Trust Fund for Abandonment of the Pipeline Assets of NOVA Gas Transmission Ltd.

Trust Fund Financial Statements

December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Trustees of the Trust Fund for Abandonment of the Pipeline Assets of NOVA Gas Transmission Ltd.

Opinion

We have audited the financial statements of the Trust Fund for Abandonment of the Pipeline Assets of NOVA Gas Transmission Ltd. (the Entity), which comprise the statement of net assets as at December 31, 2018, the statement of operations and changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

April 23, 2019
Calgary, Canada

Trust Fund for Abandonment of the Pipeline Assets of NOVA Gas Transmission Ltd.

STATEMENT OF NET ASSETS

At December 31 *(thousands of dollars)*	**2018**	**2017**
Assets		
Cash & cash equivalents	**119**	8,751
Contributions receivable (Note 3)	**9,045**	8,524
Interest receivable	**1,081**	767
Investments		
Canadian government bonds (Note 5)	**400,937**	291,287
	411,182	309,329
Liabilities		
Accounts payable (Note 6)	**2,785**	10,727
	2,785	10,727
Net Assets	**408,397**	298,602

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

Trust Fund for Abandonment of the Pipeline Assets of NOVA Gas Transmission Ltd.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Year ended December 31 *(thousands of dollars)*	**2018**	**2017**
Income		
Interest income	**10,531**	7,637
Change in fair value of investments		
Realized losses on sale of investments	**(1,539)**	(596)
Unrealized gains/(losses) on investments	**3,893**	(855)
	12,885	6,186
Expenses		
Administrative expense	**(283)**	(94)
Income before income taxes	**12,602**	6,092
Income tax expense (Note 7)	**(2,767)**	(2,036)
Net Income	**9,835**	4,056
Contributions (Note 3)	**99,960**	99,277
Change in Net Assets during the year	**109,795**	103,333
Net Assets, Beginning of Year	**298,602**	195,269
Net Assets, End of Year	**408,397**	298,602

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

Trust Fund for Abandonment of the Pipeline Assets of NOVA Gas Transmission Ltd.

NOTES TO THE FINANCIAL STATEMENTS

1. DESCRIPTION OF TRUST FUND

Commencing January 1, 2015, NOVA Gas Transmission Ltd. (NGTL or the Company) is required by the National Energy Board (NEB) to collect funds to cover estimated future pipeline abandonment costs. The requirement to collect funds is in accordance with directions from the NEB's MH-001-2013 Decision that approved set-aside and collection mechanisms for abandonment cost funding for NEB regulated pipeline companies. The NEB approves amounts to be collected by the Company from its shippers in respect of estimated future pipeline abandonment costs. Amounts collected by the Company are used to fund the trust (Trust Fund) that holds and invests these funds.

The Company is the beneficiary of the Trust Fund, however, the Company may only access the funds held by the Trust Fund with approval of the NEB.

The Canadian Imperial Bank of Commerce is the trustee, custodian and investment manager of the Trust Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements present the information of the Trust Fund as a separate reporting entity independent of the Company. They are prepared for regulatory purposes only, in accordance with United States generally accepted accounting principles (GAAP). The Trust Fund is considered an investment company under GAAP and follows the accounting and reporting guidance applicable to investment companies. The Trust Fund financial statements do not portray the funding requirements of abandoning the pipeline.

Use of Estimates

In preparing these financial statements, NGTL 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 judgment in making these estimates and assumptions. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Trust Fund's Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less and are recorded at cost, which approximates fair value.

Financial Instruments

All of the Trust Fund's investments, receivables and payables are non-derivative financial instruments. Cash and cash equivalents, Contributions receivable, Interest receivable and Accounts payable have carrying amounts that approximate their fair value due to the nature of the item or the short time to maturity. The Trust Fund's investments are designated and recorded at fair value on the Statement of Net Assets. Fair value disclosures relating to these investments are included in Note 8 of these financial statements. Purchases and sales of investments are recorded as of the trade date. Transactions that have not been settled are reflected in the Statement of Net Assets as receivables or payables. Changes in fair value are recognized in the Statement of Operations and Changes in Net Assets.

