

**CENTRA TRANSMISSION HOLDINGS
INC. TRUST**

**AUDITORS' REPORT AND FINANCIAL
STATEMENTS**

DECEMBER 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the trustees of Centra Transmission Holdings Inc. Trust

Report on the Financial Statements

We have audited the accompanying financial statements of Centra Transmission Holdings Inc. Trust, which comprise the statement of net assets available for pipeline abandonment as at December 31, 2017 and the statement of changes in net assets available for pipeline abandonment 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 the basis of accounting disclosed in note 2 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.

INDEPENDENT AUDITORS' REPORT - continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the statement of net assets available for pipeline abandonment of Centra Transmission Holdings Inc. Trust as at December 31, 2017 and the changes in net assets available for pipeline abandonment for the year then ended in accordance with the basis of accounting disclosed in note 2.

Restriction on Use

The financial statements were prepared to assist Centra Transmission Holdings Inc. Trust in meeting the filing requirements of the National Energy Board. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Administrator of Centra Transmission Holdings Inc. Trust and the National Energy Board. It should not be used by parties other than the Administrator and National Energy Board.

Collins Barrow Windsor LLP

April 25, 2018

Chartered Professional Accountants
Licensed Public Accountants

CENTRA TRANSMISSION HOLDINGS INC. TRUST

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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CENTRA TRANSMISSION HOLDINGS INC. TRUST

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PIPELINE
ABANDONMENT

YEAR ENDED DECEMBER 31, 2017

	2017	2016
INVESTING ACTIVITIES		
Investment (note 6)	\$ 60,305	\$ 41,586
Change in fair value of investments:		
Realized gain on investments	2,347	1,514
Unrealized gain on investments	88,840	17,323
Loss on foreign exchange	<u>(27,838)</u>	<u>(4,260)</u>
	<u>123,654</u>	<u>56,163</u>
CONTRIBUTIONS (note 3)	<u>1,012,850</u>	<u>999,312</u>
ADMINISTRATION FEES		
Foreign taxes	1,549	1,088
Investment fees	17,167	10,610
Professional services (recovery)	<u>-</u>	<u>(5,500)</u>
	<u>18,716</u>	<u>6,198</u>
INCOME BEFORE INCOME TAXES	<u>1,117,788</u>	<u>1,049,277</u>
INCOME TAXES		
Current	15,307	8,850
Future	<u>12,506</u>	<u>1,019</u>
	<u>27,813</u>	<u>9,869</u>
CHANGE IN NET ASSETS AVAILABLE FOR PIPELINE ABANDONMENT DURING THE YEAR	<u>1,089,975</u>	<u>1,039,408</u>
NET ASSETS AVAILABLE FOR PIPELINE ABANDONMENT, BEGINNING OF YEAR	<u>2,111,647</u>	<u>1,072,239</u>
NET ASSETS AVAILABLE FOR PIPELINE ABANDONMENT, END OF YEAR	<u>\$ 3,201,622</u>	<u>\$ 2,111,647</u>

See Accompanying Notes

CENTRA TRANSMISSION HOLDINGS INC. TRUST

STATEMENT OF NET ASSETS AVAILABLE FOR PIPELINE ABANDONMENT

DECEMBER 31, 2017

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	<u>\$ 58,005</u>	<u>\$ 127,687</u>
INVESTMENTS (notes 5 and 7)	3,168,295	1,989,511
FUTURE INCOME TAXES	<u>-</u>	<u>3,299</u>
	<u>3,168,295</u>	<u>1,992,810</u>
	<u>\$ 3,226,300</u>	<u>\$ 2,120,497</u>
LIABILITIES		
CURRENT LIABILITIES		
Income taxes payable	<u>\$ 15,471</u>	<u>\$ 8,850</u>
FUTURE INCOME TAXES	<u>9,207</u>	<u>-</u>
	<u>24,678</u>	<u>8,850</u>
NET ASSETS AVAILABLE FOR PIPELINE ABANDONMENT	<u>3,201,622</u>	<u>2,111,647</u>
	<u>\$ 3,226,300</u>	<u>\$ 2,120,497</u>
ON BEHALF OF THE BENEFICIARIES		
<hr/>	<hr/>	<hr/>
Trustee		Trustee

See Accompanying Notes

CENTRA TRANSMISSION HOLDINGS INC. TRUST**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017**

1. DESCRIPTION OF TRUST FUND

General

The Centra Transmission Holdings Inc. Trust is solely available to fund abandonment of the pipeline assets of Centra Transmission Holdings Inc. (the company). The National Energy Board (NEB) approved amounts to be collected by the company from its shippers in respect of future pipeline abandonment. Amounts collected by the company in respect of future pipeline abandonment are contributed to the trust.

