

THIRD QUARTER 2018

## Condensed consolidated statement of income

(unaudited - millions of Canadian \$, except per share amounts)	three months ended September 30		nine months ended September 30	
	2018	2017	2018	2017
<b>Revenues</b>				
Canadian Natural Gas Pipelines	934	921	2,772	2,725
U.S. Natural Gas Pipelines	967	811	2,988	2,684
Mexico Natural Gas Pipelines	156	139	460	432
Liquids Pipelines	564	437	1,831	1,410
Energy	535	887	1,724	2,581
	3,156	3,195	9,775	9,832
<b>Income from Equity Investments</b>	147	156	492	527
<b>Operating and Other Expenses</b>				
Plant operating costs and other	884	929	2,580	2,962
Commodity purchases resold	318	621	1,239	1,711
Property taxes	127	127	429	442
Depreciation and amortization	564	506	1,669	1,539
	1,893	2,183	5,917	6,654
<b>(Loss)/Gain on Sales of Assets</b>	—	(9)	—	489
<b>Financial Charges</b>				
Interest expense	577	504	1,662	1,528
Allowance for funds used during construction	(147)	(145)	(365)	(367)
Interest income and other	(168)	(84)	(139)	(193)
	262	275	1,158	968
<b>Income before Income Taxes</b>	1,148	884	3,192	3,226
<b>Income Tax Expense</b>				
Current	30	6	169	128
Deferred	90	182	225	653
	120	188	394	781
<b>Net Income</b>	1,028	696	2,798	2,445
Net income attributable to non-controlling interests	59	44	229	189
<b>Net Income Attributable to Controlling Interests</b>	969	652	2,569	2,256
Preferred share dividends	41	40	122	120
<b>Net Income Attributable to Common Shares</b>	928	612	2,447	2,136
<b>Net Income per Common Share</b>				
Basic	\$1.02	\$0.70	\$2.72	\$2.46
Diluted	\$1.02	\$0.70	\$2.72	\$2.45
<b>Dividends Declared per Common Share</b>	\$0.69	\$0.625	\$2.07	\$1.875
<b>Weighted Average Number of Common Shares (millions)</b>				
Basic	906	873	898	870
Diluted	907	875	898	872

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated statement of comprehensive income

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2018	2017	2018	2017
<b>Net Income</b>	<b>1,028</b>	696	<b>2,798</b>	2,445
<b>Other Comprehensive (Loss)/Income, Net of Income Taxes</b>				
Foreign currency translation gains and losses on net investment in foreign operations	<b>(282)</b>	(370)	<b>409</b>	(721)
Reclassification of foreign currency translation gains on net investment on disposal of foreign operations	—	—	—	(77)
Change in fair value of net investment hedges	<b>9</b>	(1)	<b>(6)</b>	(3)
Change in fair value of cash flow hedges	<b>4</b>	1	<b>9</b>	4
Reclassification to net income of gains and losses on cash flow hedges	<b>6</b>	—	<b>16</b>	(1)
Unrealized actuarial gains and losses on pension and other post-retirement benefit plans	—	2	—	2
Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans	<b>10</b>	4	<b>10</b>	11
Other comprehensive income on equity investments	<b>6</b>	3	<b>18</b>	6
Other comprehensive (loss)/income	<b>(247)</b>	(361)	<b>456</b>	(779)
<b>Comprehensive Income</b>	<b>781</b>	335	<b>3,254</b>	1,666
Comprehensive income/(loss) attributable to non-controlling interests	<b>28</b>	(25)	<b>304</b>	31
<b>Comprehensive Income Attributable to Controlling Interests</b>	<b>753</b>	360	<b>2,950</b>	1,635
Preferred share dividends	<b>41</b>	40	<b>122</b>	120
<b>Comprehensive Income Attributable to Common Shares</b>	<b>712</b>	320	<b>2,828</b>	1,515

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated statement of cash flows

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2018	2017	2018	2017
<b>Cash Generated from Operations</b>				
Net income	1,028	696	2,798	2,445
Depreciation and amortization	564	506	1,669	1,539
Deferred income taxes	90	182	225	653
Income from equity investments	(147)	(156)	(492)	(527)
Distributions received from operating activities of equity investments	296	296	761	743
Employee post-retirement benefits funding, net of expense	(22)	(73)	(22)	(64)
Loss/(gain) on sales of assets	—	9	—	(489)
Equity allowance for funds used during construction	(104)	(107)	(261)	(249)
Unrealized (gains)/losses on financial instruments	(29)	(77)	120	14
Other	(93)	(5)	(152)	(1)
Increase in operating working capital	(284)	(86)	(130)	(224)
Net cash provided by operations	1,299	1,185	4,516	3,840
<b>Investing Activities</b>				
Capital expenditures	(2,435)	(2,031)	(6,474)	(5,383)
Capital projects in development	(127)	(37)	(239)	(135)
Contributions to equity investments	(236)	(475)	(778)	(1,140)
Proceeds from sales of assets, net of transaction costs	—	—	—	4,147
Other distributions from equity investments	—	—	121	362
Deferred amounts and other	(16)	165	78	(87)
Net cash used in investing activities	(2,814)	(2,378)	(7,292)	(2,236)
<b>Financing Activities</b>				
Notes payable issued, net	1,421	451	1,906	1,232
Long-term debt issued, net of issue costs	1,026	1,151	4,359	1,968
Long-term debt repaid	(1,232)	(46)	(3,266)	(5,515)
Junior subordinated notes issued, net of issue costs	—	(3)	—	3,468
Dividends on common shares	(416)	(354)	(1,154)	(982)
Dividends on preferred shares	(40)	(39)	(118)	(116)
Distributions paid to non-controlling interests	(57)	(66)	(174)	(215)
Common shares issued, net of issue costs	354	6	1,139	42
Partnership units of TC PipeLines, LP issued, net of issue costs	—	43	49	162
Common units of Columbia Pipeline Partners LP acquired	—	—	—	(1,205)
Net cash provided by/(used in) financing activities	1,056	1,143	2,741	(1,161)
<b>Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(10)</b>	<b>(16)</b>	<b>47</b>	<b>(35)</b>
<b>(Decrease)/increase in Cash and Cash Equivalents</b>	<b>(469)</b>	<b>(66)</b>	<b>12</b>	<b>408</b>
<b>Cash and Cash Equivalents</b>				
Beginning of period	1,570	1,490	1,089	1,016
<b>Cash and Cash Equivalents</b>				
End of period	1,101	1,424	1,101	1,424

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated balance sheet

(unaudited - millions of Canadian \$)	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	1,101	1,089
Accounts receivable	2,170	2,522
Inventories	381	378
Assets held for sale	458	—
Other	1,003	691
	<b>5,113</b>	4,680
<b>Plant, Property and Equipment</b>	63,212	57,277
	net of accumulated depreciation of \$25,206 and \$23,734, respectively	
<b>Equity Investments</b>	6,683	6,366
<b>Regulatory Assets</b>	1,391	1,376
<b>Goodwill</b>	13,504	13,084
<b>Loan Receivable from Affiliate</b>	1,244	919
<b>Intangible and Other Assets</b>	1,929	1,484
<b>Restricted Investments</b>	1,101	915
	<b>94,177</b>	86,101
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes payable	3,742	1,763
Accounts payable and other	4,301	4,057
Dividends payable	643	586
Accrued interest	604	605
Current portion of long-term debt	1,671	2,866
	<b>10,961</b>	9,877
<b>Regulatory Liabilities</b>	4,603	4,321
<b>Other Long-Term Liabilities</b>	637	727
<b>Deferred Income Tax Liabilities</b>	5,824	5,403
<b>Long-Term Debt</b>	35,029	31,875
<b>Junior Subordinated Notes</b>	7,186	7,007
	<b>64,240</b>	59,210
<b>EQUITY</b>		
Common shares, no par value	22,951	21,167
Issued and outstanding:	September 30, 2018 - 914 million shares December 31, 2017 - 881 million shares	
Preferred shares	3,980	3,980
Additional paid-in capital	15	—
Retained earnings	2,318	1,623
Accumulated other comprehensive loss	(1,350)	(1,731)
<b>Controlling Interests</b>	<b>27,914</b>	25,039
Non-controlling interests	2,023	1,852
	<b>29,937</b>	26,891
	<b>94,177</b>	86,101

**Contingencies and Guarantees** (Note 13)**Variable Interest Entities** (Note 14)**Subsequent Events** (Note 15)

See accompanying notes to the Condensed consolidated financial statements.

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## Condensed consolidated statement of equity

(unaudited - millions of Canadian \$)	nine months ended September 30	
	2018	2017
<b>Common Shares</b>		
Balance at beginning of period	21,167	20,099
Shares issued:		
Under at-the-market equity program, net of issue costs	1,118	—
Under dividend reinvestment and share purchase plan	640	599
On exercise of stock options	26	46
Balance at end of period	22,951	20,744
<b>Preferred Shares</b>		
Balance at beginning and end of period	3,980	3,980
<b>Additional Paid-In Capital</b>		
Balance at beginning of period	—	—
Issuance of stock options, net of exercises	8	4
Dilution from TC PipeLines, LP units issued	7	18
Asset drop downs to TC PipeLines, LP	—	(202)
Columbia Pipeline Partners LP acquisition	—	(171)
Reclassification of additional paid-in capital deficit to retained earnings	—	351
Balance at end of period	15	—
<b>Retained Earnings</b>		
Balance at beginning of period	1,623	1,138
Net income attributable to controlling interests	2,569	2,256
Common share dividends	(1,869)	(1,633)
Preferred share dividends	(100)	(98)
Adjustment related to income tax effects of asset drop downs to TC PipeLines, LP	95	—
Adjustment related to employee share-based payments	—	12
Reclassification of additional paid-in capital deficit to retained earnings	—	(351)
Balance at end of period	2,318	1,324
<b>Accumulated Other Comprehensive Loss</b>		
Balance at beginning of period	(1,731)	(960)
Other comprehensive income/(loss) attributable to controlling interests	381	(621)
Balance at end of period	(1,350)	(1,581)
<b>Equity Attributable to Controlling Interests</b>		
	27,914	24,467
<b>Equity Attributable to Non-Controlling Interests</b>		
Balance at beginning of period	1,852	1,726
Net income attributable to non-controlling interests	229	189
Other comprehensive income/(loss) attributable to non-controlling interests	75	(158)
Issuance of TC PipeLines, LP units		
Proceeds, net of issue costs	49	162
Decrease in TransCanada's ownership of TC PipeLines, LP	(9)	(29)
Distributions declared to non-controlling interests	(173)	(212)
Reclassification from common units of TC PipeLines, LP subject to rescission	—	106
Impact of Columbia Pipeline Partners LP acquisition	—	33
Balance at end of period	2,023	1,817
<b>Total Equity</b>	<b>29,937</b>	<b>26,284</b>

See accompanying notes to the Condensed consolidated financial statements.