Interest Income

Interest income on investments represents coupon interest and is recorded when earned.

Net Realized Gains and Losses on Sale of Investments

Net realized gains and losses on the sale of investments are the differences between the net proceeds received and the cost of investments sold.

Net Unrealized Gains and Losses on Investments

Net unrealized gains and losses arise from changes in the fair value of investments.

Administrative expense

Administrative expense includes administration fees and audit costs incurred by the Company and paid or payable by the Trust Fund.

Income Taxes

The Trust Fund is a Qualifying Environmental Trust as defined in the Income Tax Act and is subject to income taxes on earnings from the Trust pursuant to Part XII.4 of the Income Tax Act. The Trust Fund uses the asset and liability method of accounting for income taxes. This method requires the recognition of deferred income tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates at the statement of net assets date that are anticipated to apply to taxable income in the years in which temporary differences are expected to be reversed or settled.

3. CONTRIBUTIONS AND DISTRIBUTIONS

The Company contributes amounts to the Trust Fund which are collected from shippers through abandonment surcharges as approved by the NEB. At December 31, 2018, the Trust Fund accrued approximately $9,045 thousand of Contributions receivable from the Company (2017 - $8,524 thousand). This represents amounts to be billed for December shipping services that will be collected from the shippers and subsequently contributed to the Trust Fund.

Distributions from the Trust Fund are subject to NEB approval and are restricted for use towards abandonment activities. As at December 31, 2018, no funds have been distributed from the Trust Fund (2017 - nil).

4. CAPITAL DISCLOSURES

The Trust Fund defines capital as all investments including cash. The Trust Fund's objective is to accumulate assets in a consistent and rational manner over the useful life of the pipeline so that funds are available to meet the pipeline's future pipeline abandonment obligations.

The trustee is responsible for ensuring that the assets of the Trust Fund are managed in accordance with the Statement of Investment Policies and Procedures (SIPP) which was approved by the National Energy Board in decision MH-001-2013 and the objectives and goals outlined within.

5. INVESTMENTS

The following table summarizes the investments held by the Trust Fund:

At December 31		2018		2017	
(thousands of dollars)		Cost	Fair Value	Cost	Fair Value
Cash & cash equivalents		**119**	**119**	8,751	8,751
Canadian government bonds					
Maturity	**Coupon Rate**				
2027	2.35%	**6,973**	**6,937**	12,435	12,425
2028	2.00%	**—**	**—**	3,993	3,971
2028	2.35%	**15,776**	**15,797**	11,501	11,432
2028	2.65%	**28,396**	**28,903**	—	—
2029	3.63%	**2,528**	**2,397**	2,528	2,404
2029	5.75%	**14,879**	**13,936**	26,640	24,904
2029	2.25%	**2,978**	**3,076**	—	—
2033	5.75%	**57,984**	**55,924**	40,909	38,896
2037	3.83%	**6,766**	**6,861**	3,736	3,786
2037	5.00%	**56,031**	**54,199**	46,709	44,795
2041	4.00%	**66,236**	**64,660**	49,278	47,215
2045	3.50%	**58,928**	**58,074**	43,300	41,761
2045	3.86%	**3,489**	**3,486**	3,489	3,524
2048	2.75%	**45,904**	**45,161**	32,596	31,013
2048	3.86%	**4,187**	**4,100**	1,508	1,433
2051	2.00%	**14,091**	**14,354**	5,375	5,338
2053	3.85%	**8,029**	**7,806**	8,029	8,053
2064	2.75%	**15,304**	**15,266**	10,696	10,337
		408,479	**400,937**	302,722	291,287
		408,598	**401,056**	311,473	300,038

6. ACCOUNTS PAYABLE

The following table summarizes the Trust Fund's accounts payable:

At December 31 *(thousands of dollars)*	2018	2017
Securities purchased	—	8,671
Income tax expense payable	**2,767**	2,036
Administrative expense payable	**18**	20
	2,785	10,727