The company is the beneficiary of the trust. However, the company may only access the funds from the trust with the approval of the NEB, or for the payment of certain expenses related to administering the trust and trust assets, including settling tax obligations related to the trust.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The trust follows the CPA Canada Handbook - Canadian Accounting Standards for Pension Plans (Part IV) - for these financial statements. The trust has also elected to apply Part II - Accounting Standards for Private Enterprises (Part II) of the CPA Canada Handbook for its accounting policies not related to its investment portfolio.

The trust has also adopted International Financial Reporting Standards (IFRS) 13, *Fair Value Measurement* (IFRS 13). Accounting policies described in these financial statements reflect the trust's accounting policies subsequent to adoption of these standards.

These financial statements present the information of the trust as a separate reporting entity independent of the company. They are prepared for regulatory purposes only in accordance with Canadian generally accepted accounting principles, except that they do not portray the funding requirements of abandoning the pipeline. As these trust statements have not been prepared for general purposes, some users may require further information.

CENTRA TRANSMISSION HOLDINGS INC. TRUST**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017**

2. SIGNIFICANT ACCOUNTING POLICIES - continued

FINANCIAL INSTRUMENTS

All of the trust's investments are classified as financial instruments that are measured at fair value in accordance with IFRS 13. 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 and accrued liabilities. Changes in fair value are recognized in the trust's statement of changes in net assets available for pipeline abandonment.

REVENUE RECOGNITION

Investment income is recorded when earned.

Contributions revenue is recorded when the amount is received.

NET REALIZED GAIN ON SALE OF INVESTMENTS

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

FOREIGN CURRENCY TRANSLATION

Foreign currency denominated investments held are translated into Canadian dollars at exchange rates prevailing on the date of the statement of net assets available for pipeline abandonment. Unrealized gains and losses arising from these transactions are included in the unrealized gain on investments. Foreign currency denominated transactions are translated into Canadian dollars at the rate of exchange on the date of each transaction.

TRANSACTION COSTS

Transaction costs are included in the statement of changes in net assets available for pipeline abandonment.

CENTRA TRANSMISSION HOLDINGS INC. TRUST**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017**

2. SIGNIFICANT ACCOUNTING POLICIES - continued

FUTURE INCOME TAXES

The trust is a registered trust as defined in the Income Tax Act and is subject to income taxes. The trust 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 affect taxable income.

USE OF ESTIMATES

The preparation of financial statements requires the trust to make estimates and assumptions that affect 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. Actual results could differ from these estimates.

3. FUNDING POLICY

The company contributes amounts to the trust as collected from shippers and in accordance with amounts approved by the NEB.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The trust's investments are governed by the Statement of Investment Policies and Procedures (SIPP) which provides investment policies and a framework for risk management. Trust assets are invested with a diversified asset mix and are largely held in pooled funds consisting of publicly traded securities, which provide liquidity and valuation transparency.

CENTRA TRANSMISSION HOLDINGS INC. TRUST**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017**

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

Market Price Risk

The trust's net assets available for pipeline abandonment are subject to price risk as a result of movements in the valuation of securities on the exchanges on which the investments are traded, interest rate risk related to movements in interest rates and to foreign exchange risk related to movements in foreign exchange rates (collectively market price risk).

The sensitivity analysis included in the following section is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the trust's actual exposure to market rate may change. Changes in fair value or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in a market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the trust.

Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. The equity securities in the trust consist of exchange traded securities, an investment in infrastructure and pooled funds which are directly and indirectly exposed to equity price risk. A 1% decrease in equity price, with all other variables being held constant, would have decreased net assets available for pipeline abandonment by \$31,700.

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 are directly exposed to interest rate risk. As at December 31, 2017, 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 \$179,603.

Foreign Exchange Risk

Foreign exchange risk is the risk of gains and losses due to the volatility of currency exchange rates. Certain of the trust's assets are denominated in foreign currencies and as a result there is exposure to fluctuations against the Canadian dollar. The trust does not use derivative instruments to reduce its exposure to these financial risks. Approximately \$549,000 (2016, \$353,000) in net assets are denominated in US dollars.

