CENTRA TRANSMISSION HOLDINGS INC.

AUDITORS' REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2014

Collins Barrow

Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the management of Centra Transmission Holdings Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Centra Transmission Holdings Inc., which comprise the balance sheet as at December 31, 2014 and the statements of income, retained earnings and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises and for such internal control as management determines is necessary to enable the preparation 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 Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 present fairly, in all material respects, the financial position of Centra Transmission Holdings Inc. as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Collins Barrow Windsor LLP

April 10, 2015

Licensed Public Accountants

CENTRA TRANSMISSION HOLDINGS INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2014

CENTRA TRANSMISSION HOLDINGS INC.

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2014

	2014	2013
OPERATING REVENUE	$ 4,401,923	$ 5,086,685
EXPENSES		
Operating, selling and administrative	3,603,425	3,212,497
Depreciation	524,554	493,304
	4,127,979	3,705,801
INCOME BEFORE OTHER ITEMS	273,944	1,380,884
OTHER INCOME (EXPENSE)		
Gain on short-term investment	3,252	3,764
Gain (loss) on foreign exchange	(160,056)	551
Interest on long-term debt	(356,678)	(355,406)
Gain on disposal of assets	-	11,950
INCOME (LOSS) BEFORE INCOME TAXES	(239,538)	1,041,743
INCOME TAXES (RECOVERY)	(11,947)	256,425
NET INCOME (LOSS)	$ (227,591)	$ 785,318

See Accompanying Notes

CENTRA TRANSMISSION HOLDINGS INC.

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 2014

	2014	2013
BALANCE, BEGINNING	$ 2,342,469	$ 1,557,151
NET INCOME (LOSS)	(227,591)	785,318
BALANCE, ENDING	$ 2,114,878	$ 2,342,469

CENTRA TRANSMISSION HOLDINGS INC.

BALANCE SHEET

DECEMBER 31, 2014

	2014	2013 (restated note 4)
ASSETS		
CURRENT ASSETS		
Cash	$ 91,005	$ 134,219
Short-term investment (note 5)	19,434	16,182
Accounts receivable	747,333	509,134
Income taxes recoverable	37,536	-
Prepaid expenses	137,958	128,541
	1,033,266	788,076
LINE PACK GAS (note 3)	32,567	32,567
PROPERTY, PLANT AND EQUIPMENT (note 6)	6,146,652	6,497,854
DUE FROM RELATED PARTY (note 7)	3,211,046	3,283,695
REGULATORY ASSET (note 2)	345,242	367,101
	$ 10,768,773	$ 10,969,293

See Accompanying Notes

CENTRA TRANSMISSION HOLDINGS INC.

BALANCE SHEET

DECEMBER 31, 2014

	2014	2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 84,362	$ 101,556
Income taxes payable	-	71,476
Due to related party (note 7)	1,959,291	1,549,550
Unearned revenue	-	272,141
	2,043,653	1,994,723
LOAN PAYABLE TO PARENT COMPANY (note 7)	4,679,000	4,679,000
FUTURE INCOME TAXES (note 2)	345,242	367,101
	7,067,895	7,040,824
SHAREHOLDER'S EQUITY		
CAPITAL STOCK (note 8)	434,600	434,600
CONTRIBUTED SURPLUS	1,151,400	1,151,400
RETAINED EARNINGS	2,114,878	2,342,469
	3,700,878	3,928,469
	$ 10,768,773	$ 10,969,293

CONTINGENCIES (note 9)

ON BEHALF OF THE BOARD

_______________ **Director**

_______________ **Director**

See Accompanying Notes

CENTRA TRANSMISSION HOLDINGS INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (227,591)	$ 785,318
Items not affecting cash		
Depreciation	524,554	493,304
Short-term investments	(3,252)	(3,764)
Gain on disposal of assets	-	(11,950)
Change in non-cash operating working capital		
Accounts receivable	(238,199)	(106,263)
Prepaid expenses	(9,417)	(56,325)
Accounts payable and accrued liabilities	(17,193)	(125,091)
Income taxes recoverable/payable	(109,012)	123,481
Unearned revenue	(272,141)	65,788
	(352,251)	1,164,498
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	-	3,000
Purchase of property, plant and equipment	(173,353)	(768,177)
Repayments from (advances to) related parties	72,649	(639,788)
	(100,704)	(1,404,965)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	409,741	341,977
INCREASE (DECREASE) IN CASH POSITION	(43,214)	101,510
CASH POSITION, BEGINNING	134,219	32,709
CASH POSITION, ENDING	$ 91,005	$ 134,219

See Accompanying Notes

1. NATURE OF ACTIVITIES

The company, incorporated under the laws of Canada, operates the Canadian portion of natural gas pipeline running from Spruce, Manitoba to International Falls, Minnesota. The National Energy Board ("NEB") regulates these operations and practices. The company is solely a transporter of natural gas.

2. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Canadian accounting standards for private enterprises Section 1100, Generally Accepted Accounting Principles does not provide an exemption pertaining to the application of the recognition and measurement of assets and liabilities arising from rate regulation. In the absence of specific guidance the CICA has permitted reliance on another source of GAAP, specifically the FASB Accounting Standards Codification Manual No. 980, Regulated Operations ("ASC 980").

General information on rate regulation and its economic effects

The company is regulated by the National Energy Board ("NEB") under Part IV of the National Energy Board Act (R.S. 1985) as a Group 2 pipeline. Customer rates are set under a cost of service methodology that allows revenues to be set to recover the company's forecast costs deemed to be prudent and to earn a reasonable rate of return on company rate base. The NEB regulates the rates of Group 2 companies on a complaint basis, which means that rates are reviewed only when a customer and/or other stakeholder files a formal complaint with the NEB. In the absence of a complaint, the NEB does not normally undertake a detailed examination of the company's rates. In 2013, the NEB completed a comprehensive examination of the company's regulated activities to ensure compliance with the National Energy Board Act, the Board's Memorandum of Guidance for the Regulation of Group 2 Companies, as well as the Board's decisions, tariff orders and other accounting and reporting directives.

Regulatory asset and liability

The regulatory assets represent certain costs incurred in the current period or in prior periods that are expected to be recovered from customers in future periods through the rate-setting process. The regulatory liability represents amounts that are expected to be refunded to customers as a result of the rate-setting process.

2. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Regulatory risk and uncertainties affecting recovery

The regulatory assets and liabilities recorded in the financial statements are based upon expectation of future actions of the NEB. To the extent that that NEB's future actions are different from the company's expectations, the timing and amount of recovery or settlement of the amounts recorded on the balance sheet could be significantly different from the timing and amounts that are eventually recovered or settled.

Income taxes

The company follows the future income taxes method which requires the recognition of future tax assets and liabilities. The standard also requires that a regulatory asset or liability for the amount of the future income taxes expected to be recovered from or refunded to ratepayers, and to present these amounts on a pre-tax basis in the financial statements. The impact of these changes represents a regulatory asset on the balance sheet of $345,242 (2013, $367,101).

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements were prepared in accordance with Canadian accounting standards for private enterprises and include the following significant accounting policies. Such accounting principles may differ for regulated entities from those otherwise expected in non-regulated entities. These differences occur when the regulatory agencies render their decisions on the company's rate applications and generally involve timing of revenue and expense recognition to ensure that the company has achieved a proper matching of revenues and expenses.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

PROPERTY, PLANT AND EQUIPMENT

Natural gas transmission systems and buildings and equipment are recorded at cost which includes interest and overhead amounts capitalized during the construction period. Depreciation of these assets is calculated by straight line method using the following rates:

Gas transmission	2.3% composite rate
General and other plant	7.7% composite rate
Land and land rights	1.9%
Fleet	20.0%
Franchises and consents	2.1%

Parts have not been amortized as they are not in use, when parts are put into use they are transferred to gas transmission and amortized in accordance with the amortization policy.

LONG LIVED ASSETS, IMPAIRMENT

The company reviews the carrying value of long lived assets for impairment when events or changes in circumstances indicate an asset's value may not be recoverable. That is determined when an asset's undiscounted cash flows are less than its carrying value. An impairment charge is recorded to reduce the carrying value of the asset to its fair value. Impairment charges are not reversed if there is a subsequent increase in its fair value. Depreciation methods, residual values and useful lives are reassessed whenever events or changes in circumstances indicate that impairment may be present.

REVENUE RECOGNITION

Revenue is recognized when products are delivered to the customer and ultimate collection is reasonably assured at the time of performance.

FOREIGN CURRENCY TRANSLATION

Foreign currency denominated assets and liabilities are translated into Canadian dollars at exchange rates prevailing on the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. The revenues and expenses are converted at average exchange rates for the year. Gains and losses on translation are expensed.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

FUTURE INCOME TAXES

The company provides for future income taxes by using the asset and liability method. Under this method, future income tax assets and liabilities are computed for temporary differences between the carrying value and tax bases for assets and liabilities and the benefit of tax losses available to be carried forward to reduce taxable income in future years that are likely to be realized. Future tax assets and liabilities are calculated using enacted or substantially enacted tax laws and rates expected to be applicable to the periods in which the differences are expected to effect taxable income.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, the useful lives of property, plant and equipment and the recoverability of future tax assets require the use of management estimates. Actual results could differ from these estimates.

FINANCIAL INSTRUMENTS

Measurement of financial instruments
Financial instruments are financial assets or liabilities of the company where, in general, the company has the right to receive cash or another financial asset from another party or the company has the obligation to pay another party cash or other financial assets.

The company initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions that are measured at the exchange amount, which is the amount agreed upon by the related parties.

Financial assets measured at amortized cost include cash, accounts receivable and due from related party.

