

Trust Fund Financial Statements


**Trust Fund for the Abandonment of Milk River Pipeline System**

December 31, 2022

RESOLUTIONS OF THE DIRECTORS OF **MILK  
RIVER PIPELINE LTD.** (the "Corporation")  
PASSED EFFECTIVE THE 21<sup>st</sup> DAY OF APRIL,  
2023 PURSUANT TO THE *BUSINESS  
CORPORATIONS ACT* (ALBERTA)


**APPROVAL OF MILK RIVER TRUST FUND FINANCIAL STATEMENTS**

BE IT RESOLVED THAT the Financial Statements of the Trust Fund for the Abandonment of Milk River Pipeline System prepared by the Corporation for the period ended December 31, 2022 are approved and authorized for issuance, with such issuance to include the public filing of the Financial Statements with the Canada Energy Regulator.

By:   
\_\_\_\_\_  
Andrew Bennett  
VP, Pipeline Commercial, Finance & Major Projects  
Transportation Business Unit

The undersigned, being all of the Directors of the Corporation, hereby consent to and adopt the aforesaid resolution.

By:   
\_\_\_\_\_  
Stephanie Kristensen  
Director and Accountable Officer

By:   
\_\_\_\_\_  
Lorraine Royer  
Director

## INDEPENDENT AUDITOR'S REPORT

To the Directors of Milk River Pipeline Ltd.

### Opinion

We have audited the financial statements of Trust Fund for the Abandonment of Milk River Pipeline System (the "Trust"), which comprise the statement of net assets available for pipeline abandonment as at December 31, 2022, the statement of changes in net assets available for pipeline abandonment for the year ended December 31, 2022, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2022, and the changes in net assets for the year ended December 31, 2022 in accordance with the basis of presentation described in Note 2 to the financial statements.

### 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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Trust 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.

### Emphasis of matter – Basis of accounting and restriction on use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Trust in meeting the requirements of the Canada Energy Regulator ("CER"). As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the use of the Directors of Milk River Pipeline Ltd. and the CER, and should not be used by parties other than the Directors of Milk River Pipeline Ltd. and the CER.

### 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 the basis of presentation described in Note 2 to the financial statements, 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 Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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

### Auditor's 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 auditor's 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

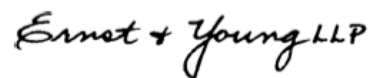
it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 Trust'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 Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Trust 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.

We 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.

Calgary, Canada  
April 21, 2023

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Chartered Professional Accountants

## Statements of Net Assets Available for Pipeline Abandonment

(Canadian dollars)	As at	
	December 31, 2022	December 31, 2021
<b>ASSETS</b>		
Cash	\$ 38,241	\$ 42,846
Accounts receivable (note 4)	2,635	1,927
Investments (note 5)	880,072	988,743
<b>Total Assets</b>	<b>\$ 920,948</b>	<b>\$ 1,033,516</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (note 6)	\$ 19,616	\$ 29,314
<b>Net assets available for pipeline abandonment</b>	<b>\$ 901,332</b>	<b>\$ 1,004,202</b>

See accompanying notes to the financial statements.

## Statement of Changes in Net Assets Available for Pipeline Abandonment

(Canadian dollars)	December 31, 2022	December 31, 2021 (214 days)
<b>INVESTING ACTIVITIES</b>		
Investment income		
Interest income	\$ 26,036	\$ 14,181
Change in fair value of investments		
Realized loss on sale of investments	(12,106)	(5,192)
Unrealized (loss) gain on investments	(252,124)	52,935
Total investing activities	(238,194)	61,924
<b>Contributions</b>	155,764	24,999
<b>Administration Fees</b>		
Investment management fees	(567)	(360)
Trustee and custodial fees	(6,842)	(390)
Professional fees	(13,031)	(18,786)
Total administration fees	(20,440)	(19,536)
<b>Change in net assets available for pipeline abandonment during the period</b>	(102,870)	67,387
<b>Net assets available for pipeline abandonment, beginning of period</b>	1,004,202	936,815
<b>Net assets available for pipeline abandonment, end of period</b>	\$ 901,332	\$ 1,004,202

See accompanying notes to the financial statements.

# Notes to Financial Statements

**December 31, 2022**

*(Canadian dollars)*

## 1. DESCRIPTION OF TRUST FUND

The Trust Fund for the Abandonment of Milk River Pipeline System (the "Trust Fund") is an Alberta resident trust created on January 28, 2015 to fund future abandonment costs for the Milk River Pipeline System (the "Pipeline"). The Pipeline is a system of five pipelines and transports crude oil from Alberta to Montana, U.S.A. Milk River Pipeline Ltd. is the owner of the Pipeline, as well as the beneficiary of the Trust Fund.

