
South Bow Corporation

CORPORATE GOVERNANCE GUIDELINES

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SOUTH BOW CORPORATION

(the “Company”)

CORPORATE GOVERNANCE GUIDELINES

A. Introduction

The board of directors (the “board”) and management are committed to maintaining a high standard of corporate governance. The Company is subject to a variety of corporate governance guidelines and requirements enacted by the Canadian Securities Administrators, the Toronto and New York Stock Exchanges, the United States (U.S.) Securities and Exchange Commission under its rules and those mandated by the U.S. Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Clayton Antitrust Act. The Company’s corporate governance practices comply with all of the governance rules of Canadian regulators and those of the United States applicable to foreign issuers.

The board has the responsibility for the overall stewardship of the Company, establishing the overall policies and standards for the Company in the operation of its businesses, and reviewing and approving the Company’s strategic plans. In addition, the board monitors and assesses overall performance and progress in meeting the Company’s goals. Day to day management is the responsibility of the president and chief executive officer and senior management. To this end, the board has adopted the following guidelines to assist it in its corporate governance responsibilities.

In addition, the Governance and Risk Committee monitors, reviews and develops policies and recommends to the board or takes other action as appropriate in fulfilling its purpose related to corporate governance issues, principles and guidelines.

B. Board Organization and Membership

1. Chair of the Board

The board has determined to separate the positions of chairman of the board (chair) and president and chief executive officer. The board has determined the chair of the Company shall serve in a non-executive capacity and shall be appointed by the board based on the recommendation of the Governance and Risk Committee, the committee of the board that has been delegated the responsibility to assess candidates for the position.

2. Lead Director Concept

The board has adopted a policy that it have an independent director assume the responsibility of chairing scheduled meetings of directors or other responsibilities which the directors as a whole might designate from time to time. This will be the chair, or in the chair’s absence, the chair of the Governance and Risk Committee.

3. Board Size

The Company's Articles permit a minimum of 3 directors and a maximum of 13 directors. It is the board's belief that this range is currently sufficient to provide a diversity of expertise and opinions and allow effective committee organization, yet small enough for efficient meetings and decision-making.

The Governance and Risk Committee is mandated to review the size of the board from time to time and recommend changes in size to the board when appropriate. The board has the ability to increase or decrease its size within limits defined by the Articles of the Company and applicable corporate law.

4. Non-Executive Directors

The board believes that, as a matter of policy, there should be a majority of non-executive and independent directors on the Company's board. To this end, the board has determined the number of executives of the Company or its subsidiaries who may serve as directors at any one time shall be limited to a maximum of two.

On matters of corporate governance or otherwise required by law, decisions or determinations will be made by the non-executive directors.

5. "Independence" of Non-Executive Directors

The Governance and Risk Committee undertakes an annual review to determine the existence of any relationships each director may have with the Company or any other person or entity to ensure the majority of directors are independent from the Company, and to confirm that no relationships exist that may violate the Clayton Antitrust Act. The Governance and Risk Committee also undertakes an annual review to ensure that the members of the Audit Committee, Governance and Risk Committee and Human Resources Committee are independent and, where any relationships which potentially compromise independence exist, the director is acting appropriately. The board annually affirmatively determines the independent status of each director, based on the Governance and Risk Committee's recommendations.

6. Serving on Multiple Boards

The board has determined that each non-executive director of the Company may serve as a director on a maximum of four public company boards, provided that the directors' board memberships do not hinder his or her role as a director of the Company or the overall performance of the Company's Board. For the purposes of counting public company boards, each non-executive board chair role will be counted as two board seats.

The CEO may serve as a director on a maximum of one public company board in addition to the CEO's service as a director of the Company.

Any member of the Audit Committee may serve on a maximum of three public company audit committees, provided that the directors' board memberships do not hinder his or her role as a director of the Company or the overall performance of the Company's Board.

A director wishing to join any other board of directors, whether a private or public company, must first request permission of the chair of the Governance and Risk Committee so that the appropriate review can be undertaken to ensure that there is no competitive conflict under the Clayton Antitrust Act or other applicable legislation, nor any other concerns regarding independence or conflict of interests. The chair of the Governance and Risk Committee may approve such requests in consultation with the chair of the Board, the CEO and Corporate Secretary.