The company's financial assets measured at fair value include short-term investment.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, due to related party and loan payable to parent company.

Impairment
Financial assets measured at cost or amortized cost are tested for impairment when there are indicators of possible impairment. When a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset or group of assets, a write down is recognized in net income. The write down reflects the difference between the carrying amount and the higher of:

- The present value of the cash flows expected to be generated by the asset or group of assets;
- The amount that could be realized by selling the asset or asset group; or
- The net realizable value of any collateral held to secure repayment of the asset or group of assets.

When events occurring after the impairment confirm that a reversal is necessary, the reversal is recognized up to the amount of the previously recognized impairment.

Transaction costs
Transaction costs and financing fees are expensed as incurred for financial instruments measured at fair value and capitalized for financial instruments that are subsequently measured at cost or amortized cost.

LINE PACK GAS

Line pack gas is the minimum volume of natural gas necessary to provide the pressure to facilitate the flow of gas through a pipeline and is therefore not available for resale. Line pack gas is recorded at cost and is not subject to depreciation.

4. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2014, the company chose to reclass $148,670 of materials and supplies inventory to property, plant and equipment parts. The change has been applied retroactively and prior periods have been restated to reflect this change, this change had no effect on retained earnings. The reclassification was done in order to more accurately reflect that the parts are required to be on hand and can only be used toward the maintenance of the pipeline.

CENTRA TRANSMISSION HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

5. SHORT-TERM INVESTMENTS

During 2010 the company received shares of a customer in lieu of cash to settle an outstanding receivable. These shares are valued at the current market price.

	2014	2013
Listed shares (quoted market value $20.50 as at December 31, 2014)	$ 19,434	$ 16,182

6. PROPERTY, PLANT AND EQUIPMENT

	2014			2013 (restated note 4)
	Cost	Accumulated Depreciation	Net	Net
Gas transmission	$ 17,433,178	$ 12,166,477	$ 5,266,701	$ 5,501,735
General and other plant	786,798	426,289	360,509	415,149
Land and land rights	681,784	406,375	275,409	287,407
Fleet	273,222	177,859	95,363	143,949
Parts	148,670	-	148,670	148,670
Franchises and consents	91,648	91,648	-	944
	$ 19,415,300	$ 13,268,648	$ 6,146,652	$ 6,497,854

CENTRA TRANSMISSION HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

7. ADVANCES TO (FROM) RELATED PARTIES

	2014	2013
Parent company (bearing interest at 7.6%, repayable one year after the loan is called)	$ (4,679,000)	$ (4,679,000)
Company controlled by common shareholder	(1,959,291)	(1,549,550)
Parent company	3,211,046	3,283,695
	$ (3,427,245)	$ (2,944,855)

Advances to (from) related parties are unsecured and non-interest bearing with no specific terms of repayment unless otherwise noted.

RELATED PARTY TRANSACTIONS	2014	2013
Parent company:		
Administrative shared services paid	$ 1,644,601	$ 1,448,890
Interest paid	$ 356,678	$ 356,678
Management fees paid	$ 328,920	$ 289,778

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. These costs are classified on the income statement as operating, selling and administrative expenses.

The recovery of the net cost of related party transactions in the company's cost of service is subject to the rate regulation process of the NEB.

8. CAPITAL STOCK

	2014	2013
AUTHORIZED		
Unlimited common shares		
ISSUED		
2,585 common shares	$ 434,600	$ 434,600

9. CONTINGENCIES

BANK GUARANTEE

The company has guaranteed the parent company's bank loan up to $7,225,000. As at December 31, 2014, this loan amounted to $4,621,812 (2013, $1,451,470). Any amounts required to be paid under this guarantee will be charged to operations in the year incurred.

10. COMMITMENTS

Payments on a land lease through December 31, 2031 amount to $852,086. Payments due in the next five years are as follows: 2015, $43,822; 2016, $43,822; 2017, $48,666; 2018, $48,666; and 2019, $48,666.

11. FINANCIAL INSTRUMENTS

The main risks the company's financial instruments are exposed to are credit risk, interest rate risk, liquidity risk and foreign currency risk.

Credit risk
The company is exposed to credit risk in the event of non-payment by their customers for their accounts receivable. The company believes there is minimal risk associated with these amounts due to the diversity of its customers and there are no significant concentrations of accounts receivable with any group of customers that are related to each other.

Interest rate risk
The company is exposed to interest rate price risk to the extent that the loan payable to parent company is at a fixed interest rate. The company does not use derivative financial instruments to alter the effects of the risk.

Liquidity risk
Liquidity risk relates to the risk the company will encounter in meeting its obligations associated with financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and accrued liabilities, due to related party and loan payable to parent company. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand to meet operational and financial obligations.

Foreign currency risk
The company's earnings are exposed to financial risk that arises from fluctuations in exchange rates and the degree of volatility of these rates. The company does not use derivative instruments to reduce its exposure to these financial risks.