SOURIS VALLEY PIPELINE LIMITED – QUALIFYING ENVIRONMENTAL TRUST

Trust Fund Financial Statements

as of and for the Eleven Months Ended December 31, 2015
Together with Independent Auditors' Report

SOURIS VALLEY PIPELINE LIMITED – QUALIFYING ENVIRONMENTAL TRUST

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Souris Valley Pipeline Limited
Bismarck, North Dakota

We have audited the accompanying financial statements of Souris Valley Pipeline Limited – Qualifying Environmental Trust (the "Trust"), which comprise the statement of assets, liabilities and trust capital as of December 31, 2015, and the related statements of operations, changes in trust capital, and cash flows for the eleven-months ended December 31, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2015, and the results of its operations and its cash flows for the eleven-months ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 27, 2016

SOURIS VALLEY PIPELINE LIMITED – QUALIFYING ENVIRONMENTAL TRUST
STATEMENT OF ASSETS, LIABILITIES AND TRUST CAPITAL
December 31,

(Canadian dollars)

	2015
Assets:	
Cash and cash equivalents (Note 1)	$ 13,784
Interest receivable	22,603
Contributions receivable	12,535
	48,922
Investments, at fair value (Notes 2 and 5)	
Canadian provincial government bonds	1,323,971
Canadian guaranteed investment certificates	1,554,000
	2,877,971
Total assets	$ 2,926,893
Liabilities:	
Income tax payable	$ 967
Deferred tax liabilities (Note 6)	6,307
	7,274
Trust capital	2,919,619
Total liabilities and trust capital	$ 2,926,893

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

SOURIS VALLEY PIPELINE LIMITED – QUALIFYING ENVIRONMENTAL TRUST

STATEMENT OF OPERATIONS

Eleven Months ended December 31,

(Canadian dollars)

	2015
Investment income:	
Interest income	$ 36,624
Change in fair value of investments:	
Realized gain on investments	1,129
Unrealized gain on investments	2,757
	40,510
Administration fees:	
Trustee	13,568
Net increase in trust capital before tax	26,942
Income tax expense	7,274
Net increase in trust capital resulting from operations	$ 19,668

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

SOURIS VALLEY PIPELINE LIMITED – QUALIFYING ENVIRONMENTAL TRUST
STATEMENT OF CHANGES IN TRUST CAPITAL
Eleven Months ended December 31,

(Canadian dollars)

	2015
Trust capital at beginning of year	$ -
Net increase in trust capital resulting from operations	19,668
Capital contributions	2,899,951
Trust capital at end of year	$ 2,919,619

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

SOURIS VALLEY PIPELINE LIMITED – QUALIFYING ENVIRONMENTAL TRUST

STATEMENT OF CASH FLOWS

Eleven Months ended December 31,

(Canadian dollars)

	2015
Cash flow from operating activities:	
Net increase in trust capital resulting from operations	$ 19,668
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:	
Net realized gain on investments	(1,129)
Net change in unrealized gain on investments	(2,757)
Purchases of investments in securities	(3,039,854)
Proceeds from sale of investments in securities	165,769
Deferred income taxes	6,307
Changes in operating assets and liabilities:	
Interest receivable	(22,603)
Income tax payable	967
Net cash used in operating activities	(2,873,632)
Financing activities:	
Capital contributions received	2,887,416
Net increase in cash and cash equivalents	13,784
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	$ 13,784

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

1. DESCRIPTION OF THE TRUST

The following description of the Souris Valley Pipeline Limited – Qualifying Environmental Trust (the Trust) is a summary only.

GENERAL –The Trust is a Qualifying Environmental Trust established by Souris Valley Pipeline Limited (SVPL and the Beneficiary), for SVPL to collect and set aside funds and for the Trust to invest such funds to cover estimated future pipeline abandonment costs for all National Energy Board (NEB) regulated Canadian pipelines operated by SVPL. The Trust is set up in accordance with NEB's regulatory order MH-001-2013 Reasons for Decision dated May 2014. The Trust is governed by its Trust Indenture (Trust Agreement) dated February 1, 2015, and it commenced operations on the same date.

