St. Clair Pipelines Reclamation Trust

Financial Statements
December 31, 2021
(in Canadian dollars)

Independent auditor's report

To the Sponsor and Trustee of St. Clair Pipelines Reclamation Trust

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets of St. Clair Pipelines Reclamation Trust (the Trust) as at December 31, 2021 and 2020, and the results of its operations and changes in net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America (US GAAP).

What we have audited

The Trust's financial statements comprise:

- the statements of net assets as at December 31, 2021 and 2020;
- the statements of operations and changes in net assets for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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

Independence

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

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 US GAAP, 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta, Canada
April 14, 2022

St. Clair Pipelines Reclamation Trust

Statements of Net Assets

As at December 31, 2021 and December 31, 2020

	2021 $	2020 $
Assets		
Cash	2,133	8,717
Investment income receivable	7,792	1,520
Investments – at fair value (cost was $300,179 and $253,546 as at December 31, 2021 and 2020, respectively) (note 5)	376,759	299,614
	386,684	**309,851**
Liabilities		
Payables and accrued liabilities (note 6)	6,660	6,548
Deferred income tax liabilities (note 8)	8,807	5,298
	15,467	**11,846**
Net Assets	**371,217**	**298,005**

On Behalf of the Trust

/s/ Greg Vibert

Trustee

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

St. Clair Pipelines Reclamation Trust

Statements of Operations and Changes in Net Assets

For the years ended December 31, 2021 and December 31, 2020

	2021 $	2020 $
Investment income		
Investment income		
Interest income	-	5
Distribution income	12,697	5,990
Change in fair value of investments		
Realized gain	487	375
Unrealized gain	30,634	24,256
	43,818	**30,626**
Administration expenses		
Trustee and investment management	238	223
Audit and accounting	9,909	8,339
	10,147	**8,562**
Earnings before income taxes	**33,671**	**22,064**
Income tax expense (note 8)	3,509	5,298
Earnings resulting from operations	**30,162**	**16,766**
Contributions	43,050	43,050
Changes in net assets during the year	**73,212**	**59,816**
Net assets – Beginning of year	298,005	238,189
Net assets – End of year	**371,217**	**298,005**

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

1 Description of the Trust

St. Clair Pipelines Reclamation Trust (the Trust) is a Qualifying Environmental Trust established by St. Clair Pipelines L.P. (the Sponsor), also known as the Beneficiary, as per the Income Tax Act (Canada), to collect from shippers and set aside funds and invest such funds to cover estimated future pipeline abandonment costs. This is a requirement for all Canada Energy Regulator (CER) regulated Canadian pipelines. The Trust is set up in accordance with CER's regulatory order MH-001-2013 Reasons for Decision dated on January 23, 2015. The Trust is governed by its Trust Indenture (Trust Agreement) dated January 23, 2015 as amended on September 11, 2015. The Trust commenced its operations on January 28, 2015 with no specific term to continue until terminated with the approval of the CER.

The Trust assets are managed by investment managers in accordance with the Trust's Statement of Investment Policies and Procedures (SIPP).

The Bank of Nova Scotia Trust Company is the trustee and administrator of the Trust.

2 Summary of significant accounting policies

Basis of presentation

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP). The Trust is considered to be an investment company under US GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 946, Financial Services – Investment Companies (ASC 946).

Certain comparative figures in our financial statements have been reclassified to conform to the current year's presentation.

Investment transactions and related investment income

Investment transactions are accounted for on a trade date basis. Realized gains and losses and movements in unrealized gains and losses are recognized in the statement of operations and changes in net assets and determined on an average cost basis.

Interest income is recorded on the accrual basis.

Realized gains or losses on sale of investments

The realized gains or losses on sale of investments is the difference between the net proceeds received and the average cost of the investment sold.

Financial instruments measured at fair value

The Trust's cash and investments are classified as financial instruments that are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to settle a liability in a transaction between market participants at the measurement date. Transactions that have not been settled are reflected in the statement of net assets as receivables or payables and accrued liabilities. Changes in fair value are recognized in the Trust's statement of operations and changes in net assets.

Contributions receivable

Contributions receivable are recorded to the extent that either services, on which abandonment charges are applied, have been rendered by the Sponsor or amounts are otherwise due and receivable from the Sponsor pursuant to the Trust Agreement.

Receivables and payables

All of the Trust's receivables and payables and accrued liabilities are measured at cost and approximate their fair value due to the short period to maturity.

Withdrawal payments

Distributions or payments from the Trust to a Beneficiary for the reclamation obligation are restricted to the CER's written approval.

Use of estimates

The preparation of financial statements in accordance with US GAAP 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Taxation

The liability method of accounting for income tax is followed. Deferred income tax assets and liabilities are recorded based on temporary differences between the tax bases of the assets and liabilities and their carrying value for accounting purposes. Deferred income tax assets and liabilities are measured using the tax rate that is expected to apply when the temporary differences reverse. Any interest and or penalties incurred related to income tax is reflected in income tax. The Trust meets the requirements of a Qualifying Environmental Trust as defined in the Income Tax Act (Canada).

3 Changes in accounting policies

There were no changes in accounting policies during the year ended December 31, 2021.

4 Administration expenses

The Administrator is entitled to fees based on a percentage of the Trust's capital value or on a fixed basis depending on the type of service provided. The Administrator is also entitled to reimbursement of all out-of-pocket expenses incurred on behalf of the Trust.