7. Majority Voting for Directors

This majority voting policy is adopted in accordance with, and subject to, the CBCA. Directors stand for election each year at the annual meeting of shareholders, and a separate vote of shareholders is taken with respect to each candidate nominated for director. If there is only one candidate nominated for each position available on the Board (an uncontested election), each candidate is elected only if the number of votes cast in their favor represents a majority (50% plus one vote) of the votes cast in their election.

An incumbent director who fails to be elected through a majority of votes cast in favour of his or her election may continue to serve as a director for a transition period reflecting the earlier of 90 days following the meeting or until his or her successor is appointed or elected.

Notwithstanding the foregoing, a nominee who fails to achieve a majority of votes cast in favour of his or her election may still be appointed to the Board if his or her appointment is required to: (i) satisfy residency requirements under the *Canada Business Corporations Act*; or (ii) have at least two directors serving on the board who are not officers or employees of the Company or its affiliates.

Subject to any corporate law restrictions, the board may leave the resultant vacancy unfilled until the next annual shareholders' meeting, or may fill the vacancy in accordance with the Company's Articles, By-Law and applicable corporate laws.

This policy does not apply in any case where the election involves a proxy battle (i.e. where proxy material is circulated in support of one or more nominees who are not part of the slate supported by the board).

8. Primary Employment Status Change

Any director who experiences, or plans to make, a material change in his or her primary employment status shall notify the chair of the Governance and Risk Committee. The Governance and Risk Committee has the responsibility to assess the continued appropriateness of board membership under such circumstances, such as whether any potential for conflicts of interest may arise due to a change in employment status, including any potential concern under the Clayton Antitrust Act or other applicable legislation. The Governance and Risk Committee shall provide recommendations on the member's continued service to the Company as a director. It is not intended that directors who retire or whose professional positions change should necessarily leave the board. In appropriate circumstances, the director's resignation may be required.

9. Officers' Board Membership

The board has determined that management members of the board shall not automatically stand for re-election after retirement or resignation from the Company. Any former officer of the Company nominated and serving on the board will be considered to be an non-independent director for purposes of corporate governance until such time as the applicable regulatory cooling off periods have been met and the non-executive directors determine that sufficient distance has been established from the officer's former executive duties to make the officer independent to the Company.

10. Criteria for Board Membership

The Governance and Risk Committee reviews each year the general and specific criteria applicable to candidates to be considered for nomination to the board. The objective of this review is to maintain the composition of the board in a way that provides the best mix of skills and experience to guide the long-term strategy and ongoing business operations of the Company. This review takes fully into account the desirability of maintaining a balanced diversity of backgrounds, skills and experience, and of personal characteristics such as age, gender and the geographic residence of the directors. The Governance and Risk Committee shall also consider the provisions of the Board Diversity Policy when assessing director nominee candidates.

11. Review and Selection of New Director Candidates

The board is responsible for nominating suitable candidates to be recommended to the shareholders for election to the board. The Governance and Risk Committee has the responsibility for assessing potential nominees, screening their qualifications against the current skill and experience requirements of the board and making recommendations to the board.

In addition, a review of potential board candidates includes an assessment of independence under Canadian and U.S. securities legislation and applicable stock exchange rules, review of board interlocks and related conflicts of interest, and an analysis under the U.S. Clayton Antitrust Act and any other applicable legislation regarding interlocking directors.

An invitation to stand as a nominee for election to the board will normally be made to a candidate by the board through the chair or the chair of the Governance and Risk Committee.

12. New Director Orientation and On-going Education

New directors are provided with an orientation and education program that includes written information about the duties and obligations of directors, the business and operations of the Company, documents from recent board meetings, and opportunities for meetings and discussion with senior management and other directors. The details of the orientation of each new director are tailored to that director's individual needs and areas of interest. The board is fully supportive of on-going education programs for directors and provides funding for directors to take advantage of appropriate educational opportunities in accordance with the Director Expense Reimbursement Policy.

13. Chair Term

The board has, established a term of four years to apply to the chair of the board which can be renewed for a further four year term or such other period as may be deemed appropriate by the board in its discretion.

14. Retirement Term Limit

The board has determined that no person shall stand for election or re-election to the board for that year's annual shareholder meeting if he or she has served on the board for a maximum term of 12 years (the "Term Limit").