The Trust assets are managed by investment managers in accordance with the Trust's statement of investment policies and procedures located within Schedule B of the Trust Agreement.

The BMO Trust Company (Trustee) is the trustee and administrator of the Trust.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION–These financial statements are prepared in conformity with United States generally accepted accounting principles (US GAAP) in Canadian dollars.

INVESTMENT TRANSACTIONS AND RELATED INVESTMENT INCOME–Investment transactions are accounted for on a trade date basis. Realized gains and losses and movements in unrealized gains and losses are recognized in the Statement of Operations and determined on a first-in-first-out (FIFO) basis. Movements in fair value are recorded in the Statement of Operations at the valuation date.

Interest income is recorded on the accrual basis.

REALIZED GAINS OR LOSS ON SALE OF INVESTMENTS–The realized gain or loss on sale of investments is the difference between the net proceeds received and the average cost of the investment sold.

FINANCIAL INSTRUMENTS–All of the Trust's cash and investments are classified as financial instruments that are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to settle a liability in a transaction between market participants at the measurement date. Transactions that have not been settled are reflected in the Statement of Assets, Liabilities and Capital as receivables or payables. Changes in fair value are recognized in the Trust's Statement of Operations.

The Trust classifies its investments as available-for-sale. The cost of securities sold is based on the specific identification method. The cost, unrealized holding gains and losses, and fair value of available-for-sale securities were as follows:

	December 31, 2015			
		Gross Unrealized Holding		Fair
	Cost	Gains	Losses	Value
Canadian government bonds	$1,321,214	$ 2,757	$ -	$1,323,971
Guaranteed investment certificates	1,554,000	-	-	1,554,000
	$2,875,214	$ 2,757	$ -	$2,877,971

During 2015, sales proceeds on securities classified as available-for-sale were $165,769.

The fair value of available-for-sale debt securities by contracted maturity date at December 31, 2015 was as follows:

Due through one year	$ 554,000
Due after one year through five years	1,987,987
Due after five years through seven years	335,984
	$2,877,971

CASH AND CASH EQUIVALENTS–Cash and cash equivalents include short-term investments with a term to maturity of three months or less when purchased.

RECEIVABLES AND PAYABLES–All of the Trust's receivables and payables and accrued liabilities are measured at cost and approximate their fair value due to the short period to maturity.

WITHDRAWAL PAYMENTS–Cash distributions or payments from the Trust to a Beneficiary for the reclamation obligation, in accordance with the Trust Agreement, are restricted to the NEB's written approval.

USE OF ESTIMATES–The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

SUBSEQUENT EVENTS–SVPL considered events for recognition or disclosure in the financial statements that occurred subsequent to December 31, 2015 through April 27, 2016, the date the financial statements were available for issuance. Management is not aware of any material subsequent events that would require recognition or disclosure in the 2015 financial statements.

3. ADMINISTRATION FEES

The Trustee is entitled to an annual fee of 0.5% based on the average market value of assets under administration, subject to an annual minimum fee of $5,000. In the event the Trust becomes liable to or subject to any fees, taxes or other amounts due to the Trustee, SVPL shall, prior to the date such fees or other amounts are due, settle additional funds on the Trustee as an additional contribution to the Trust in an amount sufficient to pay all such trustee fees or other amounts.

4. FUNDING POLICY

SVPL contributes amounts to the Trust as additional contributions sufficient for the Beneficiary to carry out their reclamation obligation, and in accordance with amounts approved by the NEB.

5. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Trust's investments are governed by a statement of investment policies and procedures, located within Schedule B of the Trust Agreement, which provides investment policies and a framework for risk management. Trust assets are invested with a diversified asset mix and are largely held in fixed income securities, which provide liquidity and valuation transparency. The following defines qualified investments for the Trust:

(a) money and deposits (within the meaning assigned by the Canada Deposit Insurance Corporation Act or with a branch in Canada of a bank) of such money standing to the credit of the Trust,

(b) debt obligations described in paragraph (a) of the definition "fully exempt interest" in subsection 212(3) [being a bond, debenture, note, mortgage, hypothecary claim or similar debt obligation],

- (i) Of, or guaranteed (otherwise than by being insured by the Canada Deposit Insurance Corporation) by, the Government of Canada,
- (ii) Of the government of a province,
- (iii) An agent of a province,
- (iv) Of a municipality in Canada or a municipal or public body performing a function of government in Canada,
- (v) Of a corporation, commission or association (referencing paragraphs 149(J)(d) to (d.6)) as described in the Trust Agreement.

The Trust's net assets are subject to the following risks:

INTEREST RATE RISK–Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is managed by investing in a long-term diversified asset mix that takes into consideration the economic and capital market outlook and expected volatility of returns. The fixed income securities in the Trust are directly exposed to interest rate risk.

CREDIT RISK–Credit risk arises from the possibility that a counterparty will be unable to pay its contractual obligations. To minimize credit risk, the Trust Agreement requires a minimum of 90% of the Trust's investments must be held in Government of Canada Bonds or guaranteed by the Canada Deposit Insurance Corporation. The Trust is in compliance with this requirement.

FAIR VALUE OF FINANCIAL INSTRUMENTS–The Trust categorizes its financial instruments measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

A fair value hierarchy of inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Trust. Unobservable inputs reflect the Trust's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

LEVEL 1–Level 1 includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The Trust's Level 1 instruments consist of Government of Canada bonds.

LEVEL 2–Level 2 includes assets and liabilities whose valuations are determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Financial instruments in this category are valued using models or other industry standard valuation techniques derived from observable market data. Such valuation techniques include inputs such as quoted forward prices, volatility factors and broker quotes that can be observed or corroborated in the market. The Trust's Level 2 instruments consist of Canadian guaranteed investment certificates.

LEVEL 3–Level 3 includes assets and liabilities valued based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value. Generally, Level 3 valuations are longer dated transactions, occur in less active markets, occur at locations where pricing information is not available or have no binding broker quote to support Level 2 classification. The Trust does not have any instruments valued using Level 3 inputs.

The Trust uses the most observable inputs available to estimate the fair value of its financial instruments. When possible the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. The following table summarizes the Trust's financial instruments at fair value.

December 31, 2015	Fair Value	Level 1	Level 2
(Canadian dollars)			
Cash and cash equivalents	$ 13,784	$ 13,784	$ -
Fixed income securities:			
Canada provincial government bonds	1,323,971	1,323,971	-
Canadian guaranteed investment certificates	1,554,000	-	1,554,000
	$ 2,891,755	$ 1,337,755	$ 1,554,000

6. INCOME TAXES

The Trust files income tax returns with Canadian federal and Saskatchewan provincial authorities. The deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. SVPL management believes that no valuation allowance is necessary since any adjustments would not significantly impact open tax years.

Income tax expense computed at the combined Canadian federal and provincial statutory rates of 27% for the eleven months ended December 31, 2015 is $7,274.

The components of the Trust's income tax expense were as follows:

Eleven months ended December 31,	2015
(Canadian dollars)	
Current	$ 967
Deferred	6,307
Income tax expense	$ 7,274

The material jurisdictions in which the Trust is subject to potential examinations within Canada are Federal and the Province of Canada. The Trust is open to examination by certain Canadian tax authorities for the 2015 taxation year.

UNRECOGNIZED TAX BENEFITS–The Trust has no unrecognized tax benefits related to uncertain tax positions as at December 31, 2015 and no accrued interest or penalties thereon.