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## Notes to Condensed consolidated financial statements (unaudited)

### 1. Basis of presentation

These Condensed consolidated financial statements of TransCanada Corporation (TransCanada or the Company) have been prepared by management in accordance with U.S. GAAP. The accounting policies applied are consistent with those outlined in TransCanada's annual audited consolidated financial statements for the year ended December 31, 2017, except as described in Note 2, Accounting changes. Capitalized and abbreviated terms that are used but not otherwise defined herein are identified in the 2017 audited consolidated financial statements included in TransCanada's 2017 Annual Report.

These Condensed consolidated financial statements reflect adjustments, all of which are normal recurring adjustments that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These Condensed consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the 2017 audited consolidated financial statements included in TransCanada's 2017 Annual Report. Certain comparative figures have been reclassified to conform with the current period's presentation.

Earnings for interim periods may not be indicative of results for the fiscal year in the Company's natural gas pipelines segments due to the timing of regulatory decisions and seasonal fluctuations in short-term throughput volumes on U.S. pipelines. Earnings for interim periods may also not be indicative of results for the fiscal year in the Company's Energy segment due to the impact of seasonal weather conditions on customer demand and market pricing in certain of the Company's investments in electrical power generation plants and non-regulated gas storage facilities.

#### **USE OF ESTIMATES AND JUDGEMENTS**

In preparing these financial statements, TransCanada 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 judgement in making these estimates and assumptions. In the opinion of management, these Condensed consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies included in the annual audited consolidated financial statements for the year ended December 31, 2017, except as described in Note 2, Accounting changes.

### 2. Accounting changes

#### **CHANGES IN ACCOUNTING POLICIES FOR 2018**

##### **Revenue from contracts with customers**

In 2014, the FASB issued new guidance on revenue from contracts with customers. The new guidance requires that an entity recognize revenue from these contracts in accordance with a prescribed model. This model is used to depict the transfer of promised goods or services to customers in amounts that reflect the total consideration to which it expects to be entitled during the term of the contract in exchange for those promised goods or services. Goods or services that are promised to a customer are referred to as the Company's "performance obligations." The total consideration to which the Company expects to be entitled can include fixed and variable amounts. The Company has variable revenue that is subject to factors outside the Company's influence, such as market prices, actions of third parties and weather conditions. The Company considers this variable revenue to be "constrained" as it cannot be reliably estimated, and therefore recognizes variable revenue when the service is provided.

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The new guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue recognition and related cash flows.

In the application of the new guidance, significant estimates and judgments are used to determine the following:

- pattern of revenue recognition within a contract, based on whether the performance obligation is satisfied at a point in time versus over time
- term of the contract
- amount of variable consideration associated with a contract and timing of the associated revenue recognition.

The new guidance was effective January 1, 2018, was applied using the modified retrospective transition method, and did not result in any material differences in the amount and timing of revenue recognition. Refer to Note 4, Revenues, for further information related to the impact of adopting the new guidance and the Company's updated accounting policies related to revenue recognition from contracts with customers.

### **Financial instruments**

In January 2016, the FASB issued new guidance on the accounting for equity investments and financial liabilities. The new guidance changes the income statement effect of equity investments and the recognition of changes in the fair value of financial liabilities when the fair value option is elected. The new guidance also requires the Company to assess valuation allowances for deferred tax assets related to available for sale debt securities in combination with their other deferred tax assets. This new guidance was effective January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

### **Income taxes**

In October 2016, the FASB issued new guidance on the income tax effects of intra-entity transfers of assets other than inventory. The new guidance requires the recognition of deferred and current income taxes for intra-entity asset transfers when the transfer occurs. The new guidance was effective January 1, 2018, was applied using a modified retrospective approach, and did not have a material impact on the Company's consolidated financial statements.

### **Restricted cash**

In November 2016, the FASB issued new guidance on restricted cash and cash equivalents on the statement of cash flows. The new guidance requires that the statement of cash flows explain the change during the period in the total cash and cash equivalents balance, and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. This new guidance was effective January 1, 2018, was applied retrospectively, and did not have an impact on the Company's consolidated financial statements.

### **Employee post-retirement benefits**

In March 2017, the FASB issued new guidance that requires entities to disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement. The new guidance also requires that the other components of net benefit cost be presented elsewhere in the income statement and excluded from income from operations if such a subtotal is presented. In addition, the new guidance makes changes to the components of net benefit cost that are eligible for capitalization. Entities must use a retrospective transition method to adopt the requirement for separate presentation in the income statement of the components of net benefit cost, and a prospective transition method to adopt the change to capitalization of benefit costs. This new guidance was effective January 1, 2018 and did not have a material impact on the Company's consolidated financial statements.

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**Hedge accounting**

In August 2017, the FASB issued new guidance making more financial and non-financial hedging strategies eligible for hedge accounting. The new guidance also amends the presentation requirements relating to the change in fair value of a derivative and requires additional disclosures including cumulative basis adjustments for fair value hedges and the effect of hedging on individual line items in the statement of income. This new guidance is effective January 1, 2019 with early adoption permitted. This new guidance, which the Company elected to adopt effective January 1, 2018, was applied prospectively and did not have a material impact on the Company's consolidated financial statements.

**FUTURE ACCOUNTING CHANGES****Leases**

In February 2016, the FASB issued new guidance on the accounting for leases. The new guidance amends the definition of a lease such that, in order for an arrangement to qualify as a lease, the lessor is required to have both (1) the right to obtain substantially all of the economic benefits from the use of the asset and (2) the right to direct the use of the asset. The new guidance also establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and corresponding lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new guidance does not make extensive changes to lessor accounting.

In January 2018, the FASB issued an optional practical expedient, to be applied upon transition, to omit the evaluation of land easements not previously accounted for as leases that existed or expired prior to the entity's adoption of the new lease guidance. An entity that elects this practical expedient is required to apply the practical expedient consistently to all of its existing or expired land easements not previously accounted for as leases. The Company intends to apply this practical expedient upon transition to the new standard.

The new guidance is effective January 1, 2019, with early adoption permitted. The Company will adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. In July 2018, the FASB issued a transition option allowing entities to not apply the new guidance, including disclosure requirements, to the comparative periods they present in their financial statements in the year of adoption. The Company will apply this transition option and therefore will not be required to update financial information and disclosures for dates and periods prior to January 1, 2019.

The Company will elect the package of practical expedients which permits entities not to reassess prior conclusions about lease identification, lease classification and initial direct costs under the rules of the new standard. The Company continues to monitor and analyze other optional practical expedients as well as additional guidance and clarifications provided by the FASB.

The Company has developed an inventory of existing lease agreements, has substantially completed its analysis on them, but continues to refine its view of what qualifies as a lease and evaluate the financial impact on its consolidated financial statements. The Company has also selected a system solution and continues to progress through the testing stage of implementation. The Company continues to assess process changes necessary to compile the information to meet the recognition and disclosure requirements of the new guidance and to analyze new contracts that may contain leases.

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### **Measurement of credit losses on financial instruments**

In June 2016, the FASB issued new guidance that significantly changes how entities measure credit losses for most financial assets and certain other financial instruments that are not measured at fair value through net income. The new guidance amends the impairment model of financial instruments basing it on expected losses rather than incurred losses. These expected credit losses will be recognized as an allowance rather than as a direct write down of the amortized cost basis. The new guidance is effective January 1, 2020 and will be applied using a modified retrospective approach. The Company is currently evaluating the impact of the adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

### **Goodwill impairment**

In January 2017, the FASB issued new guidance on simplifying the test for goodwill impairment by eliminating Step 2 of the impairment test, which is the requirement to calculate the implied fair value of goodwill to measure the impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. This new guidance is effective January 1, 2020 and will be applied prospectively, however, early adoption is permitted. The Company is currently evaluating the timing and impact of the adoption of this guidance.

### **Income taxes**

In February 2018, the FASB issued new guidance that allows a reclassification from AOCI to retained earnings for stranded tax effects resulting from the U.S. Tax Reform. This new guidance is effective January 1, 2019, however, early adoption is permitted. This guidance can be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change is recognized. The Company is currently evaluating this guidance in conjunction with its analysis of the overall impact of U.S. Tax Reform.

### **Fair value measurement**

In August 2018, the FASB issued new guidance that amends certain disclosure requirements for fair value measurements. This new guidance is effective January 1, 2020, however, early adoption of certain or all requirements is permitted. The Company is currently evaluating the timing and impact of adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

### **Defined benefit plans**

In August 2018, the FASB issued new guidance which amends and clarifies disclosure requirements related to defined benefit pension and other post retirement benefit plans. This new guidance is effective January 1, 2021, and will be applied on a retrospective basis. The Company is currently evaluating the timing and impact of the adoption of this guidance.

### **Implementation costs of cloud computing arrangements**

In August 2018, the FASB issued new guidance requiring an entity in a hosting arrangement that is a service contract to follow the guidance for internal-use software to determine which implementation costs should be capitalized as an asset and which costs should be expensed. The guidance also requires the entity to amortize the capitalized implementation costs of a hosting arrangement over the term of the arrangement. This guidance is effective January 1, 2020, however, early adoption is permitted. This guidance can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the timing and impact of adoption of this guidance and has not yet determined the effect on its consolidated financial statements.