5 Risk management and financial instruments

The Trust's investments are governed by the SIPP which outlines investment guidelines and monitoring procedures appropriate to the objectives of the Trust. The investments held by the Trust are exposed to financial risks which can include market risk (consisting of interest rate risk, equity price risk and foreign currency risk) and credit risk. These risks are managed by maintaining and following the SIPP which provides guidelines for the asset mix of the investment portfolio regarding equity market exposure.

Market risk

The Trust's net assets are subject to market risk as a result of movements in the valuation of securities contained in the Trust.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is managed by investing in a long-term diversified asset mix that takes into consideration the economic and capital market outlook and expected volatility of returns. The fixed income securities in the Trust are directly exposed to interest rate risk.

Equity price risk

Equity price risk is the risk the value of an equity investment will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or by other factors affecting all instruments traded in the market. The equity index funds held by the Trust are exposed to equity price risk, which is managed by limiting amounts invested in equity holdings, in accordance with the SIPP. As at December 31, 2021, the Trust held $257,515 (2020 – $189,604) in equity index funds.

Foreign currency risk

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Foreign equity index funds held by the Trust are exposed to foreign currency risk. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value and future cash flows of these investments. Foreign currency risk is managed by limiting the Trust's investment in foreign securities, in accordance with the SIPP. As at December 31, 2021, the Trust held $76,009 (2020 – $61,612) in foreign currency-denominated equity index funds.

Credit risk

Credit risk arises from the possibility that a counterparty will be unable to pay its contractual obligations. The Trust's SIPP prohibits investment in securities rated below BBB or the equivalent at the time of purchase. In addition, the minimum weighted average credit rating for fixed income investments in the Trust is A.

Therefore, the risk of significant credit loss is considered remote.

Liquidity risk

Liquidity risk is the risk the Trust 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.

Fair value of financial instruments

The Trust categorizes its financial instruments measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

A fair value hierarchy of inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Trust. Unobservable inputs reflect the Trust's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- 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 of cash, equity index funds and bond index 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. The Trust does not have any instruments valued using Level 2 inputs.

- 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. The Trust does not have any instruments valued using Level 3 inputs.

The Trust uses the most observable inputs available to estimate the fair value of its financial instruments. When possible, the estimated fair value is based on quoted market prices and, if not available, estimates from third party brokers. The following table summarizes the Trust's financial instruments at fair value.

	2021		2020	
	Cost $	**Fair value $**	**Cost $**	**Fair value $**
Level 1				
Cash	**2,133**	**2,133**	**8,717**	**8,717**
Equity index funds				
S&P/TSX Small Cap Index ETF	34,793	48,098	28,823	35,642
MSCI EAFE IMI Index ETF Unit	63,033	76,009	53,479	61,612
S&P 500 Index ETF Unit	66,789	111,855	53,806	77,381
S&P/TSX Capped Composite Index ETF	15,982	21,553	12,988	14,969
Bond index funds				
Canadian Universe Bond Index ETF	119,582	119,244	104,450	110,010
	300,179	**376,759**	**253,546**	**299,614**
Total Cash, Equity Index Funds & Bond Index Funds	**302,312**	**378,892**	**262,263**	**308,331**

6 Payables and accrued liabilities

	2021 $	**2020 $**
Audit and accounting fees payable	6,598	6,496
Trustee and investment management fees payable	62	52
	6,660	**6,548**

7 Financial highlights

	2021 %	**2020 %**
Total return	9.0	6.3
Ratio of expenses to average net assets	3.0	3.2
Ratio of investment income to average net assets	13.1	11.4

8 Income taxes

Income tax rate reconciliation

	2021 $	2020 $
Earnings before income taxes	33,671	22,064
Canadian federal statutory income tax rate	15%	15%
Expected federal tax at statutory rate	5,051	3,310
Increase (decrease) resulting from:		
Provincial income tax	2,694	1,986
Non-taxable items and tax true up	(4,267)	(649)
Flow through of non-capital loss to beneficiaries	31	651
Income tax expense	**3,509**	**5,298**
Effective income tax rate	**10.4%**	**24.0%**

Components of pre-tax earnings resulting from operations and income taxes

For 2021 and 2020, the Trust's earnings resulting from operations before income taxes are exclusively from Canadian operations. The Trust is subject to taxation in Canada only.

Year ended December 31	2021 $	2020 $
Current income tax	-	-
Deferred income tax	3,509	5,298
Income tax expense on earnings resulting from operations	**3,509**	**5,298**

Components of deferred income tax

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between carrying amounts of assets and liabilities and their respective tax bases. Major components of deferred income tax assets and liabilities are as follows:

December 31	2021 $	2020 $
Deferred income tax liabilities		
Investments	(8,807)	(5,298)
Total deferred income tax liabilities	**(8,807)**	**(5,298)**

The material jurisdictions in which the Trust is subject to potential examinations within Canada are federal and Alberta. The Trust is open to examination by Canadian tax authorities for the 2016 to 2021 tax years.

Unrecognized tax benefits

The Trust has no unrecognized tax benefits related to uncertain tax positions as at December 31, 2021 and 2020 and no accrued interest or penalties thereon.

9 Capital disclosures

The Trust defines capital as all investments including cash and cash equivalents. The Trust'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 are managed in accordance with the SIPP.