SOURIS VALLEY PIPELINE LIMITED

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SOURIS VALLEY PIPELINE

MAIL ROOM
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NEB / ONE

March 17, 2006

Michel L. Mantha, Secretary
National Energy Board
444 – 7th Avenue SW
Calgary, AB T2P 0X8
Canada

Dear Mr. Mantha:

Pursuant to General Condition 56(b) of Certificate CC-1, enclosed please find the audited financial statements of Souris Valley Pipeline Limited for the years ending December 31, 2005 and 2004.

Very truly yours,

Mark D. Foss
Secretary/Treasurer

mdf/kw/ku
Enclosure
cc: Kim Wetzel

SOURIS VALLEY PIPELINE LIMITED

Financial Statements
as at December 31, 2005 and 2004
Together with Auditors' Report

SOURIS VALLEY PIPELINE LIMITED

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Deloitte.

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AUDITORS' REPORT

To the Shareholder and
Board of Directors of
Souris Valley Pipeline Limited:

We have audited the accompanying balance sheets of Souris Valley Pipeline Limited (a Canadian corporation and a wholly owned subsidiary of Dakota Gasification Company) as at December 31, 2005, and the statements of operations, shareholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Souris Valley Pipeline Limited as at December 31, 2005, and the results of its operations and its cash flows for the years then ended in conformity with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

March 7, 2006

SOURIS VALLEY PIPELINE LIMITED
BALANCE SHEETS
as at December 31,

(U.S. Dollars in Thousands)

Assets

	2005	2004
Current assets:		
Cash and cash equivalents	$ 380	$ 258
Accounts receivable	299	560
Accounts receivable – affiliates	688	370
Inventories and other	70	72
	1,437	1,260
Property, plant and equipment	10,156	10,112
Less accumulated depreciation	(2,652)	(2,145)
	7,504	7,967
Future income taxes	261	176
	$ 9,202	$ 9,403

Liabilities and Shareholder's Equity

	2005	2004
Current liabilities:		
Current portion of long-term debt	$ 160	$ 563
Payable to affiliates	1,064	1,161
Accounts payable – trade	63	55
Accrued taxes and other liabilities	112	17
	1,399	1,796
Long-term debt, net of current portion	2,116	1,861
	3,515	3,657
Shareholder's equity:		
Common stock Class "A", no par value, 1,000 shares authorized, issued and outstanding	4,480	4,480
Retained earnings	1,207	1,266
	5,687	5,746
	$ 9,202	$ 9,403

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

SOURIS VALLEY PIPELINE LIMITED
STATEMENTS OF OPERATIONS
for the years ended December 31,

(U.S. Dollars in Thousands)

	2005	2004
Revenue:		
Pipeline transportation	$ 1,258	$ 1,295
Operating expenses:		
Depreciation	507	504
Contracted services	230	239
Property tax	61	48
Capital tax	13	21
Fees and dues	11	10
Foreign currency loss	10	32
Advertising	9	8
Rent	6	7
Other	8	9
	855	878
Operating income	403	417
Interest and other income	9	1
Interest expense	(235)	(260)
Income before taxes	177	158
Income tax provision	236	67
Net income (loss)	$ (59)	$ 91

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

SOURIS VALLEY PIPELINE LIMITED
STATEMENTS OF SHAREHOLDER'S EQUITY
for the years ended December 31, 2005 and 2004

(U.S. Dollars in Thousands)

	Class "A" Common Stock Number	Class "A" Common Stock Amount	Retained Earnings	Total
Balance at December 31, 2003	1,000	$ 4,480	$ 1,175	$ 5,655
Net income	-	-	91	91
Balance at December 31, 2004	1,000	4,480	1,266	5,746
Net loss	-	-	(59)	(59)
Balance at December 31, 2005	1,000	$ 4,480	$ 1,207	$ 5,687

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

SOURIS VALLEY PIPELINE LIMITED
STATEMENTS OF CASH FLOWS
for the years ended December 31,

(U.S. Dollars in Thousands)

	2005	2004
Operating activities:		
Net income (loss)	$ (59)	$ 91
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	507	504
Future income tax benefit	(85)	(76)
Changes in other operating elements:		
Accounts receivable	261	144
Accounts receivable - affiliates	(318)	(193)
Inventories and other	2	(3)
Payable to affiliates	(97)	-
Accounts payable - trade	(16)	10
Accrued taxes and other liabilities	95	17
Net cash provided by operating activities	290	494
Investing activities:		
Acquisition of property, plant and equipment	(20)	(38)
Net cash used in investing activities	(20)	(38)
Financing activities:		
Repayments of long-term debt	(148)	(523)
Net cash used in financing activities	(148)	(523)
Net increase (decrease) in cash and cash equivalents	122	(67)
Cash and cash equivalents, beginning of year	258	325
Cash and cash equivalents, end of year	$ 380	$ 258
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 240	$ 267
Cash paid for income taxes	$ 44	$ 21
Acquisition of property through short-term financing	$ 24	$ -

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

SOURIS VALLEY PIPELINE LIMITED

NOTES TO FINANCIAL STATEMENTS

(U.S. Dollars in Thousands)

1. ORGANIZATION AND OPERATIONS

Souris Valley Pipeline Limited (SVP), a corporation organized under the laws of Canada, was established in November 1997 as a wholly owned subsidiary of Dakota Gasification Company (DGC) to own and operate a pipeline in Saskatchewan for transportation of carbon dioxide to Canadian oil fields for enhanced oil recovery. DGC constructed a pipeline from its Great Plains Synfuels Plant in North Dakota to the United States/Canadian border. SVP constructed a connecting pipeline from the United States/Canadian border to oil fields near Weyburn, Saskatchewan. SVP's transportation rates are filed with the National Energy Board (NEB) in Canada and are subject to review on a complaint basis. The pipeline became operational in September 2000. As of December 31, 2005 SVP receivables from affiliates consisted of the outstanding receivable with DGC and payables from affiliates consisted of accounts with both DGC and Basin Electric Power Cooperative.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUNCTIONAL CURRENCY–SVP functional currency is in U.S. dollars as its primary operation is an extension of its parent company's CO_2 pipeline operation.