Withdrawal of funds from the Trust Fund must be approved by the Canada Energy Regulator (CER). If a surplus remains in the Trust Fund after all abandonment obligations of the beneficiary have been discharged, the trustee, with the approval of the CER, may distribute the Trust Fund or any part thereof among the beneficiary and an orphan pipeline fund.

## 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These financial statements present the information of the Trust Fund as a separate reporting entity independent of the beneficiary and are prepared in accordance with the Chartered Professional Accountants Canada Handbook (CPA Canada Handbook) – Accounting Standard for Private Enterprises (Part II) except that the financial statements consist of a Statement of Net Assets Available for Pipeline Abandonment and a Statement of Changes in Net Assets Available for Pipeline Abandonment. To the extent applicable to the Trust Fund, the measurement and presentation of information in the financial statements conform to the measurement, presentation, and disclosure requirements of the CPA Canada Handbook – Accounting Standards for Pension Plans (Part IV).

These audited financial statements were authorized for issue by the Directors of Milk River Pipeline Ltd. on April 21, 2023.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Critical Accounting Estimates and Judgements

The preparation of financial statements requires Milk River Pipeline Ltd. to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses. Actual results could differ from these estimates.

### b) Financial Instruments

Investments, receivables, and payables and accrued liabilities are classified as financial instruments that are measured at fair value. Purchases and sales of investments are recorded as at 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 and accrued liabilities. Changes in fair value are recognized in the Statement of Changes in Net Assets Available for Pipeline Abandonment.

### c) Revenue Recognition

Interest income on investments is recorded when earned.

#### d) Net Realized Loss on Sale of Investments

The realized loss on sale of investments is the difference between the net proceeds received and the average cost of investments sold.

#### e) Transaction Costs

Transaction costs are included in the Statement of Changes in Net Assets Available for Pipeline Abandonment as part of expenses.

#### f) Income Taxes

The Trust Fund is a registered trust as defined in the Income Tax Act and is subject to income taxes. Income taxes are accounted for using the taxes payable method, under which only current income tax assets and liabilities are recognized.

#### g) Contributions

Milk River Pipeline Ltd. contributes amounts to the Trust Fund as funds are collected from shippers in accordance with amounts contained in schedules filed annually with the CER.

### 4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2022 of \$2,635 (December 31, 2021 - \$1,927) consists entirely of accrued interest income.

### 5. INVESTMENTS

The Trust Fund held the following individual investments as at December 31, 2022 and December 31, 2021:

<b>December 31, 2022</b>	<b>Cost</b>	<b>Market Value</b>
Canadian Government Bonds and Canadian Government Guaranteed Bonds		
Canada: Maturity 2032 - Coupon Rate 3.55%	\$ 48,637	\$ 49,191
Canada: Maturity 2033 - Coupon Rate 5.75%	52,903	42,401
Canada: Maturity 2037 - Coupon Rate 5.00%	59,309	47,527
Canada: Maturity 2041 - Coupon Rate 4.00%	93,370	76,255
Canada: Maturity 2045 - Coupon Rate 3.50%	85,984	66,927
Canada: Maturity 2048 - Coupon Rate 2.75%	118,218	92,575
Canada: Maturity 2051 - Coupon Rate 2.00%	319,389	229,101
Canada: Maturity 2053 - Coupon Rate 1.75%	227,543	183,820
Canada: Maturity 2064 - Coupon Rate 2.75%	63,934	48,672
Muskrat Falls: Maturity 2037 - Coupon Rate 3.83%	18,282	15,345
Muskrat Falls: Maturity 2048 - Coupon Rate 3.86%	13,970	9,402
Newfoundland and Labrador: Maturity 2045 - Coupon Rate 3.86%	6,003	4,705
Newfoundland and Labrador: Maturity 2053 - Coupon Rate 3.85%	19,050	14,151
<b>Total</b>	<b>\$ 1,126,592</b>	<b>\$ 880,072</b>