7. INCOME TAXES

The following table presents a reconciliation of income tax expense:

Years ended December 31 *(thousands of dollars)*	**2018**	**2017**
Income before income taxes	**12,602**	6,092
Federal and provincial statutory income tax rate	**27%**	27%
Expected income tax expense	**3,403**	1,645
Non-taxable (gains)/losses on investments	**(110)**	276
(Decrease)/increase in valuation allowance	**(526)**	115
Income Tax Expense	**2,767**	2,036

The following table presents the deferred income tax assets and liabilities:

Years ended December 31 *(thousands of dollars)*	**2018**	**2017**
Deferred income tax asset/(liability)		
Unrealized loss on investments	**1,017**	1,543
Valuation allowance	**(1,017)**	(1,543)
Net Deferred Tax Asset/(Liability)	**—**	—

Income tax payments of $2,036 thousand were made in 2018 (2017 -$1,214 thousand).

The Trust is resident in Alberta and pays tax at a rate of 27 per cent (15 per cent Federal, 12 per cent Alberta) on its income earned.

The Trust is not able to carry forward net capital losses as these losses are allocated to the beneficiary in the year sustained. As a result, the Trust cannot recognize a deferred income tax asset related to net capital losses.

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Trust Fund's investments are governed by the SIPP which outlines investment guidelines and monitoring procedures appropriate to the objectives of the Trust Fund. Trust Fund assets consist of fixed income securities comprised of long-term Canadian government bonds.

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. The fixed income securities in the Trust Fund are directly exposed to interest rate risk.

The following table summarizes the fair value of investments by maturity dates, as well as average effective yield by class of investment:

At December 31 *(thousands of dollars)*	**2018**		**2017**	
	Fair Value	**Average Effective Yield**	**Fair Value**	**Average Effective Yield**
Canadian government bonds (maturing 5 to 10 years)	**51,637**	**2.51%**	12,425	2.35%
Canadian government bonds (maturing after 10 years)	**349,300**	**2.20%**	278,862	2.21%
	400,937		291,287	

Counterparty Credit Risk

Counterparty credit risk represents the financial loss the Company would experience if a counterparty to a financial instrument failed to meet its obligations in accordance with the terms and conditions of the related contract or agreement with the Trust Fund. The Trust Fund is exposed to counterparty credit risk through its investments in bonds and money market instruments. This risk is managed through the SIPP that limits the Trust Fund's investments exclusively to debt instruments which have an investment grade rating with a prescribed rating agency at the time of purchase. The Trust Fund's investments in long-term Canadian government bonds minimize its exposure to counterparty credit risk.

Fair Value of Financial Instruments

When fair value measurements are required for the Trust Fund's financial assets and liabilities, they are classified into one of three categories based on the fair value hierarchy below.

In Level I, the fair value of assets and liabilities is determined by reference to quoted prices in active markets for identical assets and liabilities that the Trust Fund has the ability to access at the measurement date.

In Level II, determination of the fair value of assets and liabilities is based on the extrapolation of inputs, other than quoted prices included within Level I, for which all significant inputs are observable directly or indirectly. Such inputs include published exchange rates, interest rates, interest rate swap curves, yield curves, and broker quotes from external data service providers. Transfers between Level I and Level II would occur when there is a change in market circumstances.

In Level III, the fair value of assets and liabilities is determined using a market approach based on inputs that are unobservable or where observable data does not support a significant portion of the overall fair value measurement. 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 inputs are considered to be observable. As contracts near maturity and observable market data become available, the contracts are transferred out of Level III and into Level II.

The Trust Fund's investments are recorded at fair value which is based on the extrapolation of inputs including interest rates and yield curves, and are classified in Level II of the fair value hierarchy. Credit risk has been taken into consideration when calculating the fair value of these assets.

There were no transfers from Level II to Level I for the year ended December 31, 2018. Furthermore, the Trust Fund has no Level I or Level III financial instruments.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 23, 2019, the date that these financial statements were authorized to be issued.