VERESEN

Veresen Announces First Quarter Operational and Financial Results

CALGARY, Alberta, May 4, 2016 – Veresen Inc. ("Veresen") (TSX: VSN) today announced its first quarter operating and financial results.

"We had a solid first quarter from both an operational and financial perspective," said Don Althoff, President and CEO of Veresen. "Alliance operated well under its new service model, with higher than expected uptake of seasonal firm and interruptible transportation, while Veresen Midstream continued to add to its significant project inventory with the sanctioning of the Saturn Phase II processing facility. With strong performance from our operations, our focus on competitive markets and nearly all of our revenues secured by take-or-pay structures, we are well positioned to deliver on our full year targets."

First Quarter Financial and Operational Highlights

- Distributable cash for the quarter of $81 million or $0.27 per Common Share benefitted from a higher contribution from Veresen's pipeline business and lower cash taxes, partially offset by continued weakness in NGL pricing impacting Aux Sable

- Throughput volumes on Alliance were particularly strong in the pipeline's first full quarter under the new service model, with the increase partly driven by shipper's uptake of seasonal firm and interruptible transportation as a result of stronger relative pricing in U.S. Mid-West markets

- Volumes at Veresen Midstream were ahead of expectations with nearly 100% plant reliability. The Saturn Phase I compressor station, which was placed into service in June 2015, continues to perform well with year to date volumes above prior estimates

Update on Key Strategic Initiatives

- Cutbank Ridge Partnership ("CRP") sanctioned the $930 million Saturn Phase II processing facility in March 2016, the third major facility now under construction as part of the Veresen Midstream infrastructure development with CRP. The facility is expected to be in service in late 2018

- Construction at each of Sunrise, Tower and Saturn remains on schedule and on budget with approximately one fifth of Veresen Midstream's $2.5 billion capital program ($1.2 billion net to Veresen) incurred to date

- Veresen Midstream is also proceeding with a 50 MMcf/d refrigeration expansion of its Hythe gas processing facility, which is on track to be in service in the fall of 2016 at a capital cost of $25 million ($12 million net to Veresen)

- The $140 million Burstall ethane storage facility is in the initial stages of development and is expected in service in 2018, with $5 million spent during the quarter and an additional $55 to $65 million projected for the balance of the year

- Finalized key commercial terms with customers for at least 50% of the Jordan Cove LNG project's initial design capacity and Pacific Connector Gas Pipeline ("Pacific Connector") executed natural gas transportation service precedent agreements representing in excess of 75% of the rated capacity of the pipeline. Negotiations for the remaining terminal capacity remain ongoing with several parties

- Subsequent to the end of the quarter, Jordan Cove LNG and Pacific Connector filed with the Federal Energy Regulatory Commission ("FERC") a request for rehearing of the FERC's March 11, 2016 order denying the applications of Jordan Cove LNG and Pacific Connector

Financial Overview

($ Millions, except per Common Share amounts)	Three Months Ended March 31 2016	2015
Adjusted net income attributable to Common Shares	**18**	27
Per Common Share ($)	**0.06**	0.09
Net income attributable to Common Shares	**7**	50
Per Common Share ($)	**0.02**	0.17
Distributable Cash(1)		
Pipeline	**75**	70
Midstream	**16**	29
Power	**12**	12
Veresen – Corporate	**(16)**	(19)
Taxes	**-**	(7)
Preferred Share dividends	**(6)**	(4)
Total Distributable Cash	**81**	81
Per Common Share ($)	**0.27**	0.28

(1) See the reconciliation of distributable cash to cash from operating activities in tables attached to this news release.

During the first quarter, Veresen generated adjusted net income attributable to Common Shares of $18 million or $0.06 per Common Share, reflecting the strength of the pipeline business, offset by higher project development spend to continue the advancement of the Jordan Cove LNG project.

Distributable cash for the first quarter was $81 million or $0.27 per Common Share, compared to $81 million or $0.28 per Common Share for the same period last year. Increases from the pipeline business, reduced Corporate costs and lower cash taxes were offset by reduced cash flows from Aux Sable and higher preferred dividends.

Proportionate Consolidation(1)

	Pipelines			Midstream				
	Alliance(2)	Ruby(3)	AEGS	Veresen Midstream	Aux Sable	Power	Corporate	Total
EBITDA(4)	**82**	**52**	**6**	**18**	**3**	**25**	**(9)**	**177**
Interest	(13)	(16)	(1)	(5)	-	(5)	(7)	(47)
Principal Repayment	(22)	(12)	(1)	(1)	-	(4)	-	(40)
Maintenance Capex	(2)	-	-	-	(1)	(2)	-	(5)
Other(5)	(5)	7	-	3	(1)	(2)	(6)	(4)
Distributable Cash	**40**	**31**	**4**	**15**	**1**	**12**	**(22)**	**81**
Long-term Debt	768	729	81	547	-	389	975	3,489
Growth Capital(4)	-	-	-	69	15	-	6	90

(1) This table contains non-GAAP measures. Balances for Veresen's jointly controlled businesses represent Veresen's proportional share based on Veresen's ownership interest, and includes consolidation adjustments. See the reconciliation of distributable cash to cash from operating activities tables attached to this news release.
(2) Approximately 53% of Alliance EBITDA was earned in C$.
(3) Ruby EBITDA presented as a 50% proportionate share with benefit of preferred distribution structure reflected in "other".
(4) Corporate EBITDA and growth capital do not include $40 million of Jordan Cove project development spend expensed during the quarter.
(5) Corporate "other" relates to preferred share dividends.