CASH EQUIVALENTS–SVP considers all investments purchased with an original maturity of three months or less to be cash equivalents.

INVESTMENTS–SVP classifies its investments as held-to-maturity. Held-to-maturity investments consist of corporate debt securities and are included in cash and cash equivalents. The amortized cost, which approximates fair value, of held-to-maturity securities at December 31, 2005 and December 31, 2004 was $290 and $195 respectively.

INVENTORIES–Inventories consist of materials and supplies used for maintenance of the pipeline. SVP inventories are stated at the lower of cost or market with the cost determined using the first-in, first-out method.

PROPERTY, PLANT, AND EQUIPMENT–Property, plant and equipment are stated at cost. Improvements are capitalized while maintenance and repairs are charged to operations as incurred. For financial reporting purposes, depreciation is computed using the straight-line method based on the estimated useful life of 20 years. Straight-line depreciation based upon remaining value methods are used for income tax reporting purposes.

RECOVERABILITY OF LONG-LIVED ASSETS–SVP reviews its long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. SVP determines potential impairment by comparing the carrying value of the assets with the net cash flows expected to be provided by the operating activities of the business. Should the sum of the expected future net cash flows be less than the carrying values, SVP would determine whether an impairment loss should be recognized. An impairment loss would be quantified by comparing the amount by which the carrying value of the asset exceeds the fair value based on discounted cash flows expected to be generated by the asset.

(U.S. Dollars in Thousands)

REVENUE RECOGNITION–Pipeline transportation revenue is recognized in accordance with pipeline contract requirements. SVP records a monthly tariff from DGC for the transportation of carbon dioxide (see Note 4).

USE OF ESTIMATES–The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 revenue and expenses during the reporting period. Ultimate results could differ from those estimates.

3. DEBT

Long-term debt represents an unsecured note payable to DGC which was used to finance 65% of the capital cost of the pipeline pursuant to a Credit Agreement. The note is payable in semi-annual installments through September 2015 and bears interest at 7.5%. The carrying amount of the debt approximates its fair value. During 2005, the long-term debt maturity with DGC was extended to 2015 to match existing transportation contracts (see Note 4).

The scheduled maturities of long-term debt for the next five years of the note are as follows:

2006	2007	2008	2009	2010
$ 160	$ 172	$ 185	$ 199	$ 214

Pursuant to the Credit Agreement, DGC also provides SVP with an unsecured working capital line of credit with borrowing at an interest rate of 5.5%. Amounts included in payable to affiliates related to this agreement were $1,000 at December 31, 2005 and $1,100 at December 31, 2004. Interest is payable every six months with the principal due on demand by DGC. DGC has agreed to not demand repayment of amounts borrowed under the working capital line of credit until at least January 1, 2007. The Credit Agreement provides that SVP may not pledge or otherwise subject any of its property to any liens or encumbrances without DGC's approval. The carrying amount of the working capital line of credit approximates its fair value.

4. RELATED PARTY TRANSACTIONS

CONTRACTUAL COMMITMENTS–SVP provides services for and receives various materials, supplies and services from DGC under agreements to September 2015. In accordance with the carbon dioxide pipeline transportation agreement, SVP provided transportation through its pipeline for carbon dioxide produced by DGC and received a monthly tariff averaging $105 during 2005 and $108 during 2004.

(U.S. Dollars in Thousands)

5. INCOME TAXES

SVP files income tax returns with Canadian federal and Saskatchewan provincial authorities.

The provision for income taxes differs from the provision computed at the combined Canadian federal and provincial statutory rates as follows for the years ended December 31:

	2005	2004
Computed income tax provision at statutory rate	$ 69	$ 62
Permanent differences:		
Foreign currency translation adjustments	(46)	(21)
Tariff adjustment accrual	224	-
Other	7	7
Other adjustments	(18)	19
Income tax provision	$ 236	$ 67

The components of SVP's provision for income taxes were as follows for the years ended December 31:

	2005	2004
Current	$ 321	$ 143
Future	(85)	(76)
Provision for income taxes	$ 236	$ 67

The tax effect of significant temporary differences representing future tax assets and liabilities were as follows as at December 31:

	2005	2004
Non-current future income tax asset related to property, plant and equipment	$ 261	$ 176

SVP is currently under audit by the Canadian Customs and Revenue Agency (CCRA) for the years 2000 through 2003. SVP previously recorded a receivable relative to the anticipated outcome of this examination, specifically as it related to the tariff billed to DGC with respect to SVP's transportation of carbon dioxide produced by DGC's Synfuels plant. During 2005 SVP received a proposed assessment from CCRA. As a result of this proposed assessment, SVP management has reduced its estimate of the tax receivable from CCRA. SVP management believes that adequate reserves have been provided for all open tax years.

On January 30, 2006, SVP paid a user fee to the United States Internal Revenue Service (IRS) for negotiating a bilateral Advance Pricing Agreement beginning with the year ended December 31, 2005. Negotiations with the CCRA and IRS are anticipated to be completed in 2006.