reflect possible future changes in fair value.

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

U.S.$ millions	Quoted Prices in Active Markets (Level I)	Significant Other Observable Inputs (Level II) [1]	Significant Unobservable Inputs (Level III) [1]	Total
Derivative instrument assets	**146**	**63**	**—**	**209**
Derivative instrument liabilities	**(146)**	**(60)**	**—**	**(206)**
As at September 30, 2026	**—**	**3**	**—**	**3**
Derivative instrument assets	30	4	—	34
Derivative instrument liabilities	(28)	(1)	—	(29)
As at December 31, 2025	2	3	—	5

1. There were no transfers from Level II to Level III for the periods presented.

Non-derivative Financial Instruments

Fair Value of Non-derivative Financial Instruments

Available-for-sale assets are recorded at fair value, which is calculated using quoted market prices where available. Certain non-derivative financial instruments included in cash and cash equivalents, accounts receivable, other current assets, other long-term assets, accounts payable and other, 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.

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

Balance Sheet Presentation of Non-derivative Financial Instruments

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

	September 30, 2026		December 31, 2025	
U.S.$ millions	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Senior Notes [1]	**4,330**	**4,218**	4,682	4,745
Junior Notes [1]	**1,086**	**1,119**	1,086	1,165

1. The carrying amount of the Senior Notes and Junior Notes include unamortized debt issuance costs of $21 million and $14 million, respectively (December 31, 2025 - $26 million and $14 million, respectively).

Available-for-sale Assets Summary

The following tables summarize additional information about the Company's Land Matters Consultation Initiative ("LMCI") restricted investments that were classified as available-for-sale assets:

U.S.$ millions	**September 30, 2026**	December 31, 2025
Fair Value of Fixed Income Securities [1, 2]		
Maturing within 5 to 10 years	**89**	—
Maturing after 10 years	**—**	88
	89	88

1. Available-for-sale assets are recorded at fair value and included in other long-term assets on the consolidated balance sheets.
2. Classified in Level II of the fair value hierarchy.

U.S.$ millions	Three Months Ended September 30, 2026	2025	Nine Months Ended September 30, 2026	2025
Net unrealized gains (losses) [1]	**(4)**	—	**10**	(1)
Net realized gains (losses) [1, 2]	**—**	(1)	**(13)**	(2)

1. Net unrealized gains (losses) and net realized 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 within other long-term assets and liabilities on the consolidated balance sheets.
2. Net realized losses on the sale of LMCI restricted investments are determined using the average cost basis.

Derivative Instruments

Fair Value of Derivative Instruments

The fair value of 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. 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.

Even though the derivatives are considered to be effective economic hedges, they do not meet the specific criteria for hedge accounting treatment or are not designated as a hedge and are accounted for at fair value, with changes in fair value recorded in net income in the period of change. This may expose the Company to increased variability in reported earnings because the fair value of the derivative instruments can fluctuate significantly from period to period.

Balance Sheet Presentation of Derivative Instruments

The balance sheet classification of the fair value of held-for-trading, commodity derivative instruments was as follows:

U.S.$ millions	September 30, 2026	December 31, 2025
Total Derivative Assets (other current assets)	**209**	34
Total Derivative Liabilities (accounts payable and other)	**(206)**	(29)
Total Derivatives [1, 2]	**3**	5

1. Fair value equals carrying value.
2. Relates to purchases and sales of crude oil.

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

Notional and Maturity Summary

The maturity and notional amount or quantity outstanding related to the Company's liquids commodity derivative instruments was as follows:

	September 30, 2026	December 31, 2025
Gross purchases volumes (millions of barrels)	**(21)**	(33)
Gross sales volumes (millions of barrels)	**20**	22
Net Purchases Volumes (millions of barrels)	**(1)**	(11)
Maturity dates (year)	**2026-2027**	2026

Unrealized and Realized Gains and Losses on Commodity Derivative Instruments

U.S.$ millions	Three Months Ended September 30, **2026**	2025	Nine Months Ended September 30, **2026**	2025
Derivative Instruments Held for Trading [1]				
Unrealized (losses) gains	**(7)**	17	**(2)**	25
Realized gains	**108**	77	**290**	288
Gains on Derivatives	**101**	94	**288**	313

1. Unrealized (losses) gains and realized gains on derivative instruments held for trading used to purchase and sell crude oil are included on a net basis in revenues in the consolidated statements of income.