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## 3. Segmented information

three months ended September 30, 2018 (unaudited - millions of Canadian \$)	Canadian Natural Gas Pipelines	U.S. Natural Gas Pipelines	Mexico Natural Gas Pipelines	Liquids Pipelines	Energy	Corporate <sup>1</sup>	Total
Revenues	934	967	156	564	535	—	3,156
Intersegment revenues	—	40	—	—	3	(43) <sup>2</sup>	—
	934	1,007	156	564	538	(43)	3,156
Income/(loss) from equity investments	3	62	8	22	112	(60) <sup>3</sup>	147
Plant operating costs and other	(356)	(313)	(11)	(160)	(79)	35 <sup>2</sup>	(884)
Commodity purchases resold	—	—	—	—	(318)	—	(318)
Property taxes	(59)	(41)	—	(24)	(3)	—	(127)
Depreciation and amortization	(255)	(170)	(26)	(86)	(27)	—	(564)
<b>Segmented Earnings/(Loss)</b>	<b>267</b>	<b>545</b>	<b>127</b>	<b>316</b>	<b>223</b>	<b>(68)</b>	<b>1,410</b>
Interest expense							(577)
Allowance for funds used during construction							147
Interest income and other <sup>3</sup>							168
Income before income taxes							1,148
Income tax expense							(120)
<b>Net Income</b>							<b>1,028</b>
Net income attributable to non-controlling interests							(59)
<b>Net Income Attributable to Controlling Interests</b>							<b>969</b>
Preferred share dividends							(41)
<b>Net Income Attributable to Common Shares</b>							<b>928</b>

1 Includes intersegment eliminations.

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

3 Income/(loss) from equity investments includes foreign exchange losses on the Company's inter-affiliate loan with Sur de Texas. The offsetting foreign exchange gains on the inter-affiliate loan are included in Interest income and other. The peso-denominated loan to the Sur de Texas joint venture represents the Company's proportionate share of debt financing for this joint venture.

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<b>three months ended September 30, 2017</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Energy</b>	<b>Corporate<sup>1</sup></b>	<b>Total</b>
Revenues	921	811	139	437	887	—	3,195
Intersegment revenues	—	10	—	—	—	(10) <sup>2</sup>	—
	921	821	139	437	887	(10)	3,195
Income/(loss) from equity investments	4	53	(11)	4	99	7 <sup>3</sup>	156
Plant operating costs and other	(318)	(351)	(10)	(145)	(79)	(26) <sup>2</sup>	(929)
Commodity purchases resold	—	—	—	—	(621)	—	(621)
Property taxes	(63)	(41)	—	(22)	(1)	—	(127)
Depreciation and amortization	(228)	(145)	(23)	(71)	(39)	—	(506)
Loss on sales of assets	—	—	—	—	(9)	—	(9)
<b>Segmented Earnings/(Loss)</b>	<b>316</b>	<b>337</b>	<b>95</b>	<b>203</b>	<b>237</b>	<b>(29)</b>	<b>1,159</b>
Interest expense							(504)
Allowance for funds used during construction							145
Interest income and other <sup>3</sup>							84
Income before income taxes							884
Income tax expense							(188)
<b>Net Income</b>							<b>696</b>
Net income attributable to non-controlling interests							(44)
<b>Net Income Attributable to Controlling Interests</b>							<b>652</b>
Preferred share dividends							(40)
<b>Net Income Attributable to Common Shares</b>							<b>612</b>

1 Includes intersegment eliminations.

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

3 Income/(loss) from equity investments includes foreign exchange gains on the Company's inter-affiliate loan with Sur de Texas. The offsetting foreign exchange losses on the inter-affiliate loan are included in Interest income and other. The peso-denominated loan to the Sur de Texas joint venture represents the Company's proportionate share of debt financing for this joint venture.

## THIRD QUARTER 2018

<b>nine months ended September 30, 2018</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Energy</b>	<b>Corporate<sup>1</sup></b>	<b>Total</b>
Revenues	2,772	2,988	460	1,831	1,724	—	9,775
Intersegment revenues	—	121	—	—	50	(171) <sup>2</sup>	—
	2,772	3,109	460	1,831	1,774	(171)	9,775
Income/(loss) from equity investments	9	188	20	50	277	(52) <sup>3</sup>	492
Plant operating costs and other	(1,020)	(925)	(25)	(506)	(250)	146 <sup>2</sup>	(2,580)
Commodity purchases resold	—	—	—	—	(1,239)	—	(1,239)
Property taxes	(200)	(149)	—	(74)	(6)	—	(429)
Depreciation and amortization	(761)	(489)	(73)	(254)	(92)	—	(1,669)
<b>Segmented Earnings/(Loss)</b>	<b>800</b>	<b>1,734</b>	<b>382</b>	<b>1,047</b>	<b>464</b>	<b>(77)</b>	<b>4,350</b>
Interest expense							(1,662)
Allowance for funds used during construction							365
Interest income and other <sup>3</sup>							139
Income before income taxes							3,192
Income tax expense							(394)
<b>Net Income</b>							<b>2,798</b>
Net income attributable to non-controlling interests							(229)
<b>Net Income Attributable to Controlling Interests</b>							<b>2,569</b>
Preferred share dividends							(122)
<b>Net Income Attributable to Common Shares</b>							<b>2,447</b>

1 Includes intersegment eliminations.

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

3 Income/(loss) from equity investments includes foreign exchange losses on the Company's inter-affiliate loan with Sur de Texas. The offsetting foreign exchange gains on the inter-affiliate loan are included in Interest income and other. The peso-denominated loan to the Sur de Texas joint venture represents the Company's proportionate share of debt financing for this joint venture.

## THIRD QUARTER 2018

<b>nine months ended September 30, 2017</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Energy</b>	<b>Corporate<sup>1</sup></b>	<b>Total</b>
Revenues	2,725	2,684	432	1,410	2,581	—	9,832
Intersegment revenues	—	31	—	—	—	(31) <sup>2</sup>	—
	2,725	2,715	432	1,410	2,581	(31)	9,832
Income/(loss) from equity investments	9	175	—	3	341	(1) <sup>3</sup>	527
Plant operating costs and other	(958)	(1,004)	(29)	(437)	(464)	(70) <sup>2</sup>	(2,962)
Commodity purchases resold	—	—	—	—	(1,711)	—	(1,711)
Property taxes	(201)	(136)	—	(67)	(38)	—	(442)
Depreciation and amortization	(672)	(451)	(70)	(228)	(118)	—	(1,539)
Gain on sales of assets	—	—	—	—	489	—	489
<b>Segmented Earnings/(Loss)</b>	903	1,299	333	681	1,080	(102)	4,194
Interest expense							(1,528)
Allowance for funds used during construction							367
Interest income and other <sup>3</sup>							193
Income before income taxes							3,226
Income tax expense							(781)
<b>Net Income</b>							2,445
Net income attributable to non-controlling interests							(189)
<b>Net Income Attributable to Controlling Interests</b>							2,256
Preferred share dividends							(120)
<b>Net Income Attributable to Common Shares</b>							2,136

1 Includes intersegment eliminations.

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

3 Income/(loss) from equity investments includes foreign exchange losses on the Company's inter-affiliate loan with Sur de Texas. The offsetting foreign exchange gains on the inter-affiliate loan are included in Interest income and other. The peso-denominated loan to the Sur de Texas joint venture represents the Company's proportionate share of debt financing for this joint venture.

**TOTAL ASSETS**

(unaudited - millions of Canadian \$)	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Canadian Natural Gas Pipelines	<b>17,900</b>	16,904
U.S. Natural Gas Pipelines	<b>41,045</b>	35,898
Mexico Natural Gas Pipelines	<b>6,403</b>	5,716
Liquids Pipelines	<b>16,277</b>	15,438
Energy	<b>8,559</b>	8,503
Corporate	<b>3,993</b>	3,642
	<b>94,177</b>	86,101

THIRD QUARTER 2018

## 4. Revenues

In 2014, the FASB issued new guidance on revenue from contracts with customers. The Company adopted the new guidance on January 1, 2018 using the modified retrospective transition method for all contracts that were in effect on the date of adoption. Results reported for 2018 reflect the application of the new guidance, while the 2017 comparative results were prepared and reported under previous revenue recognition guidance which is referred to herein as "legacy U.S. GAAP."

### DISAGGREGATION OF REVENUES

The following tables summarize total Revenues for the three and nine months ended September 30, 2018:

<b>three months ended September 30, 2018</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Energy</b>	<b>Total</b>
Revenues from contracts with customers						
Capacity arrangements and transportation	934	788	155	511	—	2,388
Power generation	—	—	—	—	450	450
Natural gas storage and other	—	158	1	1	4	164
	934	946	156	512	454	3,002
Other revenues <sup>1,2</sup>	—	21	—	52	81	154
	934	967	156	564	535	3,156

- 1 Other revenues include income from the Company's marketing activities, financial instruments and lease arrangements within each operating segment. Income from lease arrangements includes certain long term PPAs, as well as certain liquids pipelines capacity and transportation arrangements. These arrangements are not in the scope of the new guidance, therefore, revenues related to these contracts are excluded from revenues from contracts with customers. Refer to Note 12, Risk management and financial instruments, for further information on income from financial instruments.
- 2 Other revenues from U.S. Natural Gas Pipelines include the amortization of the net regulatory liabilities resulting from U.S. Tax Reform. Refer to Note 7, Income taxes, for further information.

<b>nine months ended September 30, 2018</b> (unaudited - millions of Canadian \$)	<b>Canadian Natural Gas Pipelines</b>	<b>U.S. Natural Gas Pipelines</b>	<b>Mexico Natural Gas Pipelines</b>	<b>Liquids Pipelines</b>	<b>Energy</b>	<b>Total</b>
Revenues from contracts with customers						
Capacity arrangements and transportation	2,772	2,457	457	1,558	—	7,244
Power generation	—	—	—	—	1,455	1,455
Natural gas storage and other	—	468	3	2	65	538
	2,772	2,925	460	1,560	1,520	9,237
Other revenues <sup>1,2</sup>	—	63	—	271	204	538
	2,772	2,988	460	1,831	1,724	9,775

- 1 Other revenues include income from the Company's marketing activities, financial instruments and lease arrangements within each operating segment. Income from lease arrangements includes certain long term PPAs, as well as certain liquids pipelines capacity and transportation arrangements. These arrangements are not in the scope of the new guidance, therefore, revenues related to these contracts are excluded from revenues from contracts with customers. Refer to Note 12, Risk management and financial instruments, for further information on income from financial instruments.
- 2 Other revenues from U.S. Natural Gas Pipelines include the amortization of the net regulatory liabilities resulting from U.S. Tax Reform. Refer to Note 7, Income taxes, for further information.

Revenues from contracts with customers are recognized net of any taxes collected from customers which are subsequently remitted to governmental authorities. The Company's contracts with customers include natural gas and liquids pipelines capacity arrangements and transportation contracts, power generation contracts, natural gas storage and other contracts.