Business Segment Overview

Volumes by Segment	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Pipeline					
Alliance (bcf/d)					
Firm	1.391	1.325	1.325	1.325	1.325
Authorized Overrun Service (AOS)(1)	n/a	0.156	0.011	0.175	0.311
Seasonal Firm	0.094	n/a	n/a	n/a	n/a
Priority Interruptible Transportation Service (PITS) and Interruptible Transportation (IT)	0.139	n/a	n/a	n/a	n/a
Total Canadian Volumes	1.624	1.481	1.336	1.500	1.636
U.S. Bakken Volumes	0.131	0.161	0.153	0.162	0.155
Total Deliveries into Channahon	1.755	1.642	1.489	1.662	1.791
Ruby (bcf/d)	0.705	1.013	0.930	0.680	0.596
AEGS (mbbls/d)	286	280	286	280	293
Midstream					
Veresen Midstream (mmcf/d)					
Hythe / Steeprock	386	392	392	394	394
Dawson	767	709	608	585	n/a
Total Veresen Midstream	1,153	1,101	1,000	979	394
Aux Sable (mbbls/d)	69	73	57	71	66
Power					
Power (GWh, net)	208	155	133	155	160

(1) Under the prior cost of service model, Authorized Overrun Service (AOS) allowed all firm shippers certain additional capacity without an incremental toll. Under the new service model, capacity in excess of long term firm may be sold as seasonal firm, Priority Interruptible Transportation Service (PITS) or Interruptible Transportation (IT).

Pipeline

Alliance

Throughput volumes on Alliance were particularly strong in the pipeline's first full quarter under the new service model. Average daily throughput of 1.624 bcf/d in Canadian volumes was largely in line with the 1.636 bcf/d in the first quarter of 2015 and ahead of the 1.481 bcf/d in the fourth quarter of 2015. The strong volumes were driven by solid demand by shippers for seasonal firm and interruptible transportation to send volumes to U.S. Mid-West markets. Alliance continues to optimize the operations of the pipeline under the new service model to maximize the amount of interruptible transportation offered to shippers.

Distributable cash from Alliance was $40 million in the first quarter. Although firm transportation rates under the new service model are lower than they were under the cost of service model, this was offset by the ability to generate revenues from seasonal and interruptible services and by certain cost reductions. Distributable cash also benefitted from a lower rate of debt amortization as a result of significant deleveraging during Alliance's first 15 years of operations. Veresen expects volumes on Alliance to remain strong in the near term as a result of persisting egress issues in producing regions that have seen continued producer activity.

Approximately 60% of firm receipt capacity on Alliance is held by shippers with investment grade credit ratings and Alliance continues to monitor potential credit exposures. Although there are no specific concerns with regard to material shippers at this time, as a normal course of business, Alliance generally requires security from counterparties that are below investment grade. The weighted average contract length on Alliance of approximately five years provides insulation from near term weakness in natural gas prices.

Ruby

Volumes on Ruby during the first quarter were impacted by mild weather and weak western Canadian natural gas pricing, improving AECO's competitiveness into Malin Hub relative to sourcing from Opal Hub. Veresen's preferred distribution from Ruby provides the company with US$91 million per year, with variance in Veresen's distributable cash only as a result of fluctuating foreign exchange rates. Investment grade shippers on Ruby represent sufficient volumes to meet Veresen's preferred distribution, with debt amortization over time continuing to reduce volumes required for coverage. Weighted average contract length on Ruby is approximately seven years.

AEGS

Both volumes and distributable cash from AEGS remain very stable. During the quarter, the company continued construction of a 1 million barrel ethane storage facility located near Burstall, Saskatchewan, underpinned by a 20-year contract with NOVA Chemicals. Total cost of construction is expected to be approximately $140 million, with $5 million spent during the quarter and an additional $55 to $65 million projected for the balance of the year.

Midstream

Veresen Midstream

Veresen Midstream had very strong operational results in the first quarter. Volumes at Hythe / Steeprock were ahead of expectations and exceeded take-or-pay commitments, with nearly 100% plant reliability. Volumes in April were slightly impacted by curtailments in third party downstream pipelines, however, year to date volumes remain above estimate. Gathering and compression at Dawson also benefited from strong volumes in the first quarter. Saturn Phase I, which was placed into service in June 2015, continues to perform well with year to date volumes approximately 15% above estimates.

Veresen Midstream currently provides Veresen with approximately $15 million in distributable cash each quarter. EBITDA for the quarter of $18 million was evenly split between Hythe / Steeprock and Dawson, and was in line with the fourth quarter of 2015. Costs were also effectively in line with the prior quarter. EBITDA from Dawson is expected to continue to grow as additional gathering lines, compression and gas plants are brought into service.

In March 2016, CRP sanctioned the $930 million Saturn Phase II processing facility, the third major facility now under construction as part of the Veresen Midstream infrastructure development with CRP. Saturn Phase II is an expansion to the previously constructed Saturn compressor station and will add 200 MMcf/d of additional compression, 400 MMcf/d of processing, and significant inlet liquids and NGL handling facilities.

Veresen Midstream is also proceeding with a 50 MMcf/d refrigeration expansion of its Hythe gas processing facility. Veresen Midstream has received all regulatory approvals for the expansion, which is expected to be in service in the fall of 2016 at a capital cost of $25 million ($12 million net to Veresen). The additional capacity is in support of increased liquids-rich production by CRP. The Hythe facility expansion is governed by the existing take-or-pay Midstream Services Agreement.

Veresen Midstream currently has over $2.5 billion (approximately $1.2 billion net to Veresen) of projects under construction. During the quarter, a total of $145 million ($69 million net to Veresen) of capital was incurred. Construction remains on schedule and on budget, with approximately one fifth of expenditures incurred to date. The company continues to expect the Sunrise and Tower gas plants in service by the end of 2017 and the Saturn Phase II gas plant to be in service by mid-2018.