The Term Limit policy, combined with individual director assessments and the Board evaluation process, enable the Board to confirm that effective directors with relevant skills are nominated for election and allow the Board to properly conduct its succession and Board refreshment planning with reference to its skills, diversity and expertise requirements. The board reserves the right, upon recommendation of the Governance and Risk Committee, to apply discretion to permit a current director or director nominee to stand for election for one year beyond the Term Limit. The Governance and Risk Committee also reviews events or matters that may trigger resignation or retirement of board members such as changes in principal occupation, board interlocks and other relevant circumstances.

15. Board Compensation

The Governance and Risk Committee reviews the compensation of directors biennially or more frequently as may be warranted, taking into account such matters as time commitment, responsibility and compensation provided by comparative companies. The Committee makes recommendations to the board for consideration when it believes changes in compensation are warranted. Management members of the board will not receive additional compensation for their services as Director.

16. Share Ownership by Directors

The board has determined that ownership of the Company's shares by directors is a positive step in helping directors align their interests with those of the shareholders. The board has adopted a policy guideline requiring directors to hold at least five times the value of the maximum permitted cash portion of their annual board retainer in common shares of the Company. Such holdings can be acquired over a period of five years and can take the form of actual share ownership or by holding the equivalent number of units in the Share Unit Plan for Non-Employee Directors.

The value of the common shares in each director's qualifying holdings shall be equal to the greater of the actual purchase price and the closing share price of the Company's common shares on the TSX on the date of valuation. The value of the share units shall be equal to the greater of the value of such share units at the date of issue and the closing share price of the Company's common shares on the TSX on the date of valuation.

The Governance and Risk Committee administers the Share Unit Plan for Non-Employee Directors as well as recommends to the board, the share ownership targets for directors.

C. Board Meetings and Materials

1. Board Meeting Agendas

The chair and the president and chief executive officer establish the agenda for each board meeting.

Any board member may suggest the inclusion of items on the agenda in advance of the meeting.

2. Meeting Materials Distributed in Advance

The board has determined that information and data that are important to the board's understanding of business issues be distributed to the board before each board meeting in sufficient time to ensure adequate opportunity exists for members' review. Management makes every attempt to make this material as concise as possible while still providing the desired information and focusing attention on critical issues to be considered by the board. The Governance and Risk Committee assesses the availability, relevance and timeliness of information required by the board.

3. Presentations

As a general rule and when appropriate, presentation materials are sent to the board members in advance. Time is allocated at all board meetings to ensure that members' questions about the material can be answered.

4. Non-Directors at Board Meetings

The board appreciates the value of the regular attendance at each board meeting of non-board members who are members of the Company's management.

Attendance of management is determined by the president and chief executive officer with the concurrence of the chair.

Management attendees are excused for any agenda items that are reserved for discussion among directors only.

5. Non-Executive Directors

Directors who are not members of management meet at the end of each board meeting *in-camera* to discuss matters of interest independent of management.

D. Committee Organization and Meetings

1. Board Committees

Each committee operates according to board-approved charters. The committees are: (1) the Audit Committee; (2) the Governance and Risk Committee; (3) the Safety, Environment and Operations Committee; and (4) the Human Resources Committee.

2. Non-Executive Independent Directors

The board believes that, as a matter of policy, each of the Committees with the exception of the Safety, Environment and Operations Committee, should be composed entirely of independent directors. The applicable requirements are addressed in the charters of each Committee.

3. Assignment and Rotation of Committee Members

The Governance and Risk Committee is responsible for recommending to the board the assignment of board members to various committees in consultation with the chair, the president and chief executive officer, and taking into account the skills, experience, knowledge and preference of individual board members.

The board favours the periodic rotation of committee members and committee chairs. Such rotation, when recommended, will be made in a way that recognizes and balances the need for renewal of ideas, continuity, and the utilization of each director's particular expertise.

4. Committee Meetings

Committee chairs, in consultation with committee members, determine the frequency (consistent with the committee's charters) and length of the meetings. Each committee chair reports to the board on the results of each meeting.

5. Committee Agendas

Each committee chair, in consultation with management, develops the committee's agendas.

E. Board and Management Responsibilities

1. Board Relationship with Management

The board supports and encourages the members of management in the performance of their duties and individual non-executive directors are encouraged to provide their counsel as needed.

Management is encouraged to make appropriate use of the board's skills before decisions are brought forward on key issues.

Board members have complete access to management for relevant information. It is understood that board members will be prudent and ensure that this contact is not distracting to the business operation of the Company.