<b>December 31, 2021</b>		Cost	Market Value
Canadian Government Bonds and Canadian Government Guaranteed Bonds			
Canada: Maturity 2031 - Coupon Rate 2.15%	\$	28,974	\$ 29,675
Canada: Maturity 2033 - Coupon Rate 5.75%		83,132	78,957
Canada: Maturity 2037 - Coupon Rate 5.00%		59,309	58,409
Canada: Maturity 2041 - Coupon Rate 4.00%		93,370	97,179
Canada: Maturity 2045 - Coupon Rate 3.50%		85,984	88,473
Canada: Maturity 2048 - Coupon Rate 2.75%		103,503	107,335
Canada: Maturity 2051 - Coupon Rate 2.00%		307,323	301,325
Canada: Maturity 2053 - Coupon Rate 1.75%		115,298	118,119
Canada: Maturity 2064 - Coupon Rate 2.75%		48,941	50,588
Muskat Falls: Maturity 2037 - Coupon Rate 3.83%		18,282	19,299
Muskat Falls: Maturity 2048 - Coupon Rate 3.86%		13,970	12,971
Newfoundland and Labrador: Maturity 2045 - Coupon Rate 3.86%		6,003	6,352
Newfoundland and Labrador: Maturity 2053 - Coupon Rate 3.85%		19,050	20,061
<b>Total</b>	<b>\$</b>	<b>983,139</b>	<b>\$ 988,743</b>

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Investment management fees	\$ 566	\$ 309
Trustee and custodial fees	5,250	583
Professional services fees	13,800	28,422
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 19,616</b>	<b>\$ 29,314</b>

## 7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Trust Fund's investments are governed by the Statement of Investment Policies and Procedures (SIPP) which provides investment policies, as well as a framework for risk management.

### Market Price Risk

The Trust Fund's net assets available for pipeline abandonment are subject to price risk as a result of movements in the valuation of securities contained in the Trust Fund.

### Interest Rate Risk

Interest rate risk is the risk that the fair value of the financial instrument or future cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Trust Fund is exposed to interest rate risk from fixed-income assets held in the Trust Fund.

The following table summarizes the fair value of investments by maturity date:

December 31					2022	2021	
	1-10 years	11-20 years	Over 20 years	Total	Average effective yield	Total	Average effective yield
Government Guaranteed Bonds	49,191	181,528	649,353	880,072	3.24%	988,743	1.71%

As at December 31, 2022, 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 held would have decreased or increased by approximately \$148,128 (2021 - \$180,445).

### Credit Risk

Credit risk arises from the possibility that a counterparty will be unable to pay its contractual obligations. The Trust Fund's SIPP prohibits investment in securities rated below BBB by the DBRS, S&P Global Ratings, or the equivalent at the time of purchase. As at December 31, 2022, all investments in the Trust Fund met the investment guidelines set out in the SIPP, and were issued or guaranteed by the Government of Canada; therefore, the risk of material credit loss is low.

### Other Price Risk

The Trust Fund is exposed to credit risk in the event of non performance by counterparties in connection with its fixed-income assets. The Trust Fund's SIPP requires fixed-income assets to have a minimum average credit rating of A and no lower than BBB at the time of purchase. As at December 31, 2022, all investments in the Trust Fund met the investment guidelines set out in the SIPP and are considered low risk.

### Liquidity Risk

Liquidity risk is the risk the Trust Fund may be unable to meet financial obligations in a timely manner at a reasonable cost. This risk is mitigated through asset mix and maintaining appropriate asset liquidity in anticipation of future obligations. The risk that the Trust Fund will be unable to meet its obligation to fund the Pipeline abandonment is deemed insignificant.

### Fair Value of Financial Instruments

Financial assets and liabilities of the Trust Fund measured at fair value are categorized into one of three different fair value hierarchy levels based on the quality of inputs used in the measurement.

#### 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 Fund's cash is categorized as a Level 1 asset.

#### 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 Fund's investments are categorized as Level 2 assets as the Government of Canada issued and guaranteed bonds are valued using standard industry valuation techniques and observable inputs. Accounts receivable and accounts payable and accrued liabilities are also categorized as Level 2 as they are short term in nature and industry standard valuation techniques would use book value as an indicator of fair value.

Level 3

Level 3 includes assets and liabilities valued based on inputs which are unobservable or where the observable data does not support a significant portion of the instruments' fair value. The Trust Fund does not have any assets or liabilities in the Level 3 category.

## 8. CAPITAL DISCLOSURES

The Trust Fund defines capital as investments less cash. The Trust Fund's objective is to accumulate assets in a consistent and rationale manner over the useful life of the Pipeline while avoiding the buildup of a significant surplus or incurring a significant deficit. The primary goal of the Trust Fund is to ensure that obligations are secured over time. Milk River Pipeline Ltd. is responsible for ensuring the assets of the Trust Fund are managed in accordance with the SIPP and the objectives and goals outlined therein.