When all three of these facilities are operational, Veresen Midstream will have 1.5 bcf/d of processing capacity in operation and will be a dominant player in the core of the Montney, one of North America's most prolific and competitive resource plays. Once commissioned, these facilities are expected to generate incremental run-rate EBITDA of between $250 million to $300 million (approximately $120 million to $145 million net to Veresen), based on target volumes. Veresen Midstream will fund approximately 55% to 60% of the construction costs of the Sunrise, Tower and Saturn gas plants with its existing $1.275 billion credit facility and additional non-recourse debt at the partnership level, with the balance to be contributed by Veresen and KKR over time.

Capital fees from the gas plants under construction will be generated from fee-for-service agreements where unit capital fees are set to achieve a target rate of return based on invested capital and expected throughput, and will be adjusted after 12 months of commercial operations based on updated throughout expectations. The facilities under construction, when placed into service, will address growing production volumes and current infrastructure constraints in the region and allow Veresen Midstream to take advantage of opportunities to bring in additional volumes from regional producers. As fallback protection, if Veresen Midstream has not recovered its invested capital after the eighth year of a facility's service period, the Dawson MSA provides for CRP to make a lump sum payment to Veresen Midstream for capital invested.

Aux Sable

In line with expectations, continued weakness in NGL margins resulted a minimal contribution of $1 million of distributable cash from Aux Sable during the quarter, with the NGL Sales Agreement with BP continuing to provide certain downside protection. While liquids prices remain at cyclical lows, Veresen anticipates the U.S. Mid-West market will come into balance over the next several years as the significant build out of petrochemical capacity in the U.S. Gulf Coast comes into service and waterborne exports of ethane and propane continue to increase.

The on-going debottlenecking at the Channahon Facility will add 27,500 bbl/d additional liquids handling capacity, which will allow for increased liquids to flow on the Alliance pipeline. The project, which remains on schedule and on budget, is expected to be completed by mid-2016 with US$11 million net to Veresen incurred during the first quarter. Approximately US$37 million of the total US$56 million of expenditures net to Veresen were incurred at the end of the quarter.

Power

The power segment's operations were in line with expectations, although a mild winter resulted in limited opportunities to take advantage of high energy demands typically seen during more seasonably cold winters.

Jordan Cove LNG Project and Pacific Connector

On March 11, 2016, the FERC denied the applications of Jordan Cove LNG and Pacific Connector seeking authorization for the construction and operation of the LNG export terminal and related natural gas pipeline. Specifically, the FERC stated that in the context of a lack of demonstrated commercial support for the projects, the public benefits of Pacific Connector do not outweigh the potential for adverse impacts on landowners and communities.

In the 30 days following the FERC decision, Jordan Cove LNG finalized the key commercial terms for the purchase of at least 3 million tonnes per annum of natural gas liquefaction capacity, representing at least 50% of the project's initial design capacity. In addition, Pacific Connector executed natural gas transportation service precedent agreements representing in excess of 75% of the rated capacity of the pipeline.

Subsequent to the end of the quarter, Jordan Cove LNG and Pacific Connecter submitted a request for rehearing to the FERC. The submission urges the FERC to consider the agreements with customers of the LNG terminal and shippers on Pacific Connector as evidence of market support for the projects, and that the public benefits of the projects outweigh the potential adverse impacts on landowners.

Approximately $40 million of project development spend was incurred in the first quarter. Project development spend for the full year will be contingent on the project continuing to meet regulatory and commercial milestones.

Balance Sheet and Funding Strategy

Veresen is using proceeds from its Premium Dividend™ and Dividend Reinvestment Plan as the primary source of funding for the equity component of the $1.4 billion of projects currently under construction. At the end of the first quarter, approximately $315 million of the aggregate cost of these projects had been incurred, with a remaining equity component requirement of approximately $450 to $550 million to be funded over the next three years. Veresen does not expect a need for additional external equity financing for these projects.

For the balance of the capital requirements within Veresen Midstream, the partnership expects to use its existing credit facilities, which had $885 million (approximately $425 million net to Veresen) of available capacity at March 31, 2016, and intends to secure additional debt at the partnership level to maintain its target capital structure. Debt at the partnership level is non-recourse to Veresen.

The debt component of the $140 million Burstall Ethane Storage project and the remaining approximately US$20 million in funding required to complete construction of the Aux Sable fractionation expansion will initially be funded from Veresen's existing credit facilities. Veresen intends to replace these borrowings with permanent debt financing at an appropriate time in the future.

At March 31, 2016, Veresen had approximately $471 million of available, undrawn capacity on its $750 million revolving credit facility. Veresen is committed to maintaining strong investment grade credit ratings. Standard & Poor's and DBRS Limited both reaffirmed Veresen's BBB (stable) credit rating during the fourth quarter of 2015.

2016 Guidance Reaffirmed

Veresen has reaffirmed its 2016 distributable cash to be in the range of $0.94 per Common Share to $1.08 per Common Share as expected performance of the respective businesses has not changed. Further details concerning 2016 guidance can be found on the home page of Veresen's web site at www.vereseninc.com.

Webcast of AGM Presentation

Veresen is holding its annual meeting of shareholders today, Wednesday, May 4, 2016 at 2:00 p.m. Mountain Time at Livingston Place (South Tower) in the Livingston Club Conference Centre, Plus 15, 222

– 3rd Avenue S.W., Calgary, Alberta.