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## Canadian Natural Gas Pipelines

### ***Capacity Arrangements and Transportation***

Revenues from the Company's Canadian natural gas pipelines are generated from contractual arrangements for committed capacity and from the transportation of natural gas. Revenues earned from firm contracted capacity arrangements are recognized ratably over the term of the contract regardless of the amount of natural gas that is transported. Transportation revenues for interruptible or volumetric-based services are recognized when the service is performed.

Revenues from the Company's Canadian natural gas pipelines are subject to regulatory decisions by the NEB. The tolls charged on these pipelines are based on revenue requirements designed to recover the costs of providing natural gas capacity for transportation services, which includes a return of and return on capital, as approved by the NEB. The Company's Canadian natural gas pipelines are generally not subject to risks related to variances in revenues and most costs. These variances are generally subject to deferral treatment and are recovered or refunded in future tolls. Revenues recognized prior to an NEB decision on rates for that period reflect the NEB's last approved ROE assumptions. Adjustments to revenues are recorded when the NEB decision is received. Canadian natural gas pipelines' revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas that it transports for customers.

## U.S. Natural Gas Pipelines

### ***Capacity Arrangements and Transportation***

Revenues from the Company's U.S. natural gas pipelines are generated from contractual arrangements for committed capacity and from the transportation of natural gas. Revenues earned from firm contracted capacity arrangements are generally recognized ratably over the term of the contract regardless of the amount of natural gas that is transported. Transportation revenues for interruptible or volumetric-based services are recognized when the service is performed. The Company has elected to utilize the practical expedient to recognize revenues from its U.S. natural gas pipelines as invoiced.

The Company's U.S. natural gas pipelines are subject to FERC regulations and, as a result, a portion of revenues collected may be subject to refund if invoiced during an interim period when a rate proceeding is ongoing. Allowances for these potential refunds are recognized using management's best estimate based on the facts and circumstances of the proceeding. Any allowances that are recognized during the proceeding process are refunded or retained at the time a regulatory decision becomes final. U.S. natural gas pipelines' revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas that it transports for customers.

### ***Natural Gas Storage and Other***

Revenues from the Company's regulated U.S. natural gas storage services are generated mainly from firm committed capacity storage contracts. The performance obligation in these contracts is the reservation of a specified amount of capacity for storage including specifications with regards to the amount of natural gas that can be injected or withdrawn on a daily basis. Revenues are recognized ratably over the contract period for firm committed capacity regardless of the amount of natural gas that is stored, and when gas is injected or withdrawn for interruptible or volumetric-based services. Natural gas storage services revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas that it stores for customers.

Revenues from the Company's midstream natural gas services, including gathering, treating, conditioning, processing, compression and liquids handling services, are generated from contractual arrangements and are recognized ratably over the term of the contract. The Company also owns mineral rights associated with certain natural gas storage facilities. These mineral rights can be leased or contributed to producers of natural gas in return for a royalty interest which is recognized when natural gas and associated liquids are produced. Midstream natural gas service revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas for which it provides midstream services.

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## **Mexico Natural Gas Pipelines**

### ***Capacity Arrangements and Transportation***

Revenues from the Company's Mexico natural gas pipelines are primarily collected based on CRE-approved negotiated firm capacity contracts and are generally recognized ratably over the term of the contract. For certain firm capacity arrangements, the Company has elected to utilize the practical expedient to recognize revenues as invoiced. Transportation revenues related to interruptible or volumetric-based services are recognized when the service is performed. Other volumes shipped on these pipelines are subject to CRE-approved tariffs and revenues are recognized when the Company has performed the transportation services. Mexico natural gas pipelines' revenues are invoiced and received on a monthly basis. The Company does not take ownership of the natural gas that it transports for customers.

## **Liquids Pipelines**

### ***Capacity Arrangements and Transportation***

Revenues from the Company's liquids pipelines are generated mainly from providing customers with firm capacity arrangements to transport crude oil. The performance obligation in these contracts is the reservation of a specified amount of capacity together with the transportation of crude oil on a monthly basis. Revenues earned from these arrangements are recognized ratably over the term of the contract regardless of the amount of crude oil that is transported. Revenues for interruptible or volumetric-based services are recognized when the service is performed. Liquids pipelines' revenues are invoiced and received on a monthly basis. The Company does not take ownership of the crude oil that it transports for customers.

## **Energy**

### ***Power Generation***

Revenues from the Company's Energy business are primarily derived from long-term contractual commitments to provide power capacity to meet the demands of the market, and from the sale of electricity to both centralized markets and to customers. Power generation revenues also include revenues from the sale of steam to customers. Revenues and capacity payments are recognized as the services are provided and as electricity and steam is delivered. Power generation revenues are invoiced and received on a monthly basis.

### ***Natural Gas Storage and Other***

Non-regulated natural gas storage contracts include park, loan and term storage arrangements. Park and loan contracts allow for fixed injection or withdrawal volumes on specified dates for a specified price. Term storage contracts allow for a maximum amount of gas to be stored over a set period of time. Revenues from park and loan contracts are recognized and invoiced as the injection and withdrawal services are provided and revenues from term storage contracts are recognized ratably over the term of the contract. Term storage revenues are invoiced and received on a monthly basis. Revenues earned from the sale of proprietary natural gas are recognized in the month of delivery. Revenues from ancillary services are recognized as the service is provided. The Company does not take ownership of the natural gas that it stores for customers.

## **FINANCIAL STATEMENT IMPACT OF ADOPTING REVENUE FROM CONTRACTS WITH CUSTOMERS**

The Company adopted the new guidance using the modified retrospective transition method. As a practical expedient under this transition method, the Company is not required to analyze completed contracts at the date of adoption. As a result, the Company made the following adjustments on January 1, 2018.

### ***Capacity Arrangements and Transportation***

For certain natural gas pipelines capacity contracts, amounts are invoiced to the customer in accordance with the terms of the contract, however, the related revenues are recognized when the Company satisfies its performance obligation to provide committed capacity ratably over the term of the contract. This difference in timing between revenue recognition and amounts invoiced creates a contract asset or contract liability under the new revenue recognition guidance. Under legacy U.S. GAAP, this difference was recorded as Accounts receivable. Under the new guidance, contract assets are

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included in Other current assets and Intangibles and other assets and contract liabilities are included in Accounts payable and other and Other long-term liabilities.

### Impact of New Revenue Recognition Guidance on Date of Adoption

The following table illustrates the impact of the adoption of the new revenue recognition guidance on the Company's previously reported consolidated balance sheet line items:

(unaudited - millions of Canadian \$)	As reported December 31, 2017	Adjustment	January 1, 2018
<b>Current Assets</b>			
Accounts receivable	2,522	(62)	2,460
Other <sup>1</sup>	691	79	770
<b>Current Liabilities</b>			
Accounts payable and other <sup>2</sup>	4,057	17	4,074

1 Adjustment relates to contract assets previously included in Accounts receivable.

2 Adjustment relates to contract liabilities previously included in Accounts receivable.

### Pro-forma Financial Statements under Legacy U.S. GAAP

As required by the new revenue recognition guidance, the following tables illustrate the pro-forma impact on the affected line items on the Condensed consolidated balance sheet, as at September 30, 2018, using legacy U.S. GAAP:

(unaudited - millions of Canadian \$)	September 30, 2018	
	As reported	Pro-forma using legacy U.S. GAAP
<b>Current Assets</b>		
Accounts receivable	2,170	2,460
Other	1,003	713

### CONTRACT BALANCES

(unaudited - millions of Canadian \$)	September 30, 2018	January 1, 2018
Receivables from contracts with customers	1,208	1,736
Contract assets <sup>1</sup>	290	79
Long-term contract assets <sup>2</sup>	35	—
Contract liabilities <sup>3</sup>	41	17
Long-term contract liabilities <sup>4</sup>	27	—

1 Recorded as part of Other current assets on the Condensed consolidated balance sheet.

2 Recorded as part of Intangibles and other assets on the Condensed consolidated balance sheet.

3 Comprised of deferred revenue recorded in Accounts payable and other on the Condensed consolidated balance sheet. During the nine months ended September 30, 2018, \$17 million of revenue was recognized that was included in the contract liability at the beginning of the period.

4 Comprised of deferred revenue recorded in Other long-term liabilities on the Condensed consolidated balance sheet.

Contract assets and long-term contract assets primarily relate to the Company's right to revenues for services completed but not invoiced at the reporting date on long-term committed capacity natural gas pipelines contracts. The change in contract assets is primarily related to the transfer to Accounts receivable when these rights become unconditional and the customer is invoiced as well as the recognition of additional revenues that remains to be invoiced. Contract liabilities and long term contract liabilities primarily relate to force majeure fixed capacity payments received on long term capacity arrangements in Mexico.

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### **FUTURE REVENUES FROM REMAINING PERFORMANCE OBLIGATIONS**

As required by the new revenue recognition guidance, the following provides disclosure on future revenues allocated to remaining performance obligations representing contracted revenues that have not yet been recognized. Certain contracts that qualify for the use of one of the following practical expedients are excluded from the future revenues disclosures:

- 1) The original expected duration of the contract is one year or less.
- 2) The Company recognizes revenue from the contract that is equal to the amount invoiced, where the amount invoiced represents the value to the customer of the service performed to date. This is referred to as the "right to invoice" practical expedient.
- 3) The variable revenue generated from the contract is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in a series. A single performance obligation in a series occurs when the promises under a contract are a series of distinct services that are substantially the same and have the same pattern of transfer to the customer over time.

The following provides a discussion of the transaction price allocated to future performance obligations as well as practical expedients used by the Company.

#### **Capacity Arrangements and Transportation**

As at September 30, 2018, future revenues from long-term capacity arrangements and transportation contracts extending through 2043 are approximately \$28.0 billion, of which approximately \$1.4 billion is expected to be recognized during the remainder of 2018.

Future revenues from long-term capacity arrangements and transportation contracts do not include constrained variable revenues or arrangements to which the right to invoice practical expedient has been applied. As a result, these amounts are not representative of potential total future revenues expected from these contracts.