Offsetting of Derivative Instruments

South Bow enters into commodity derivative contracts with the right to offset in the normal course of business as well as in the event of default. The Company 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 consolidated balance sheets.

The following tables show 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:

As at September 30, 2026 *U.S.$ millions*	**Gross Derivative Instruments**	**Amounts Available for Offset** [1]	**Net Amounts**
Derivative instrument assets	209	(180)	**29**
Derivative instrument liabilities	(206)	180	**(26)**

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

As at December 31, 2025 *U.S.$ millions*	**Gross Derivative Instruments**	**Amounts Available for Offset** [1]	**Net Amounts**
Derivative instrument assets	34	(28)	6
Derivative instrument liabilities	(29)	28	(1)

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

With respect to the derivative instruments presented above, the Company provided cash collateral of $13 million and letters of credit of $11 million at September 30, 2026 (December 31, 2025 – $26 million and $11 million, respectively) to its counterparties. At September 30, 2026, the Company held nil cash collateral and $60 million in letters of credit (December 31, 2025 – nil and $70 million, respectively) from counterparties on asset exposures.

Credit Risk-related Contingent Features of Derivative Instruments

Derivative contracts entered into to manage market risk often contain financial assurance provisions that allow parties to the contracts to manage credit risk. These provisions may require collateral to be provided if a credit risk-related contingent event occurs, such as a downgrade in South Bow'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. The Company has provided collateral for the derivative instruments with credit risk-related contingent features, recorded within other current assets on the consolidated balance sheets. At September 30, 2026 and December 31, 2025, there were no other derivative instruments that had credit risk-related features for which collateral was not provided.

10. Contingencies

Withdrawal of Keystone Variable Toll Disputes

Effective September 30, 2025, the Company and associated parties agreed to withdraw all complaints and protests associated with the Keystone variable toll disputes previously filed with the Canada Energy Regulator ("CER"), Federal Energy Regulatory Commission, Court of King's Bench of Alberta, and D.C. Circuit Court (collectively, the "Withdrawal of Keystone Variable Toll Disputes"). Pursuant to an associated partial release of indemnification agreement and the Separation Agreement, the Former Parent was obligated to indemnify South Bow for certain amounts agreed to under the Withdrawal of Keystone Variable Toll Disputes.

During the three months ended September 30, 2026, the Company made $8 million in payments relating to indemnified liabilities and $6 million related to non-indemnified liabilities associated with the Withdrawal of Keystone Variable Toll Disputes. As at September 30, 2026, the Company has remaining liabilities of $22 million, discounted at the Company's credit adjusted rate, that are not subject to indemnification terms, due in the third quarter of each of the next four years.

CER Ruling

During the fourth quarter of 2025, the CER approved the Company's application for collection of the final adjusted variable tolls for the 2020 to 2024 period. As a result of the approval of the final tolls, the Company is no longer subject to interim tolling and has collected the final adjusted variable tolls for the 2020 to 2024 period from its Keystone Pipeline Canada customers during the period ended March 31, 2026.

Milepost 171 Incident

On April 8, 2025, the Company responded to an oil release of approximately 3,500 barrels at Milepost 171 ("MP-171") on the Keystone Pipeline, near Fort Ransom, North Dakota. On April 11, 2025, the Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued a Corrective Action Order ("CAO"), requiring South Bow to undertake certain corrective actions in response to the MP-171 incident, including the completion of an independent third-party root cause analysis ("RCA") along with mechanical and metallurgical testing. On April 15, 2025, South Bow safely restarted the Keystone Pipeline under certain operating pressure restrictions after receiving regulatory approval from PHMSA. In early June 2025, South Bow completed the cleanup and reclamation of the incident site.