At approximately 2:20pm Mountain Time, and following the conclusion of the formal proceedings of Veresen's annual shareholder meeting, Mr. Don Althoff, President and CEO, will address shareholders and provide an update of Veresen's 2015 accomplishments, remarks on the current state of the business and discuss highlights of the company's key initiatives.

To view a live broadcast of the presentation on the Internet, please access the following URL:

http://www.gowebcasting.com/7467

A digital recording will be available on the company's website for replay two hours after the completion of the presentation.

Conference Call and Webcast

A conference call and webcast presentation will be held to discuss first quarter 2016 financial and operating results at 7:00am Mountain Time (9:00am Eastern Time) on Thursday, May 5, 2016.

To listen to the conference call, please dial 647-788-4919 or 1-877-291-4570 (toll-free). This call will also be broadcast live on the Internet and may be accessed directly at the following URL:

http://www.gowebcasting.com/7513

A presentation will accompany the conference call and will be available via the webcast. Alternatively, the presentation will be made available immediately prior to the conference call start time of 7:00am Mountain Time on Veresen's website at: http://www.vereseninc.com/invest/events-presentations.

A digital recording will be available for replay two hours after the call's completion, and will remain available until May 19, 2016 21:59 Mountain Time (23:59 Eastern Time). To listen to the replay, please dial 416-621-4642 or 1-800-585-8367 (toll-free) and enter Conference ID 95413052. A digital recording will also be available for replay on the company's website.

About Veresen Inc.

Veresen is a publicly-traded dividend paying corporation based in Calgary, Alberta that owns and operates energy infrastructure assets across North America. Veresen is engaged in three principal businesses: a pipeline transportation business comprised of interests in the Alliance Pipeline, the Ruby Pipeline and the Alberta Ethane Gathering System; a midstream business which includes a partnership interest in Veresen Midstream Limited Partnership which assets owns in western Canada, and an ownership interest in Aux Sable, which owns a world-class natural gas liquids (NGL) extraction facility near Chicago, and other natural gas and NGL processing energy infrastructure; and a power business comprised of a portfolio of assets in Canada. Veresen is also developing Jordan Cove LNG, a six million tonne per annum natural gas liquefaction facility proposed to be constructed in Coos Bay, Oregon, and the associated Pacific Connector Gas Pipeline. In the normal course of business, Veresen regularly evaluates and pursues acquisition and development opportunities.

Veresen's Common Shares, Cumulative Redeemable Preferred Shares, Series A, Cumulative Redeemable Preferred Shares, Series C, and Cumulative Redeemable Preferred Shares, Series E trade on the Toronto Stock Exchange under the symbols "VSN", "VSN.PR.A", "VSN.PR.C" and "VSN.PR.E", respectively. For further information, please visit www.vereseninc.com.

Forward-looking Information

Certain information contained herein relating to, but not limited to, Veresen and its businesses and the offering of the notes, constitutes forward-looking information under applicable securities laws. All statements, other than statements of historical fact, which address activities, events or developments that Veresen expects or anticipates may or will occur in the future, are forward-looking information. Forward-looking information typically contains statements with words such as "may", "estimate", "anticipate", "believe", "expect", "plan", "intend", "target", "project", "forecast" or similar words suggesting future outcomes or outlook. Forward-looking statements in this news release include, but are not limited to, the in service dates of the Sunrise and Tower gas plants, the Saturn Phase II processing facility, the refrigeration expansion of the Hythe gas processing facility and the Burstall ethane storage facility; volumes of natural gas expected to be transported on the Alliance pipeline; cost of construction of the Burstall ethane storage facility and the refrigeration expansion of the Hythe gas processing facility; EBITDA to be realized by the Veresen Midstream facilities; the outlook for the U.S. Mid-West NGL market; the sources of equity and debt financing required to fund the capital of Veresen and Veresen Midstream. Readers are also cautioned that such additional information is not exhaustive. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are independent and management's future course of action would depend on its assessment of all information at that time. Although Veresen believes that the expectations conveyed by the forward-looking information are reasonable based on information available on the date of preparation, no assurances can be given as to future results, levels of activity and achievements. Undue reliance should not be placed on the information contained herein, as actual results achieved will vary from the information provided herein and the variations may be material. Veresen makes no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained herein are made as of the date hereof, and Veresen does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable laws. Any forward-looking information contained herein is expressly qualified by this cautionary statement.

Certain financial information contained in this news release may not be standard measures under Generally Accepted Accounting Principles ("GAAP") in the United States and may not be comparable to similar measures presented by other entities. These measures are considered to be important measures used by the investment community and should be used to supplement other performance measures prepared in accordance with GAAP in the United States. US GAAP requires us to equity account for our investments in jointly-controlled businesses. However, we have chosen to provide some information on our jointly-controlled businesses on a proportionate basis to assist the reader. For further information on other non-GAAP financial measures used by Veresen see Management's Discussion and Analysis, in particular, the section entitled "Non-GAAP Financial Measures" contained in the annual Management Discussion and Analysis, filed by Veresen with Canadian securities regulators.