CENTRA TRANSMISSION HOLDINGS INC. TRUST**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017**

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

Credit Risk

Credit risk arises from the possibility that a counterparty will be unable to pay its contractual obligations. The trust's investment policies prohibit it from investing in securities rated below BBB- by the Dominion Bond Rating Service or equivalent at the time of purchase. In addition, the overall fixed income portfolio of an individual investment manager must maintain a minimum rating of A. Some of the trust's investments have credit exposures caused by the possibility that issuers of securities may be subject to default. This credit exposure is minimized by dealing only with creditworthy issuers in accordance with established investment policies. The risk of significant credit loss is remote.

Liquidity Risk

Liquidity risk relates to the risk the trust maybe unable to meet obligations in a timely manner at a reasonable cost. Upon abandonment of pipeline assets, the trust will provide the company the necessary funds to effect the abandonment. The risk the trust would not be able to meet this obligation is deemed insignificant and is managed through asset mix and maintaining appropriate asset liquidity in anticipation of future obligations as they come due.

Fair Value of Financial Instruments

The trust categorizes its assets and liabilities measured at fair value into one of three difference levels depending on the quality of the inputs employed 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's Level 1 instruments consist primarily of exchange-traded funds.

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. Instruments valued using Level 2 inputs include Canadian government real return bonds and equity funds for which observable inputs can be obtained.

CENTRA TRANSMISSION HOLDINGS INC. TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

Level 3

Level 3 includes assets and liabilities valued based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value. Generally, Level 3 valuations are longer dated transactions, occur in less active markets, occur at locations where pricing information is not available, or have no binding broker quote to support Level 2 classification.

When possible the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. The trust has categorized its financial assets and liabilities measured at fair value as follows:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 58,005	\$ -	\$ -	\$ 58,005
Canadian equity securities	2,635,808	-	-	2,635,808
Foreign equity securities	<u>532,488</u>	<u>-</u>	<u>-</u>	<u>532,488</u>
	<u>\$ 3,226,301</u>	<u>-</u>	<u>-</u>	<u>\$ 3,226,301</u>
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 127,687	\$ -	\$ -	\$ 127,687
Canadian equity securities	1,644,827	-	-	1,644,827
Foreign equity securities	<u>344,685</u>	<u>-</u>	<u>-</u>	<u>344,685</u>
	<u>\$ 2,117,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,117,199</u>

CENTRA TRANSMISSION HOLDINGS INC. TRUST

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

5. CAPITAL DISCLOSURES

The trust defines capital as all investments less cash.

The trust's objective is to accumulate assets in a consistent and rational manner over the useful life of the pipeline while avoiding the buildup of significant surplus or incurring significant deficits. The primary goal of the trust is to ensure that pipeline abandonment obligations are secured over time.

The company is responsible for ensuring that assets of the trust are managed in accordance with the SIPP and the objectives and goals outlined within.

6. INVESTMENT INCOME	2017	2016
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The following table provides a summary of the investment income earned by the trust:

Interest income	\$ <u>37,904</u>	\$ <u>28,610</u>
Dividend income:		
Canadian equity securities	\$ 11,979	\$ 5,554
Foreign equity securities	<u>10,422</u>	<u>7,422</u>
	<u>22,401</u>	<u>12,976</u>
Total investment income	<u>\$ 60,305</u>	<u>\$ 41,586</u>

CENTRA TRANSMISSION HOLDINGS INC. TRUST

NOTES TO FINANCIAL STATEMENTS

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7. INVESTMENTS	2017	2016
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The following table summarizes the investments held by the trust at book value:

Canadian equity securities	\$ 2,642,369	\$ 1,661,368
Foreign equity securities	<u>444,914</u>	<u>334,969</u>
	<u>\$ 3,087,283</u>	<u>\$ 1,996,337</u>

At December 31, 2017, the trust held the following individual investments where either the cost or market value exceeded 1% of the cost or market value of total fund assets.

Cost**Canadian equities**

Ishares Core S&P/TSX Capped Composite Index ETF	\$ 374,496	\$ 243,554
Ishares Canadian Universe Bond Index ETF	2,267,873	1,417,814

Foreign equities

Ishares Core S&P 500 ETF	252,245	182,354
Ishares MSCI EAFE ETF	<u>192,669</u>	<u>152,615</u>

	<u>\$ 3,087,283</u>	<u>\$ 1,996,337</u>
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Market Value**Canadian equities**

Ishares Core S&P/TSX Capped Composite Index ETF	\$ 413,738	\$ 260,607
Ishares Canadian Universe Bond Index ETF	2,222,070	1,384,218

Foreign equities

Ishares Core S&P 500 ETF	311,977	197,830
Ishares MSCI EAFE ETF	<u>220,510</u>	<u>146,856</u>

	<u>\$ 3,168,295</u>	<u>\$ 1,989,511</u>
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