Findings and recommendations from the independent third-party RCA were released by PHMSA on February 11, 2026 and have been incorporated into South Bow's remedial work plan. The Company continues to advance remedial actions through its operations programs and continues to be able to meet all contractual transportation services while operating under the CAO.

Milepost 14 Incident

In December 2022, the MP-14 incident occurred on the Keystone Pipeline in Washington County, Kansas. As a result of the incident, the Company was subject to an Amended Corrective Action Order issued by PHMSA. By June 2023, the recovery of all released volumes was completed, and by October 2023, creek restoration was finished, returning natural flows to Mill Creek. In January 2025, the Company received PHMSA's approval of its remedial work plan. This approval culminated the completion of 2,145 miles of in-line inspections across the Keystone Pipeline System and 68 investigative digs over a two-year period. In March 2025, South Bow received approval from PHMSA to lift the pressure restriction on the affected segment to 72 per cent of the specified minimum yield strength of the pipeline.

The remaining balance related to ongoing long-term monitoring, reflected in accounts payable and other and other long-term liabilities on the consolidated balance sheets was $1 million and $1 million, respectively, at September 30, 2026 (December 31, 2025 – $3 million and $7 million, respectively).

In July 2026, the U.S. Department of Justice, on behalf of the U.S. Environmental Protection Agency and the State of Kansas, announced a Clean Water Act consent decree with South Bow related to the MP-14 incident. Under the proposed consent decree, South Bow agreed to pay a total of $30 million in fines and penalties and perform pipeline integrity and other preventative measures on the Keystone Pipeline. The Company has a payable for amounts under the consent decree and a corresponding receivable from the Former Parent pursuant to the indemnification provisions of the Separation Agreement. South Bow has reached the maximum liability under the Separation Agreement. Refer to *Note 5, Spinoff Transaction* for additional details.

Other Proceedings

In addition to the proceedings above, the Company is subject to various legal proceedings, arbitration, and actions arising in the normal course of business. The amounts involved in such proceedings are not reasonably estimable as the final outcome of such legal proceedings cannot be predicted with certainty. It is the opinion of Management that the ultimate resolution of such proceedings and actions will not have a material impact on the Company's financial position or results of operations.

11. Variable Interest Entities

Consolidated Variable Interest Entities

Certain of the Company's assets and liabilities are held through variable interest entities ("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 for the settlement of the VIE's obligations, or are not considered a business, were as follows:

U.S.$ millions	**September 30, 2026**	December 31, 2025
ASSETS		
Current Assets		
Cash and cash equivalents	**2**	2
Accounts receivable	**4**	3
Other current assets	**6**	4
	12	9
Plant, property and equipment, net	**242**	249
Net investment in lease	**39**	38
	293	296
LIABILITIES		
Current Liabilities		
Accounts payable and other	**22**	32
	22	32
Other Long-term Liabilities	**14**	15
	36	47

Non-consolidated VIEs

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

U.S.$ millions	**September 30, 2026**	December 31, 2025
Balance Sheet		
Equity investments	**627**	652
Off-balance Sheet		
Guarantees [1]	**40**	41
Maximum Exposure to Loss	**667**	693

1. Guarantees for the current and comparative period totalled C$56 million.

As at September 30, 2026, the amount due from non-consolidated VIEs of $3 million (December 31, 2025 - $6 million) is included in accounts receivable on the consolidated balance sheets. As at September 30, 2026, the amount due to non-consolidated VIEs of nil (December 31, 2025 - $2 million) is included in accounts payable and other on the consolidated balance sheets.



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