For further information, please contact:

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FINANCIAL AND OPERATING HIGHLIGHTS

	Three months ended March 31	
($ Millions, except where noted)	**2016**	2015
Operating Highlights (100%)		
Pipeline		
Alliance – billion cubic feet per day (1)	**1.624**	1.636
Ruby – billion cubic feet per day	**0.705**	0.596
AEGS – thousand barrels per day (2)	**286**	293
Midstream		
Hythe/Steeprock – million cubic feet per day (3)	**386**	394
Dawson – million cubic feet per day	**767**	-
Aux Sable – thousand barrels per day	**69**	66
Power – gigawatt hours (net)	**208**	160
Financial Results		
Equity income and dividend income	**78**	58
Operating revenues	**37**	72
Adjusted net income attributable to Common Shares (4)(5)	**18**	27
Per Common Share ($) – basic and diluted	**0.06**	0.09
Net income attributable to Common Shares	**7**	50
Per Common Share ($) – basic and diluted	**0.02**	0.17
Cash from operating activities	**48**	33
Distributable cash (4)(6)	**81**	81
Per Common Share ($) – basic and diluted	**0.27**	0.28
Dividends paid/payable (7)	**76**	72
Per Common Share ($)	**0.25**	0.25
Capital expenditures (8)	**8**	26

	March 31, 2016	As at Dec. 31, 2015
Financial Position		
Cash and short-term investments	**54**	58
Total assets	**4,505**	4,560
Senior debt	**1,222**	1,089
Shareholders' equity	**2,899**	3,087
Common Shares		
Outstanding – as at period end (9)	**304,990,612**	298,979,989
Average daily volume	**1,103,715**	854,092
Price per Common Share – close ($)	**8.77**	8.86

1. Average daily volume for Alliance is based on the Canadian leg of the pipeline
2. Average daily volume for AEGS is based on toll volumes.
3. Average daily volume for Hythe/Steeprock is based on fee volumes.
4. This item is not a standard measure under US GAAP and may not be comparable to similar measures presented by other entities. See section entitled "Non-GAAP Financial Measures" in this MD&A.
5. We have provided a reconciliation of adjusted net income attributable to Common Shares to net income attributable to Common Shares in the "Non-GAAP Financial Measures" section of this MD&A.
6. We have provided a reconciliation of distributable cash to cash from operating activities in the "Non-GAAP Financial Measures" section of this MD&A.
7. Includes $47 million of dividends satisfied through the issuance of Common Shares under our Premium Dividend™ and Dividend Reinvestment Plan (trademark of Canaccord Genuity Corp.) for the three months ended March 31, 2016 (2015 - $47.0 million).
8. Capital expenditures for wholly-owned and majority-controlled businesses, as presented on the consolidated statement of cash flows.

9. As at the close of markets on April 29, 2016 we had 306,977,818 Common Shares outstanding.

This MD&A, dated May 4, 2016, provides a review of the significant events and transactions that affected our performance during the three months ended March 31, 2016 relative to the same period last year. It should be read in conjunction with our consolidated financial statements and notes as at and for the three months ended March 31, 2016 and as at and for the year ended December 31, 2015, prepared in accordance with accounting principles generally accepted in the United States.

RECENT ACTIVITIES

Alliance

This marks the first full quarter of operations under Alliance's new services model, after receiving regulatory approval in 2015. Alliance began commercial operations under the new services model on December 1, 2015.

This represents a strategic shift in Alliance's business, where prior to December 1, 2015 tolls were based on Alliance's cost of service plus an approved rate of return on equity. The original agreements with shippers were 15-year primary term, firm service contracts.

Under the new services model, Alliance provides a variety of firm transportation services, biddable interruptible and seasonal services, and auxiliary services supporting its shippers in the delivery of rich natural gas to markets in the Midwest United States. Firm transportation services are based on market responsive fixed tolls with a minimum one-year period for delivery services and a minimum three-year period for receipt and full path services, while seasonal services are less than one year in duration and the tolls are bid and offered to the highest bid shippers. Interruptible services are biddable and awarded on a short-term basis, including daily, based on capacity availability.

Firm volume contracts under the cost of service model in 2015 totaled 1.325 bcf/d, with any remaining available capacity representing Alliance's Authorized Overrun Service, which was provided to shippers at no extra cost. While under the new services model average toll rates are lower than those under the former cost of service model, toll rates are now charged for 100% of utilized capacity.

Leading into the first quarter of 2016, Alliance had successfully re-contracted its firm receipt capacity through 2018, and approximately 90% of receipt capacity in 2019 and 2020, with average contract lengths of 4.8 years. An increase in demand, aided by outages on gas pipeline transmission system and Chicago gas prices trading at higher premiums to AECO gas prices, helped Alliance fill remaining available capacity with its seasonal and interruptible transportation services during the first quarter.

Veresen Midstream LP

Veresen Midstream had very strong operational results in the first quarter of 2016. Hythe/Steeprock continues to operate at near 100% reliability. Throughput for processing and compression at Dawson exceeded forecast in the first quarter, including Saturn Phase I, where year-to-date volumes were approximately 15% above our initial estimates.

In March 2016, Cutbank Ridge Partnership sanctioned the $930 million (100%) Saturn Phase II processing facility, the third major facility now under construction as part of the Veresen Midstream infrastructure development with CRP. Saturn Phase II is an expansion to the previously constructed Saturn compressor station and will add 200 mmcf/d of additional compression, 400 mmcf/d of processing and significant inlet liquids and NGL handling facilities.

Veresen Midstream is also proceeding with a 50 mmcf/d refrigeration expansion of its Hythe gas processing facility. Veresen Midstream has received all regulatory approvals for the expansion, which is expected to be in service in the fall of 2016 at a capital cost of $25 million (100%). The additional capacity is in support of increased liquids-rich production by CRP. The Hythe facility expansion is governed by the existing Hythe/Steeprock take-or-pay Midstream Services Agreement and will have substantially similar commercial terms.

Veresen Midstream currently has over $2.5 billion (100%) of projects under construction. During the quarter, a total of $145 million (100%) of capital expenditures were incurred. We continue to expect the Sunrise and Tower gas plants to be in service by the end of 2017 and the Saturn Phase II gas plant to be in service by mid-2018.