Future revenues from the Company's Canadian natural gas pipelines' regulated firm capacity contracts include fixed revenues for the time periods that tolls under current rate settlements are in effect, which is approximately one to three years. Many of these contracts are long-term in nature and revenues from the remaining performance obligations that extend beyond the current rate settlement term are considered to be fully constrained since future tolls remain unknown. Revenues from these contracts will be recognized once the performance obligation to provide capacity has been satisfied and the regulator has approved the applicable tolls. In addition, the Company considers interruptible transportation service revenues to be variable revenues since volumes cannot be estimated. These variable revenues are recognized on a monthly basis when the Company satisfies the performance obligation and have been excluded from the future revenues disclosure as the Company applies the practical expedient related to variable revenues to these contracts. The future variable revenues earned under these contracts are allocated entirely to unsatisfied performance obligations at September 30, 2018.

The Company also applies the right to invoice practical expedient to all of its U.S. and certain of its Mexico regulated natural gas pipeline capacity arrangements and flow-through revenues. Revenues from regulated capacity arrangements are recognized based on current rates and flow-through revenues are earned from the recovery of operating expenses. These revenues are recognized on a monthly basis as the Company performs the services and are excluded from future revenues disclosures.

Revenues from liquids pipelines capacity arrangements have a variable component based on volumes transported. As a result, these variable revenues are excluded from the future revenues disclosures as the Company applies the practical expedient related to variable revenues to these contracts. The future variable revenues earned under these contracts is allocated entirely to unsatisfied performance obligations at September 30, 2018.

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### Power Generation

The Company has long-term power generation contracts extending through 2032. Revenues from power generation have a variable component related to market prices that are subject to factors outside the Company's influence. These revenues are considered to be fully constrained and are recognized on a monthly basis when the Company satisfies the performance obligation. The Company applies the practical expedient related to variable revenues to these contracts. As a result, future revenues from these contracts are excluded from the disclosures.

### Natural Gas Storage and Other

As at September 30, 2018, future revenues from long-term natural gas storage and other contracts extending through 2033 are approximately \$1.2 billion, of which approximately \$127 million is expected to be recognized during the remainder of 2018. The Company applies the practical expedients related to contracts that are for a duration of one year or less and where it recognizes variable consideration, and therefore excludes the related revenues from the future revenues disclosure. As a result, this amount is lower than the potential total future revenues from these contracts.

## 5. Assets held for sale

### Cartier Wind

On August 1, 2018, TransCanada entered into an agreement to sell its interests in the Cartier Wind power facilities in Québec to Innergex Renewable Energy Inc. At September 30, 2018, the related assets and liabilities were classified as held for sale in the Energy segment. Subsequently, on October 24, 2018, the Company closed the sale for gross proceeds of approximately \$630 million before closing adjustments, resulting in an estimated gain of \$170 million (\$135 million after tax) to be recognized in fourth quarter 2018.

At September 30, 2018, the related assets and liabilities in the Energy segment were classified as held for sale as follows:

(unaudited - millions of Canadian \$)	
<b>Assets held for sale</b>	
Plant, property and equipment	<b>458</b>
<b>Total assets held for sale</b>	<b>458</b>
<b>Liabilities related to assets held for sale</b>	
Other long-term liabilities	<b>14</b>
<b>Total liabilities related to assets held for sale<sup>1</sup></b>	<b>14</b>

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

## 6. Plant, Property and Equipment, Equity Investments and Goodwill

The Company reviews plant, property and equipment and equity investments for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable.

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

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In March 2018, FERC proposed changes related to U.S. Tax Reform and income taxes for rate-making purposes in a master limited partnership (MLP) that may have an impact on the future earnings and cash flows of FERC-regulated pipelines. On July 18, 2018, FERC issued final rulings (Final Rule) with respect to these changes. The March and July 2018 FERC proposed changes and Final Rule are collectively referred to herein as the "2018 FERC Actions."

The Company continues to monitor developments following the Final Rule on the 2018 FERC Actions. TransCanada will incorporate results to date, future filings for individual pipelines, as well as FERC responses to others in the industry into its annual goodwill impairment tests as well as its normal review of plant, property and equipment and equity investments for recoverability.

As at September 30, 2018, the goodwill balances related to Great Lakes and Tuscarora are US\$573 million and US\$82 million (December 31, 2017 – US\$573 million and US\$82 million), respectively. At December 31, 2017, the estimated fair value of Great Lakes exceeded its carrying value by less than 10 per cent. There is a risk that the goodwill balances related to both of these assets could be negatively impacted by the FERC developments, once finalized, or by other changes in management's estimates of fair value resulting in a goodwill impairment charge.

## 7. Income taxes

### U.S. Tax Reform

Pursuant to the enactment of U.S. Tax Reform, the Company recorded net regulatory liabilities and a corresponding reduction in net deferred income tax liabilities in the amount of \$1,686 million at December 31, 2017 related to the Company's U.S. natural gas pipelines subject to RRA. Amounts recorded to adjust income taxes remain provisional as the Company's interpretation, assessment and presentation of the impact of U.S. Tax Reform may be further clarified with additional guidance from tax authorities. Should additional guidance be provided by tax authorities during the one-year measurement period permitted by the SEC, the Company will review the provisional amounts and adjust as appropriate.

Commencing January 1, 2018, the Company has amortized the net regulatory liabilities using the Reverse South Georgia methodology. Under this methodology, rate-regulated entities determine and immediately begin recording amortization based on their composite depreciation rates. Amortization of the net regulatory liabilities in the amount of \$12 million and \$36 million was recorded for the three and nine months ended September 30, 2018, respectively, and included in Revenues in the Condensed consolidated statement of income. Once the final impact of the 2018 FERC Actions is determined there may be prospective adjustments to the Company's net regulatory liabilities.

### Effective Tax Rates

The effective income tax rates for the nine-month periods ended September 30, 2018 and 2017 were 12 per cent and 24 per cent, respectively. The lower effective tax rate in 2018 was primarily the result of the rate change resulting from U.S. Tax Reform and lower flow-through income taxes in Canadian rate-regulated pipelines.

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## 8. Long-term debt

### LONG-TERM DEBT ISSUED

The Company issued long-term debt in the nine months ended September 30, 2018 as follows:

(unaudited - millions of Canadian \$, unless noted otherwise)					
Company	Issue date	Type	Maturity Date	Amount	Interest rate
<b>TRANSCANADA PIPELINES LIMITED</b>					
	July 2018	Medium Term Notes	July 2048	800	4.18%
	July 2018	Medium Term Notes	March 2028	200	3.39%
	May 2018	Senior Unsecured Notes	May 2028	US 1,000	4.25%
	May 2018	Senior Unsecured Notes	May 2038	US 500	4.75%
	May 2018	Senior Unsecured Notes	May 2048	US 1,000	4.875%

### LONG-TERM DEBT RETIRED

The Company retired long-term debt in the nine months ended September 30, 2018 as follows:

(unaudited - millions of Canadian \$, unless noted otherwise)				
Company	Retirement date	Type	Amount	Interest rate
<b>COLUMBIA PIPELINE GROUP, INC.</b>				
	June 2018	Senior Unsecured Notes	US 500	2.45%
<b>PORTLAND NATURAL GAS TRANSMISSION SYSTEM</b>				
	May 2018	Senior Secured Notes	US 18	5.90%
<b>TRANSCANADA PIPELINES LIMITED</b>				
	August 2018	Senior Unsecured Notes	US 850	6.50%
	March 2018	Debentures	150	9.45%
	January 2018	Senior Unsecured Notes	US 500	1.875%
	January 2018	Senior Unsecured Notes	US 250	Floating
<b>GREAT LAKES GAS TRANSMISSION LIMITED PARTNERSHIP</b>				
	March 2018	Senior Unsecured Notes	US 9	6.73%

### CAPITALIZED INTEREST

In the three and nine months ended September 30, 2018, TransCanada capitalized interest related to capital projects of \$33 million and \$89 million, respectively (2017 – \$49 million and \$150 million, respectively).

## 9. Common shares

### TRANSCANADA CORPORATION ATM EQUITY PROGRAM

In the three months ended September 30, 2018, the Company issued 6.1 million common shares under the TransCanada ATM program at an average price of \$57.75 per common share for proceeds of \$351 million, net of related commissions and fees of approximately \$3 million. In the nine months ended September 30, 2018, 20.0 million common shares have been issued at an average price of \$56.13 per common share for proceeds of \$1.1 billion, net of approximately \$10 million of related commissions and fees.

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In June 2018, the Company replenished the capacity available under its existing Corporate ATM program. This allows for the issuance of additional common shares from treasury for an aggregate gross sales price of up to \$1.0 billion, for a revised total of \$2.0 billion or its U.S. dollar equivalent. The Corporate ATM program, as amended, is effective to July 23, 2019.

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

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

<b>three months ended September 30, 2018</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation losses on net investment in foreign operations	(273)	(9)	(282)
Change in fair value of net investment hedges	12	(3)	9
Change in fair value of cash flow hedges	5	(1)	4
Reclassification to net income of gains and losses on cash flow hedges	8	(2)	6
Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans	4	6	10
Other comprehensive income on equity investments	7	(1)	6
<b>Other comprehensive loss</b>	<b>(237)</b>	<b>(10)</b>	<b>(247)</b>

<b>three months ended September 30, 2017</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation losses on net investment in foreign operations	(364)	(6)	(370)
Change in fair value of net investment hedges	(1)	—	(1)
Change in fair value of cash flow hedges	1	—	1
Unrealized actuarial gains and losses on pension and other post-retirement benefit plans	5	(3)	2
Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans	6	(2)	4
Other comprehensive income on equity investments	4	(1)	3
<b>Other comprehensive loss</b>	<b>(349)</b>	<b>(12)</b>	<b>(361)</b>

<b>nine months ended September 30, 2018</b> (unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation gains on net investment in foreign operations	397	12	409
Change in fair value of net investment hedges	(8)	2	(6)
Change in fair value of cash flow hedges	8	1	9
Reclassification to net income of gains and losses on cash flow hedges	21	(5)	16
Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans	12	(2)	10
Other comprehensive income on equity investments	20	(2)	18
<b>Other comprehensive income</b>	<b>450</b>	<b>6</b>	<b>456</b>