The board encourages senior management to bring managers into board meetings from time to time to provide additional insight into the items being discussed. Such managers are expected to be those with growth potential who would benefit from their exposure to the board.

The Governance and Risk Committee monitors the quality of the relationship between management and the board and may recommend changes as deemed necessary or desirable.

2. Corporate Strategy

The board believes that management is responsible for development of corporate strategy. It is the role of the board to review, question, validate and approve the strategic plan and any material changes to the strategies.

3. Limits to Management Authority

The board establishes general authority guidelines that places limits on management's approval authority depending on the nature and size of the proposed transaction. These limits anticipate that some flexibility exists within approved budgets but otherwise must not be exceeded without prior board or appropriate committee approval.

4. Formal Evaluation of the President and Chief Executive Officer

The Human Resources Committee conducts an annual review of the performance of the president and chief executive officer as measured against objectives established in the prior year by the Human Resources Committee and the president and chief executive officer. The results of this annual review are presented to the board in executive session, which then makes an evaluation of the overall performance of the president and chief executive officer. This performance evaluation is communicated to the president and chief executive officer by the chair and the chair of the Human Resources Committee. The evaluation is used by the Human Resources Committee in its deliberations concerning the president and chief executive officer's annual compensation.

5. Succession Planning and Management Development

The board believes that succession planning and management development are key to the ongoing process that contributes substantially to the Company's success. The president and chief executive officer provides a detailed annual report to the Human Resources Committee and a summary presentation to the board. The president and chief executive officer makes available to the Human Resources Committee his recommendation as to a successor in the event of the unexpected incapacity of the president and chief executive officer.

6. Enterprise Risks

The board is responsible for understanding the enterprise risks associated with the Company's business on an ongoing basis and for ensuring that management has implemented appropriate strategies to manage these risks. It is the responsibility of management to ensure that the board and its committees are kept well informed of these changing risks on a timely basis. It is important that the board understand and support the key risk decisions of management, which

includes comprehending the appropriate balance between risks and benefits. The Governance and Risk Committee has been delegated the responsibility to oversee our ERM activities, which includes ensuring appropriate management systems are in place to identify and manage our risks, ensuring adequate Board oversight of our risk management policies, programs and practices.

7. Internal Controls and Management Information Systems

Fundamental to the discharge of the board's overall responsibilities is the existence of control systems that can in part ensure the effective discharge of these responsibilities. The board has delegated to the Audit Committee the responsibility for the oversight of internal control procedures, to determine their effectiveness, and to monitor compliance with the Company's policies and codes of business ethics. The Audit Committee reports on these matters to the board.

The Audit Committee requires management to implement and maintain appropriate systems of internal controls and meets with the Company's external auditors and its executive responsible for internal audit in executive sessions, and with management, on at least a quarterly basis to oversee the effectiveness of these systems.

The confidence of the board in the ability and integrity of management is the paramount control mechanism.

8. Board Communications Policy

The board, or the appropriate committee thereof, reviews the content of the Company's major communications to shareholders and the investing public, including the quarterly and annual reports, and approves the proxy statement, the annual information form (or its equivalent) and any prospectuses that may be issued. The board believes that it is the function of management to speak for the Company in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. It is understood that the board chair or other individual directors may from time to time be requested by management to assist with such communications. If communications from stakeholders are made to the chair or to other individual directors, management is informed and consulted to determine any appropriate response.

9. Outside Advisors for Individual Directors

Occasionally individual directors may need the services of an advisor or expert to assist on matters involving their responsibilities as board members. The board has determined that any director who wishes to engage an outside advisor at the expense of the Company may do so.

10. Assessing the Performance of the Board, Committees and Individual Directors

The Governance and Risk Committee, in coordination with the chair of the board, assesses the performance of the board, board committees, board and committee chairs, and individual directors every year and reports the results to the board. Feedback may be collected via questionnaires, independent interviews, and through meetings between the board chair and the

committee chairs as well as one-on-one meetings between the board chair and directors. . Assessments focus on the effectiveness of the board and each committee and solicit director input about areas of potential improvement. Interviews include questions about personal and individual peer performance. The chair of the board summarizes the responses and reports them to the Governance and Risk Committee and the board. The results of the evaluations are reviewed by the Governance and Risk Committee and the full board, and inform determinations about the board's processes and charters, areas of focus, composition or committee structure, as appropriate.