When all three of these facilities are operational, Veresen Midstream will have 1.5 bcf/d of processing capacity in operation within the Montney, one of North America's most prolific and competitive resource plays. Veresen Midstream will fund approximately 55% to 60% of the construction costs of Sunrise, Tower and Saturn gas plants with its existing $1.275 billion credit facility and additional non-recourse debt at the partnership level, with the balance to be contributed by us and KKR over time. At the end of the quarter, Veresen Midstream received $243 million of net equity contributions, of which our share was $118 million, to support funding of these capital projects. We expect the next equity contribution to Veresen Midstream to be late in the third quarter of this year.

Capital fees from the gas plants under construction will be generated from fee-for-service agreements where unit capital fees are set to achieve a target rate of return based on invested capital and expected throughput, and are adjusted after 12 months of commercial operations based on updated throughput expectations. The facilities under construction, when placed into service, will address growing production volumes and current infrastructure constraints in the region and allow us to take advantage of opportunities to bring in additional volumes from regional producers. As fallback protection, if Veresen Midstream has not recovered its invested capital after the eighth year of a facility's service period, the Dawson MSA provides for CRP to make a lump sum payment to Veresen Midstream for capital invested.

Burstall Ethane Storage Facility
Construction has commenced on our $140 million wholly-owned 1 million barrel ethane storage facility located near Burstall, Saskatchewan.

Jordan Cove LNG Development Project
On March 11, 2016, we received an order from the Federal Energy Regulatory Commission denying the applications of Jordan Cove LNG and Pacific Connector Gas Pipeline seeking authorization for the construction and operation of a liquefied natural gas export terminal and natural gas pipeline. Specifically, the FERC stated that the public benefits of Pacific Connector do not outweigh the potential for adverse impacts on landowners and communities. On April 11, 2016 we submitted to the FERC a request for rehearing of FERC's order.

In the 30 days following the order, we announced that we had finalized key commercial terms with customers for at least 50% of the Jordan Cove LNG project's initial design capacity and that Pacific Connector had executed natural gas transportation service precedent agreements representing in excess of 75% of the rated capacity of the pipeline. We have demonstrated significant commercial support for the projects and negotiations for the remaining liquefaction capacity are ongoing with other parties.

FERC has 30 days from April 11, 2016 to grant or deny the request for rehearing. FERC may grant rehearing, deny rehearing or grant rehearing solely for purposes of extending the 30 day deadline, followed by an order on the merits at a later date.

OVERALL FINANCIAL PERFORMANCE

Adjusted Net Income attributable to Common Shares

	Three months ended March 31	
($ Millions, except per Common Share amounts)	**2016**	2015
Adjusted net income before tax [1]		
Pipeline	**84**	62
Midstream	**1**	17
Power	**4**	4
Veresen - Corporate	**(61)**	(39)
Tax expense	**(4)**	(13)
Adjusted net income	**24**	31
Preferred Share dividends	**(6)**	(4)
Adjusted net income attributable to Common Shares	**18**	27
Per Common Share ($)	**0.06**	0.09

(1) See the reconciliation of adjusted net income attributable to Common Shares to net income attributed to Common Shares in the "Non-GAAP Financial Measures" section of this MD&A.

Adjusted net income attributable to Common Shares represents net income adjusted for specific items that are significant, but are not reflective of our underlying operations. We have presented adjusted net income attributable to Common Shares in order to enhance the comparability of our earnings. See the *Non-GAAP Financial Measures* section of this MD&A for the full definition of this term and the reconciliation to net income attributable to Common Shares.

For the three months ended March 31, 2016, we generated adjusted net income attributable to Common Shares of $18 million or $0.06 per Common Share compared to $27 million or $0.09 per Common Share for 2015.

Earnings reflect strength of our pipeline business, offset by the impact of a challenging commodity price environment on our Aux Sable business and higher project development spend to continue the advancement of our Jordan Cove development project.

Adjusted earnings from our Pipeline business increased materially in the first quarter of 2016 relative to the same period last year due to Alliance's excellent financial performance under its new business model. Demand for Alliance transportation exceeded expectations, resulting in solid revenues from seasonal and interruptible services which, in conjunction with reduced operating costs and depreciation, resulted in higher adjusted net income than was generated during the same period last year under the cost of service model. Further, Alliance and Ruby adjusted net income benefited from the effect of the weaker Canadian dollar.

Lower Midstream adjusted earnings continue to reflect weak NGL margins as a result of low propane prices and reduced ownership in the Hythe / Steeprock business resulting from the sale of these facilities to Veresen Midstream at the end of the first quarter of 2015.

Our Power portfolio generated consistent earnings compared to the first quarter of last year.

Corporate costs were higher this quarter primarily due to higher Jordan Cove and Pacific Connector project spending. Tax expense was lower as effective January 1, 2016, we implemented a U.S.-based organizational restructuring which effectively defers cash taxes, with the exception of Part VI.1 taxes on our Preferred Share dividends, for approximately the next five years.

Net Income attributable to Common Shares

	Three months ended March 31	
($ Millions, except per Common Share amounts)	**2016**	2015
Net income (loss) before tax		
Pipeline	**84**	62
Midstream	**2**	16
Power	**(3)**	(1)
Veresen – Corporate	**(61)**	(39)
Gain on sale of assets	**-**	37
Tax expense	**(9)**	(21)
Net income	**13**	54
Preferred Share dividends	**(6)**	(4)
Net income attributable to Common Shares	**7**	50
Per Common Share ($)	**0.02**	0.17

For the three months ended March 31, 2016, we generated net income attributable to Common Shares of $7 million or $0.02 per Common Share. For the same period last year, we generated net income of $50 million or $0.17 per Common Share.