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<b>nine months ended September 30, 2017</b>			
(unaudited - millions of Canadian \$)	<b>Before Tax Amount</b>	<b>Income Tax Recovery/ (Expense)</b>	<b>Net of Tax Amount</b>
Foreign currency translation losses on net investment in foreign operations	(717)	(4)	(721)
Reclassification of foreign currency translation gains on net investment on disposal of foreign operations	(77)	—	(77)
Change in fair value of net investment hedges	(4)	1	(3)
Change in fair value of cash flow hedges	5	(1)	4
Reclassification to net income of gains and losses on cash flow hedges	(2)	1	(1)
Unrealized actuarial gains and losses on pension and other post-retirement benefit plans	5	(3)	2
Reclassification of actuarial gains and losses on pension and other post-retirement benefit plans	16	(5)	11
Other comprehensive income on equity investments	8	(2)	6
<b>Other comprehensive loss</b>	<b>(766)</b>	<b>(13)</b>	<b>(779)</b>

The changes in AOCI by component are as follows:

<b>three months ended September 30, 2018</b>					
(unaudited - millions of Canadian \$)	<b>Currency Translation Adjustments</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plan Adjustments</b>	<b>Equity Investments</b>	<b>Total<sup>1</sup></b>
AOCI balance at July 1, 2018	(462)	(26)	(203)	(443)	(1,134)
Other comprehensive (loss)/income before reclassifications <sup>2</sup>	(239)	3	—	—	(236)
Amounts reclassified from AOCI <sup>3</sup>	—	5	10	5	20
Net current period other comprehensive (loss)/income	(239)	8	10	5	(216)
<b>AOCI balance at September 30, 2018</b>	<b>(701)</b>	<b>(18)</b>	<b>(193)</b>	<b>(438)</b>	<b>(1,350)</b>

- 1 All amounts are net of tax. Amounts in parentheses indicate losses recorded to OCI.
- 2 Other comprehensive (loss)/income before reclassifications on currency translation adjustments and cash flow hedges are net of non-controlling interest losses of \$34 million and gains of \$1 million, respectively.
- 3 Amounts reclassified from AOCI on cash flow hedges and equity investments are net of non-controlling interest gains of \$1 million and \$1 million, respectively.

<b>nine months ended September 30, 2018</b>					
(unaudited - millions of Canadian \$)	<b>Currency Translation Adjustments</b>	<b>Cash Flow Hedges</b>	<b>Pension and OPEB Plan Adjustments</b>	<b>Equity Investments</b>	<b>Total<sup>1</sup></b>
AOCI balance at January 1, 2018	(1,043)	(31)	(203)	(454)	(1,731)
Other comprehensive income before reclassifications <sup>2</sup>	342	1	—	—	343
Amounts reclassified from AOCI <sup>3,4</sup>	—	12	10	16	38
Net current period other comprehensive income	342	13	10	16	381
<b>AOCI balance at September 30, 2018</b>	<b>(701)</b>	<b>(18)</b>	<b>(193)</b>	<b>(438)</b>	<b>(1,350)</b>

- 1 All amounts are net of tax. Amounts in parentheses indicate losses recorded to OCI.
- 2 Other comprehensive income before reclassifications on currency translation adjustments and cash flow hedges are net of non-controlling interest gains of \$61 million and \$8 million, respectively.
- 3 Losses related to cash flow hedges reported in AOCI and expected to be reclassified to net income in the next 12 months are estimated to be \$16 million (\$11 million after tax) at September 30, 2018. These estimates assume constant commodity prices, interest rates and foreign exchange rates over time, however, the amounts reclassified will vary based on the actual value of these factors at the date of settlement.
- 4 Amounts reclassified from AOCI on cash flow hedges and equity investments are net of non-controlling interest gains of \$4 million and \$2 million, respectively.

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

(unaudited - millions of Canadian \$)	Amounts Reclassified From AOCI				Affected line item in the Condensed consolidated statement of income
	three months ended September 30		nine months ended September 30		
	2018	2017	2018	2017	
Cash flow hedges					
Commodities	(3)	4	(4)	15	Revenues (Energy)
Interest	(4)	(4)	(13)	(13)	Interest expense
	(7)	—	(17)	2	Total before tax
	2	—	5	(1)	Income tax expense
	(5)	—	(12)	1	Net of tax <sup>1,3</sup>
Pension and other post-retirement benefit plan adjustments					
Amortization of actuarial gains and losses	(4)	(4)	(12)	(12)	Plant operating costs and other <sup>2</sup>
Settlement charge	—	(2)	—	(2)	Plant operating costs and other <sup>2</sup>
	(4)	(6)	(12)	(14)	Total before tax
	(6)	2	2	5	Income tax expense
	(10)	(4)	(10)	(9)	Net of tax <sup>1</sup>
Equity investments					
Equity income	(6)	(4)	(19)	(8)	Income from equity investments
	1	1	3	2	Income tax expense
	(5)	(3)	(16)	(6)	Net of tax <sup>1,3</sup>
Currency translation adjustments					
Realization of foreign currency translation gain on disposal of foreign operations	—	—	—	77	Gain on sales of assets
	—	—	—	—	Income tax expense
	—	—	—	77	Net of tax <sup>1</sup>

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

2 These AOCI components are included in the computation of net benefit cost. Refer to Note 11, Employee post-retirement benefits, for further information.

3 Amounts reclassified from AOCI on cash flow hedges and equity investments are net of non-controlling interest gains of \$1 million and \$1 million, respectively, for the three months ended September 30, 2018 (2017 – nil and nil) and \$4 million and \$2 million, respectively, for the nine months ended September 30, 2018 (2017 – nil and nil).

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## 11. Employee post-retirement benefits

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

(unaudited - millions of Canadian \$)	three months ended September 30				nine months ended September 30			
	Pension benefit plans		Other post-retirement benefit plans		Pension benefit plans		Other post-retirement benefit plans	
	2018	2017	2018	2017	2018	2017	2018	2017
Service cost <sup>1</sup>	30	25	1	1	91	81	3	3
Other components of net benefit cost <sup>1</sup>								
Interest cost	33	30	3	3	100	92	10	10
Expected return on plan assets	(55)	(45)	(4)	(5)	(165)	(134)	(12)	(16)
Amortization of actuarial loss	4	3	—	1	11	11	1	1
Amortization of regulatory asset	5	26	—	—	14	33	—	1
Settlement charge	—	2	—	—	—	2	—	—
	(13)	16	(1)	(1)	(40)	4	(1)	(4)
<b>Net Benefit Cost</b>	<b>17</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>51</b>	<b>85</b>	<b>2</b>	<b>(1)</b>

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

## 12. Risk management and financial instruments

### RISK MANAGEMENT OVERVIEW

TransCanada has exposure to market risk and counterparty credit risk, and has strategies, policies and limits in place to manage the impact of these risks on earnings and cash flow.

### COUNTERPARTY CREDIT RISK

TransCanada's maximum counterparty credit exposure with respect to financial instruments at September 30, 2018, without taking into account security held, consisted of cash and cash equivalents, accounts receivable, available-for-sale assets, derivative assets and loans receivable. The Company regularly reviews its accounts receivable and records an allowance for doubtful accounts as necessary using the specific identification method. At September 30, 2018, there were no significant amounts past due or impaired, no significant credit risk concentration and no significant credit losses during the period.

### LOAN RECEIVABLE FROM AFFILIATE

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

The Company holds a 60 per cent equity interest in a joint venture with IEnova to build, own and operate the Sur de Texas pipeline. The Company accounts for its interest in the joint venture as an equity investment. In 2017, the Company entered into a MXN\$21.3 billion unsecured revolving credit facility with the joint venture, which bears interest at a floating rate and matures in March 2022. Draws on the credit facility result in a loan receivable from the joint venture representing the Company's proportionate share of the debt financing requirements advanced to the joint venture.

## THIRD QUARTER 2018

At September 30, 2018, the balance of the Company's loan receivable from the joint venture totaled MXN\$18.0 billion or \$1.2 billion (December 31, 2017 – MXN\$14.4 billion or \$919 million) and Interest income and other included \$32 million and \$88 million of interest income on this loan receivable for the three and nine months ended September 30, 2018 (2017 – \$11 million and \$14 million). Amounts recognized in Interest income and other are offset by a corresponding proportionate share of interest expense recorded in Income from equity investments.

**NET INVESTMENT IN FOREIGN OPERATIONS**

The Company hedges its net investment in foreign operations (on an after-tax basis) with U.S. dollar-denominated debt, cross-currency interest rate swaps and foreign exchange forward contracts and options.

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

(unaudited - millions of Canadian \$, unless noted otherwise)	September 30, 2018		December 31, 2017	
	Fair value <sup>1,2</sup>	Notional amount	Fair value <sup>1,2</sup>	Notional amount
U.S. dollar cross-currency interest rate swaps (maturing 2018 to 2019) <sup>3</sup>	(42)	US 300	(199)	US 1,200
U.S. dollar foreign exchange options (maturing 2018 to 2019)	(2)	US 2,000	5	US 500
	(44)	US 2,300	(194)	US 1,700

1 Fair value equals carrying value.

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

3 In the three and nine months ended September 30, 2018, Net income includes net realized gains of nil and \$1 million, respectively (2017 – \$1 million and \$3 million, respectively) related to the interest component of cross-currency swap settlements which are reported within Interest expense.

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

(unaudited - millions of Canadian \$, unless noted otherwise)	September 30, 2018	December 31, 2017
Notional amount	28,300 (US 21,900)	25,400 (US 20,200)
Fair value	30,200 (US 23,300)	28,900 (US 23,100)

**FINANCIAL INSTRUMENTS****Non-derivative financial instruments****Fair value of non-derivative financial instruments**

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

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

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

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

(unaudited - millions of Canadian \$)	September 30, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt including current portion <sup>1,2</sup>	(36,700)	(39,956)	(34,741)	(40,180)
Junior subordinated notes	(7,186)	(7,014)	(7,007)	(7,233)
	(43,886)	(46,970)	(41,748)	(47,413)

- 1 Long-term debt is recorded at amortized cost except for US\$700 million (December 31, 2017 – US\$1.1 billion) that is attributed to hedged risk and recorded at fair value.
- 2 Net income for the three and nine months ended September 30, 2018 includes unrealized losses of \$1 million and unrealized gains of \$3 million, respectively, (2017 – gains of \$1 million and \$2 million, respectively) for fair value adjustments attributable to the hedged interest rate risk associated with interest rate swap fair value hedging relationships on US\$700 million of long-term debt at September 30, 2018 (December 31, 2017 – US\$1.1 billion). There were no other unrealized gains or losses from fair value adjustments to the non-derivative financial instruments.

