

**Trust Fund for the Abandonment of the Pipeline Assets of
TransCanada Keystone Pipeline GP Ltd.**

Trust Fund Financial Statements

Year ended December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Trustees of the Trust Fund for the Abandonment of the Pipeline Assets of TransCanada Keystone Pipeline GP Ltd.

We have audited the accompanying financial statements of the Trust Fund for the Abandonment of the Pipeline Assets of TransCanada Keystone Pipeline GP Ltd., which comprise the Statement of Net Assets Available for Pipeline Abandonment as at December 31, 2015 and the Statement of Changes in Net Assets Available for Pipeline Abandonment for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these 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.

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 an 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 our 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, we 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 presents fairly, in all material respects, the financial position of the Trust Fund for the Abandonment of the Pipeline Assets of TransCanada Keystone Pipeline GP Ltd. as at December 31, 2015 and its financial performance for the year then ended, in accordance with U.S. generally accepted accounting principles.

Chartered Professional Accountants

April 22, 2016
Calgary, Canada

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TRUST FUND FOR THE ABANDONMENT OF THE PIPELINE ASSETS OF TRANSCANADA KEYSTONE PIPELINE GP LTD.
STATEMENT OF NET ASSETS AVAILABLE FOR PIPELINE ABANDONMENT

<i>(thousands of dollars)</i>	December 31, 2015
Assets	
Cash & cash equivalents	970
Contributions receivable (Note 3)	991
Interest receivable	31
Investments	
Canadian government bonds (Note 5)	11,068
	13,060
Liabilities	
Accounts payable (Note 6)	1,010
	12,050
Net Assets Available for Pipeline Abandonment	12,050

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

TRUST FUND FOR THE ABANDONMENT OF THE PIPELINE ASSETS OF TRANSCANADA KEYSTONE PIPELINE GP LTD.
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PIPELINE ABANDONMENT

Year ended December 31,	2015
<i>(thousands of dollars)</i>	
Investing Activities	
Interest income	151
Change in fair value of investments	
Realized loss on sale of investments	(21)
Unrealized gain on investments	20
	150
Contributions (Note 3)	11,956
Abandonment costs paid	-
Administrative expense	22
Income tax expense	34
Change in Net Assets Available for Pipeline Abandonment during the Year	12,050
Net Assets Available for Pipeline Abandonment, Beginning of Year	-
Net Assets Available for Pipeline Abandonment, End of Year	12,050

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

**TRUST FUND FOR THE ABANDONMENT OF THE PIPELINE ASSETS OF TRANSCANADA KEYSTONE PIPELINE GP LTD.
NOTES TO THE FINANCIAL STATEMENTS**

1. DESCRIPTION OF TRUST FUND

Commencing January 1, 2015, Keystone Pipeline GP Ltd. (Keystone 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 Trust Fund was created in 2014 but had no activity prior to January 1 2015.

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

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 (US GAAP). The Trust Fund financial statements do not portray the funding requirements of abandoning the pipeline.

Use of Estimates

In preparing these financial statements, Keystone 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 Company'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 and Interest Receivable have carrying amounts that approximate their fair value due to the nature of the item or the short time to maturity and would be classified in Level II of the fair value hierarchy (refer to Note 8). The Trust Fund investments are classified as available for sale and are recorded at fair value on the Statement of Net Assets Available for Pipeline Abandonment. Fair value disclosures relating to the securities purchased 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 Available for Pipeline Abandonment as receivables or payables. Changes in fair value are recognized in the Statement of Changes in Net Assets Available for Pipeline Abandonment.

Interest Income

Interest income on investments 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 Sale of Investments

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

Administrative expense

Administrative expense includes transaction costs, 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 Environment 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.

3. FUNDING POLICY

The Company contributes amounts to the Trust Fund which are collected from shippers through abandonment surcharges as approved by the NEB. At December 31, 2015, the Trust Fund accrued approximately \$991 thousand of Contributions Receivable from the Company which represent amounts to be collected from the shippers and contributed to the Trust that had not been billed for December 2015 shipping services.

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 rationale manner over the useful life of the pipeline so that the funds are available to meet its future pipeline abandonment obligations.

Keystone is responsible for ensuring the assets of the Trust are managed in accordance with the Statement of Investment Policies and Procedures (SIPP) and the objectives and goals outlined within.

5. INVESTMENTS

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

<i>(thousands of dollars)</i>	December 31, 2015
Cash & cash equivalents	970
Canadian government bonds	11,048
Total Investments at Cost	12,018

At December 31, 2015, the Trust held the following individual investments:

December 31, 2015	Cost	Market Value
<i>(thousands of dollars)</i>		
Cash & cash equivalents	970	970
Government of Canada Bonds		
Maturity 2026 – Coupon Rate 1.50%	352	357
Maturity 2048 – Coupon Rate 2.75%	571	593
Maturity 2064 – Coupon Rate 2.75%	283	285
Maturity 2045 – Coupon Rate 3.50%	1,577	1,582
Maturity 2041 – Coupon Rate 4.00%	1,933	1,929
Maturity 2037 – Coupon Rate 5.00%	1,697	1,708
Maturity 2029 – Coupon Rate 5.75%	1,532	1,530
Maturity 2033 – Coupon Rate 5.75%	1,724	1,717
Maturity 2027 – Coupon Rate 8.00%	644	641
Maturity 2045 – Coupon Rate 3.86%	300	303
Maturity 2037 – Coupon Rate 3.83%	120	117
Maturity 2048 – Coupon Rate 3.86%	315	306

6. ACCOUNTS PAYABLE

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

<i>(thousands of dollars)</i>	December 31, 2015
Securities purchased	959
Income tax expense	34
Administrative expense	17
Total Accounts Payable	1,010

7. INCOME TAXES

The following table presents a reconciliation of income tax expense:

<i>(thousands of dollars)</i>	December 31, 2015
Income before income taxes	128
Loss/(gain) on sale of investments	1
	129
Federal and provincial tax rate	26%
Total income tax expense	34

No income tax payments were made in 2015.

8. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Trust Fund's investments are governed by the SIPP which outline investment guidelines and monitoring procedures appropriate to the objectives of the Trust. Trust assets consist of fixed income securities including long-term Government of Canada 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. As at December 31, 2015, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, net assets related to securities directly held would have decreased or increased by \$2 million.

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

December 31, 2015	Fair Value	Average Effective Yield
<i>(thousands of dollars)</i>		
Canadian government bonds (maturing after 10 years)	11,068	2.11%

Counterparty Credit Risk

Counterparty credit risk represents the financial loss the Trust Fund 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 in 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 federal government bonds minimize its exposure to counterparty credit risk.

Fair Value of Financial Instruments

When fair value measurements are required for the Company'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 Company 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 available for sale assets are recorded at fair value which is based on the extrapolation of inputs including interest rates and yield curves, and would be 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, 2015. Furthermore, the Trust Fund has no Level I or Level III financial instruments.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 22, 2016, the date that these financial statements were authorized to be issued.