**Available for sale assets summary**

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

(unaudited - millions of Canadian \$)	September 30, 2018		December 31, 2017	
	LMCI restricted investments	Other restricted investments <sup>1</sup>	LMCI restricted investments	Other restricted investments <sup>1</sup>
Fair values of fixed income securities <sup>2</sup>				
Maturing within 1 year	—	19	—	23
Maturing within 1-5 years	—	113	—	107
Maturing within 5-10 years	84	—	14	—
Maturing after 10 years	894	—	790	—
	978	132	804	130

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

(unaudited - millions of Canadian \$)	September 30, 2018		September 30, 2017	
	LMCI restricted investments <sup>1</sup>	Other restricted investments <sup>2</sup>	LMCI restricted investments <sup>1</sup>	Other restricted investments <sup>2</sup>
Net unrealized (losses)/gains in the period				
three months ended	(34)	—	(38)	—
nine months ended	(29)	1	(23)	—
Net realized losses in the period				
three months ended	—	—	—	—
nine months ended	(3)	—	(1)	—

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

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**Derivative instruments****Fair value of derivative instruments**

The fair value of foreign exchange and interest rate derivatives has been calculated using the income approach which uses period-end market rates and applies a discounted cash flow valuation model. The fair value of commodity derivatives has been calculated using quoted market prices where available. In the absence of quoted market prices, third-party broker quotes or other valuation techniques have been used. The fair value of options has been calculated using the Black-Scholes pricing model. Credit risk has been taken into consideration when calculating the fair value of derivative instruments.

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

**Balance sheet presentation of derivative instruments**

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

<b>at September 30, 2018</b> (unaudited - millions of Canadian \$)	<b>Cash Flow Hedges</b>	<b>Fair Value Hedges</b>	<b>Net Investment Hedges</b>	<b>Held for Trading</b>	<b>Total Fair Value of Derivative Instruments<sup>1</sup></b>
Other current assets					
Commodities <sup>2</sup>	1	—	—	332	333
Foreign exchange	—	—	13	20	33
Interest rate	6	—	—	—	6
	7	—	13	352	372
Intangible and other assets					
Commodities <sup>2</sup>	—	—	—	66	66
Foreign exchange	—	—	—	—	—
Interest rate	17	—	—	—	17
	17	—	—	66	83
<b>Total Derivative Assets</b>	<b>24</b>	<b>—</b>	<b>13</b>	<b>418</b>	<b>455</b>
Accounts payable and other					
Commodities <sup>2</sup>	(4)	—	—	(313)	(317)
Foreign exchange	—	—	(57)	(39)	(96)
Interest rate	—	(5)	—	—	(5)
	(4)	(5)	(57)	(352)	(418)
Other long-term liabilities					
Commodities <sup>2</sup>	(1)	—	—	(40)	(41)
Foreign exchange	—	—	—	—	—
Interest rate	—	(2)	—	—	(2)
	(1)	(2)	—	(40)	(43)
<b>Total Derivative Liabilities</b>	<b>(5)</b>	<b>(7)</b>	<b>(57)</b>	<b>(392)</b>	<b>(461)</b>
<b>Total Derivatives</b>	<b>19</b>	<b>(7)</b>	<b>(44)</b>	<b>26</b>	<b>(6)</b>

1 Fair value equals carrying value.

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

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<b>at December 31, 2017</b> (unaudited - millions of Canadian \$)	<b>Cash Flow Hedges</b>	<b>Fair Value Hedges</b>	<b>Net Investment Hedges</b>	<b>Held for Trading</b>	<b>Total Fair Value of Derivative Instruments<sup>1</sup></b>
Other current assets					
Commodities <sup>2</sup>	1	—	—	249	250
Foreign exchange	—	—	8	70	78
Interest rate	3	—	—	1	4
	4	—	8	320	332
Intangible and other assets					
Commodities <sup>2</sup>	—	—	—	69	69
Interest rate	4	—	—	—	4
	4	—	—	69	73
<b>Total Derivative Assets</b>	<b>8</b>	<b>—</b>	<b>8</b>	<b>389</b>	<b>405</b>
Accounts payable and other					
Commodities <sup>2</sup>	(6)	—	—	(208)	(214)
Foreign exchange	—	—	(159)	(10)	(169)
Interest rate	—	(4)	—	—	(4)
	(6)	(4)	(159)	(218)	(387)
Other long-term liabilities					
Commodities <sup>2</sup>	(2)	—	—	(26)	(28)
Foreign exchange	—	—	(43)	—	(43)
Interest rate	—	(1)	—	—	(1)
	(2)	(1)	(43)	(26)	(72)
<b>Total Derivative Liabilities</b>	<b>(8)</b>	<b>(5)</b>	<b>(202)</b>	<b>(244)</b>	<b>(459)</b>
<b>Total Derivatives</b>	<b>—</b>	<b>(5)</b>	<b>(194)</b>	<b>145</b>	<b>(54)</b>

1 Fair value equals carrying value.

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

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

### Derivatives in fair value hedging relationships

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

	<b>Carrying amount</b>		<b>Fair value hedging adjustments<sup>1</sup></b>	
	<b>September 30, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
(unaudited - millions of Canadian \$)				
Current portion of long-term debt	<b>(387)</b>	(688)	<b>1</b>	1
Long-term debt	<b>(511)</b>	(685)	<b>6</b>	4
	<b>(898)</b>	(1,373)	<b>7</b>	5

1 At September 30, 2018 and December 31, 2017, adjustments for discontinued hedging relationships included in these balances were nil.

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**Notional and Maturity Summary**

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

<b>at September 30, 2018</b>					
(unaudited)	<b>Power</b>	<b>Natural Gas</b>	<b>Liquids</b>	<b>Foreign Exchange</b>	<b>Interest Rate</b>
Purchases <sup>1</sup>	<b>30,533</b>	<b>61</b>	<b>55</b>	—	—
Sales <sup>1</sup>	<b>22,711</b>	<b>70</b>	<b>74</b>	—	—
Millions of U.S. dollars	—	—	—	<b>3,898</b>	<b>1,200</b>
Maturity dates	<b>2018-2022</b>	<b>2018-2021</b>	<b>2018-2019</b>	<b>2018-2019</b>	<b>2018-2028</b>

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

<b>at December 31, 2017</b>					
(unaudited)	<b>Power</b>	<b>Natural Gas</b>	<b>Liquids</b>	<b>Foreign Exchange</b>	<b>Interest Rate</b>
Purchases <sup>1</sup>	66,132	133	6	—	—
Sales <sup>1</sup>	42,836	135	7	—	—
Millions of U.S. dollars	—	—	—	2,931	2,300
Millions of Mexican pesos	—	—	—	100	—
Maturity dates	2018-2022	2018-2021	2018	2018	2018-2022

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

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

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

(unaudited - millions of Canadian \$)	<b>three months ended September 30</b>		<b>nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Derivative Instruments Held for Trading<sup>1</sup></b>				
Amount of unrealized (losses)/gains in the period				
Commodities <sup>2</sup>	<b>(31)</b>	45	<b>(41)</b>	(102)
Foreign exchange	<b>60</b>	33	<b>(79)</b>	89
Interest rate	—	(1)	—	(1)
Amount of realized gains/(losses) in the period				
Commodities	<b>81</b>	(82)	<b>210</b>	(167)
Foreign exchange	<b>(5)</b>	19	<b>14</b>	10
Interest rate	—	1	—	1
<b>Derivative Instruments in Hedging Relationships</b>				
Amount of realized gains/(losses) in the period				
Commodities	<b>1</b>	4	—	17
Foreign exchange	—	—	—	5
Interest rate	<b>(2)</b>	—	<b>(1)</b>	1

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

2 In the three and nine months ended September 30, 2018 and 2017, there were no gains or losses included in Net Income relating to discontinued cash flow hedges where it was probable that the anticipated transaction would not occur.

## THIRD QUARTER 2018

**Derivatives in cash flow hedging relationships**

The components of OCI related to the change in fair value of derivatives in cash flow hedging relationships including the portion attributable to non-controlling interests are as follows:

(unaudited - millions of Canadian \$)	three months ended September 30		nine months ended September 30	
	2018	2017	2018	2017
Change in fair value of derivative instruments recognized in OCI (effective portion) <sup>1</sup>				
Commodities	3	2	(3)	5
Interest rate	2	(1)	11	—
	5	1	8	5

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

**Effect of fair value and cash flow hedging relationships**

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

(unaudited - millions of Canadian \$)	three months ended September 30			
	Revenues (Energy)		Interest Expense	
	2018	2017	2018	2017
<b>Total Amount Presented in the Condensed Consolidated Statement of Income</b>	<b>535</b>	<b>887</b>	<b>(577)</b>	<b>(504)</b>
<b>Fair Value Hedges</b>				
Interest rate contracts				
Hedged items	—	—	(17)	(18)
Derivatives designated as hedging instruments	—	—	(2)	(1)
<b>Cash Flow Hedges</b>				
Reclassification of gains/(losses) on derivative instruments from AOCI to net income				
Interest rate contracts <sup>1</sup>	—	—	5	4
Commodity contracts <sup>2</sup>	3	(4)	—	—

1 Refer to Note 10, Other comprehensive (loss)/income and accumulated other comprehensive loss, for the components of OCI related to derivatives in cash flow hedging relationships including the portion attributable to non-controlling interests.

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

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(unaudited - millions of Canadian \$)	nine months ended September 30			
	Revenues (Energy)		Interest Expense	
	2018	2017	2018	2017
<b>Total Amount Presented in the Condensed Consolidated Statement of Income</b>	<b>1,724</b>	2,581	<b>(1,662)</b>	(1,528)
<b>Fair Value Hedges</b>				
Interest rate contracts				
Hedged items	—	—	<b>(59)</b>	(56)
Derivatives designated as hedging instruments	—	—	<b>(4)</b>	1
<b>Cash Flow Hedges</b>				
Reclassification of gains/(losses) on derivative instruments from AOCI to net income				
Interest rate contracts <sup>1</sup>	—	—	<b>17</b>	13
Commodity contracts <sup>2</sup>	<b>4</b>	(15)	—	—

1 Refer to Note 10, Other comprehensive (loss)/income and accumulated other comprehensive loss, for the components of OCI related to derivatives in cash flow hedging relationships including the portion attributable to non-controlling interests.

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

**Offsetting of derivative instruments**

The Company enters into derivative contracts with the right to offset in the normal course of business as well as in the event of default. TransCanada 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 in the balance sheet. The following table shows the impact on the presentation of the fair value of derivative instrument assets and liabilities on the Condensed consolidated balance sheet had the Company elected to present these contracts on a net basis:

<b>at September 30, 2018</b>	Gross derivative instruments	Amounts available for offset <sup>1</sup>	Net amounts
(unaudited - millions of Canadian \$)			
Derivative instrument assets			
Commodities	<b>399</b>	<b>(309)</b>	<b>90</b>
Foreign exchange	<b>33</b>	<b>(24)</b>	<b>9</b>
Interest rate	<b>23</b>	—	<b>23</b>
	<b>455</b>	<b>(333)</b>	<b>122</b>
Derivative instrument liabilities			
Commodities	<b>(358)</b>	<b>309</b>	<b>(49)</b>
Foreign exchange	<b>(96)</b>	<b>24</b>	<b>(72)</b>
Interest rate	<b>(7)</b>	—	<b>(7)</b>
	<b>(461)</b>	<b>333</b>	<b>(128)</b>

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

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<b>at December 31, 2017</b> (unaudited - millions of Canadian \$)	<b>Gross derivative instruments</b>	<b>Amounts available for offset<sup>1</sup></b>	<b>Net amounts</b>
<b>Derivative instrument assets</b>			
Commodities	319	(198)	121
Foreign exchange	78	(56)	22
Interest rate	8	(1)	7
	405	(255)	150
<b>Derivative instrument liabilities</b>			
Commodities	(242)	198	(44)
Foreign exchange	(212)	56	(156)
Interest rate	(5)	1	(4)
	(459)	255	(204)

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

With respect to the derivative instruments presented above, the Company provided cash collateral of \$87 million and letters of credit of \$17 million as at September 30, 2018 (December 31, 2017 – \$165 million and \$30 million) to its counterparties. At September 30, 2018, the Company held nil in cash collateral and \$1 million in letters of credit (December 31, 2017 – nil and \$3 million) from counterparties on asset exposures.

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

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

Based on contracts in place and market prices at September 30, 2018, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was \$2 million (December 31, 2017 – \$2 million), for which the Company did not provide collateral in the normal course of business at September 30, 2018 or December 31, 2017. If the credit-risk-related contingent features in these agreements were triggered on September 30, 2018, the Company would have been required to provide collateral of \$2 million (December 31, 2017 – \$2 million) to its counterparties. Collateral may also need to be provided should the fair value of derivative instruments exceed pre-defined contractual exposure limit thresholds.

The Company has sufficient liquidity in the form of cash and undrawn committed revolving credit facilities to meet these contingent obligations should they arise.

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**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.

<b>Levels</b>	<b>How fair value has been determined</b>
Level I	Quoted prices in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date. An active market is a market in which frequency and volume of transactions provides pricing information on an ongoing basis.
Level II	<p>Valuation based on the extrapolation of inputs, other than quoted prices included within Level I, for which all significant inputs are observable directly or indirectly.</p> <p>Inputs include published exchange rates, interest rates, interest rate swap curves, yield curves and broker quotes from external data service providers.</p> <p>This category includes interest rate and foreign exchange derivative assets and liabilities where fair value is determined using the income approach and commodity derivatives where fair value is determined using the market approach.</p> <p>Transfers between Level I and Level II would occur when there is a change in market circumstances.</p>
Level III	<p>Valuation of assets and liabilities are measured using a market approach based on extrapolation of inputs that are unobservable or where observable data does not support a significant portion of the derivative's fair value. This category mainly includes long-dated commodity transactions in certain markets where liquidity is low and the Company uses the most observable inputs available or, if not available, long-term broker quotes to estimate the fair value for these transactions. Valuation of options is based on the Black-Scholes pricing model.</p> <p>Assets and liabilities measured at fair value can fluctuate between Level II and Level III depending on the proportion of the value of the contract that extends beyond the time frame for which significant inputs are considered to be observable. As contracts near maturity and observable market data become available, they are transferred out of Level III and into Level II.</p>

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

<b>at September 30, 2018</b> (unaudited - millions of Canadian \$)	<b>Quoted prices in active markets (Level I)<sup>1</sup></b>	<b>Significant other observable inputs (Level II)<sup>1</sup></b>	<b>Significant unobservable inputs (Level III)<sup>1</sup></b>	<b>Total</b>
Derivative instrument assets				
Commodities	217	145	37	399
Foreign exchange	—	33	—	33
Interest rate	—	23	—	23
Derivative instrument liabilities				
Commodities	(220)	(87)	(51)	(358)
Foreign exchange	—	(96)	—	(96)
Interest rate	—	(7)	—	(7)
	<b>(3)</b>	<b>11</b>	<b>(14)</b>	<b>(6)</b>

<sup>1</sup> There were no transfers from Level I to Level II or from Level II to Level III for the nine months ended September 30, 2018.

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<b>at December 31, 2017</b> (unaudited - millions of Canadian \$)	<b>Quoted prices in active markets (Level I)<sup>1</sup></b>	<b>Significant other observable inputs (Level II)<sup>1</sup></b>	<b>Significant unobservable inputs (Level III)<sup>1</sup></b>	<b>Total</b>
Derivative instrument assets				
Commodities	21	283	15	319
Foreign exchange	—	78	—	78
Interest rate	—	8	—	8
Derivative instrument liabilities				
Commodities	(27)	(193)	(22)	(242)
Foreign exchange	—	(212)	—	(212)
Interest rate	—	(5)	—	(5)
	(6)	(41)	(7)	(54)

<sup>1</sup> There were no transfers from Level I to Level II or from Level II to Level III for the year ended December 31, 2017.

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

(unaudited - millions of Canadian \$)	<b>three months ended September 30</b>		<b>nine months ended September 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Balance at beginning of period	<b>40</b>	9	<b>(7)</b>	16
Total losses included in Net income	<b>(24)</b>	(10)	<b>(6)</b>	(12)
Settlements	<b>(14)</b>	(1)	<b>9</b>	4
Sales	—	—	—	(5)
Transfers out of Level III	<b>(16)</b>	—	<b>(10)</b>	(5)
<b>Balance at end of period<sup>1</sup></b>	<b>(14)</b>	(2)	<b>(14)</b>	(2)

<sup>1</sup> For the three and nine months ended September 30, 2018, Revenues include unrealized losses of \$16 million and \$2 million, respectively, attributed to derivatives in the Level III category that were still held at September 30, 2018 (2017 – unrealized losses of \$10 million and \$14 million, respectively).

A 10 per cent increase or decrease in commodity prices, with all other variables held constant, would result in a \$27 million decrease or increase, respectively, in the fair value of outstanding derivative instruments included in Level III as at September 30, 2018.

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## 13. Contingencies and guarantees

### CONTINGENCIES

TransCanada and its subsidiaries are subject to various legal proceedings, arbitrations and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on the Company's consolidated financial position or results of operations.

### GUARANTEES

TransCanada and its joint venture partner on the Sur de Texas pipeline, IEnova, have jointly guaranteed the obligations for construction services during the construction of the pipeline.

TransCanada and its joint venture partner on Bruce Power, BPC Generation Infrastructure Trust, have each severally guaranteed certain contingent financial obligations of Bruce Power related to a lease agreement and contractor and supplier services.

The Company and its partners in certain other jointly owned entities have either (i) jointly and severally, (ii) jointly or (iii) severally guaranteed the financial performance of these entities. Such agreements include guarantees and letters of credit which are primarily related to delivery of natural gas, construction services and the payment of liabilities. For certain of these entities, any payments made by TransCanada under these guarantees in excess of its ownership interest are to be reimbursed by its partners.

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

(unaudited - millions of Canadian \$)		at September 30, 2018		at December 31, 2017	
		Term	Potential exposure <sup>1</sup>	Carrying value	Potential exposure <sup>1</sup>
Sur de Texas	ranging to 2020	187	1	315	2
Bruce Power	ranging to 2019	88	—	88	1
Other jointly-owned entities	ranging to 2059	104	11	104	13
		<b>379</b>	<b>12</b>	507	16

<sup>1</sup> TransCanada's share of the potential estimated current or contingent exposure.

## 14. Variable interest entities

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

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

### Consolidated VIEs

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

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

(unaudited - millions of Canadian \$)	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	62	41
Accounts receivable	59	63
Inventories	22	23
Other	13	11
	<b>156</b>	138
<b>Plant, Property and Equipment</b>	<b>3,576</b>	3,535
<b>Equity Investments</b>	<b>925</b>	917
<b>Goodwill</b>	<b>505</b>	490
<b>Intangible and Other Assets</b>	<b>17</b>	3
	<b>5,179</b>	5,083
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and other	79	137
Dividends payable	—	1
Accrued interest	30	23
Current portion of long-term debt	74	88
	<b>183</b>	249
<b>Regulatory Liabilities</b>	<b>39</b>	34
<b>Other Long-Term Liabilities</b>	<b>2</b>	3
<b>Deferred Income Tax Liabilities</b>	<b>13</b>	13
<b>Long-Term Debt</b>	<b>3,152</b>	3,244
	<b>3,389</b>	3,543

**Non-Consolidated VIEs**

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

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

(unaudited - millions of Canadian \$)	September 30, 2018	December 31, 2017
<b>Balance sheet</b>		
Equity investments	4,430	4,372
<b>Off-balance sheet</b>		
Potential exposure to guarantees	171	171
<b>Maximum exposure to loss</b>	<b>4,601</b>	<b>4,543</b>

## 15. Subsequent Events

### Long-term debt issuance

On October 12, 2018, TCPL issued US\$1.0 billion of Senior Unsecured Notes, due in March 2049, bearing interest at a fixed rate of 5.10 per cent and US\$400 million of Senior Unsecured Notes, due in May 2028, bearing interest at a fixed rate of 4.25 per cent.

### Reimbursement of Coastal GasLink pipeline pre-development costs

In accordance with provisions in the agreements with the LNG Canada joint venture participants, to date, four parties have elected to reimburse TransCanada for their share of pre-development costs on the Coastal GasLink (CGL) pipeline project, totalling \$399 million of cost reimbursement, with payments due by November 30, 2018. At September 30, 2018, pre-development costs for the CGL pipeline were included in Intangible and other assets on the Company's Condensed consolidated balance sheet.