In addition to factors impacting adjusted net income, as previously discussed, the following items are reflected in net income.

Power results include the impact of the revaluation of interest rate hedges resulting in an aggregate pre-tax $7 million loss in the first quarter of 2016 compared to a pre-tax $5 million loss during the same period last year.

Results of the first quarter of 2015 include a $37 million pre-tax gain relating to the sale of our Hythe/Steeprock assets to Veresen Midstream during the first quarter of 2015.

Distributable Cash

	Three months ended March 31	
($ Millions, except per Common Share amounts)	**2016**	2015
Pipeline	**75**	70
Midstream	**16**	29
Power	**12**	12
Veresen – Corporate	**(16)**	(19)
Current tax	**-**	(7)
Preferred Share dividends	**(6)**	(4)
Distributable Cash (1)	**81**	81
Per Common Share ($)	**0.27**	0.28

(1) See the reconciliation of distributable cash to cash from operating activities in the "Non-GAAP Financial Measures" section of this MD&A.

For the three months ended March 31, 2016, we generated distributable cash of $81 million or $0.27 per Common Share, compared to $81 million or $0.28 per Common Share for the same period last year.

Increased cash flows generated by our Pipeline businesses, reduced Corporate costs and lower cash taxes were offset by reduced cash flows from our Midstream businesses and higher preferred dividends.

Distributions from Alliance for the first quarter of 2016 increased $2 million compared to the same period last year in spite of lower firm transportation rates under the new business model and the absence of the non-renewal charge which had been collected and distributed by Alliance U.S. in the years 2010 to 2015. Increased distributions were driven by higher EBITDA, as previously discussed, and reduced debt amortization. Alliance has retained a portion of cash generated in the first quarter of 2016 which we expect to be distributed over the balance of this year.

Distributions from Aux Sable decreased by $8 million compared to the first quarter of 2015 due to the effect of weaker NGL market conditions. Overall, the Veresen Midstream transaction has been neutral to distributable cash, as the reduced contribution from Hythe/Steeprock, resulting from the change in ownership, has been offset by reduced Corporate administrative and interest costs.

Our power business generated cash flows consistent with the first quarter of last year.

The reduction in Corporate costs in the first quarter of 2016 reflects lower interest costs due to lower debt levels.

Effective January 1, 2016, we implemented a U.S.-based organizational restructuring which effectively defers cash taxes, with the exception of Part VI.1 taxes on our Preferred Share dividends, for approximately the next five years.

Our April 1, 2015 issuance of Series E Preferred Shares resulted in higher Preferred Share dividends in the first quarter of 2016 relative to the same period in 2015.

Cash from Operating Activities

	Three months ended March 31	
($ Millions)	**2016**	2015
Pipeline	**88**	77
Midstream	**18**	19
Power	**13**	(5)
Veresen - Corporate	**(71)**	(58)
	48	33

For the three months ended March 31, 2016, we generated $48 million of cash from operating activities compared to $33 million for the same period last year. The higher cash flows during the first quarter from our Pipeline and Power businesses, partly offset by a decrease in our Midstream business, generally reflect the same factors impacting distributable cash and changes in non-cash working capital. The increase in Corporate costs reflect the increase in Jordan Cove spending in the first quarter of 2016 relative to the same period last year.

ACCOUNTING STANDARDS AND BASIS OF PRESENTATION

Our consolidated financial statements as at and for the three months ended March 31, 2016 have been prepared by management in accordance with US GAAP. All financial information is in Canadian dollars unless otherwise noted and, as it relates to our financial results, has been derived from information used to prepare our US GAAP consolidated financial statements. Capitalized terms used in this MD&A that have not been defined have the same meanings attributed to them in our 2015 consolidated financial statements. Additional information concerning our business is available on SEDAR at www.sedar.com or on our website at www.vereseninc.com.

FORWARD-LOOKING AND NON-GAAP INFORMATION

Some of the information contained in this MD&A is forward-looking information under Canadian securities laws. All information that addresses activities, events or developments which may or will occur in the future is forward-looking information. Forward-looking information typically contains statements with words such as may, estimate, anticipate, believe, expect, plan, intend, target, project, forecast or similar words suggesting future outcomes or outlook. Forward-looking statements in this MD&A include statements about:

- *the impact of Alliance's new services framework on Alliance's future earnings;*
- *Aux Sable's ability to realize upon the extraction agreements with producers;*
- *the 2016 pricing environment for ethane and propane;*
- *the timing of the completion of construction and in-service date of the Sunrise and Tower gas plants, the Saturn compression station expansion and the Hythe liquids recovery project;*
- *the level of volume demand at the Sunrise, Tower and Saturn facilities and our ability to secure third party volumes;*
- *the projected date for a final investment decision on Jordan Cove LNG and Pacific Connector Gas Pipeline;*
- *the effective elimination of cash taxes for approximately the next five years, excluding Part VI.1 taxes on Preferred Share dividends, as a result of our U.S.-based organizational restructuring*
- *the projected date for commencing LNG production from Jordan Cove LNG;*
- *the sufficiency of our liquidity;*
- *the sufficiency of our available committed credit facilities to fund working capital, dividends and capital expenditures;*
- *the ability of each of our businesses to generate distributable cash and the timing under which distributable cash will be generated; and*
- *our ability to pay dividends.*

The risks and uncertainties that may affect our operations, performance, development and the results of our businesses include, but are not limited to, the following factors:

- *our ability to successfully implement our strategic initiatives and achieve expected benefits;*
- *levels of oil and gas exploration and development activity;*
- *status, credit risk and continued existence of contracted customers;*
- *availability and price of capital;*
- *availability and price of energy commodities;*
- *availability of construction services and materials;*
- *fluctuations in foreign exchange and interest rates;*
- *our ability to successfully obtain regulatory approvals;*
- *changes in tax, regulatory, environmental, and other laws and regulations;*
- *competitive factors in the pipeline, midstream and power industries;*
- *operational breakdowns, failures, or other disruptions; and*
- *prevailing economic conditions in North America.*

Additional information on these and other risks, uncertainties and factors that could affect our operations or financial results are included in our filings with the securities commissions or similar authorities in each of the provinces of Canada, as may be updated from time to time. We caution readers that the foregoing list of factors and risks is not exhaustive. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are independent and management's future course of action would depend on its assessment of all information at that time. Although we believe the expectations conveyed by the forward-looking information are reasonable based on information available to us on the date of preparation, we can give no assurances as to future results, levels of activity and achievements. Readers should not place undue reliance on the information contained in this MD&A, as actual results achieved will vary from the information provided herein and the variations may be material. We make no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained herein are made as of the date hereof, and, except as required by law, we do not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise. We expressly qualify any forward-looking information contained in this MD&A by this cautionary statement.

Certain financial information contained in this MD&A may not be standard measures under GAAP in the United States and may not be comparable to similar measures presented by other entities. These measures are considered to be important measures used by the investment community and should be used to supplement other performance measures prepared in accordance with GAAP in the United States. For further information on non-GAAP financial measures used by us see the section entitled "Non-GAAP Financial Measures" contained in this MD&A.

RESULTS OF OPERATIONS – BY BUSINESS SEGMENT

Pipeline Business

	2016		2015	
	Net Income Before Tax	**Distributable Cash**	Net Income Before Tax	Distributable Cash
Three months ended March 31				
Alliance	**51**	**40**	32	38
Ruby	**31**	**31**	28	28
AEGS	**2**	**4**	2	4
	84	**75**	62	70

Alliance Pipeline

Operational Highlights

	Three months ended March 31	
Volumes (100%; bcf/d)	**2016**	2015
Transportation deliveries under cost of service model (pre-December 1, 2015)	**-**	1.636
Firm transportation volumes	**1.391**	-
Seasonal	**0.094**	-
Priority Interruptible Transportation Service (PITS) and Interruptible Transportation (IT) volumes	**0.139**	-
Total Canadian volumes	**1.624**	1.636
Incremental U.S. volumes (incl. Bakken)	**0.131**	0.155
Total U.S. volumes	**1.755**	1.791
Blended average toll rates ($/mcf):		
Firm	**1.35**	-
Seasonal, PITS and IT	**1.45**	-
U.S. only	**0.63**	-

All of Alliance's firm capacity has been been contracted for 2016. Strong market demand, supported by outages on another gas pipeline transmision system and Chicago gas prices trading at higher premiums to AECO gas prices, helped Alliance fill remaining available capacity with its seasonal and interruptible transportation services.

Firm volumes under the cost of service model in 2015 were 1.325 bcf/d, with the additional 0.311 bcf/d of utilized capacity representing Alliance's Authorized Overrun Service, which was provided to shippers at no extra cost. While under the new services model average toll rates are lower than those under the former cost of service model, toll rates are now charged for 100% of utilized capacity.

Financial Highlights

Components of Alliance Equity Income:

(Veresen's share; $ Millions)	Three months ended March 31 **2016**	2015
Transportation revenue under cost of service model (pre December 1, 2015)	**-**	113
Transportation revenue under new services offering	**105**	-
Other revenue	**3**	-
	108	113
General, administrative, operating and maintenance	**(26)**	(37)
Interest and other finance	**(13)**	(14)
Depreciation and amortization	**(18)**	(30)
Net income before tax / equity income	**51**	32
Distributable cash	**40**	38

Distributable cash for the three months ended March 31, 2016 was $40 million compared to $38 million for the same period last year. The increase was due to Alliance's strong financial performance under its new business model, resulting in higher EBITDA in spite of lower firm transportation rates under the new business model and the absence of the non-renewal charge which had been collected and distributed by Alliance US in the years 2010 to 2015. Demand for Alliance transportation exceeded expectations, providing solid revenues from seasonal and interruptible services which, in conjunction with reduced operating costs, generating higher EBITDA than the same period last year.

Alliance also benefited from reduced debt amortization and the effects of a weaker Canadian dollar. Alliance has retained a portion of cash generated in the first quarter of 2016 which we expect to be distributed over the balance of this year.

Net income before tax for the three months ended March 31, 2016 was $51 million compared to $32 million for the same period last year. The increase reflects higher EBITDA, lower depreciation due to an extension in the estimated useful life of the pipeline assets and the impact of a weaker Canadian dollar.

Ruby Pipeline

Operational Highlights
Long-term ship-or-pay contracts are in place for approximately 1.1 bcf/d, or 71%, of the pipeline's capacity, 90% of which are held by investment grade shippers. The average remaining length of the contracts is over seven years. Transportation deliveries for the three months ended March 31, 2016 averaged 0.705 bcf/d compared to 0.596 bcf/d in the same period last year. Volumes are lower than the contracted levels as a result of market economics and mild weather causing less demand for volumes into storage.

Financial Highlights
Distributable cash and net income for the three months ended March 31, 2016 was $31 million, representing one quarter of the US$91.0 million annual distributions we are entitled to as holders of the convertible preferred shares. The $3 million increase compared to the same period last year was due to the weaker Canadian dollar.

AEGS

(Veresen's share; $ Millions)	Three months ended March 31 **2016**	2015
Earnings before interest, tax depreciation and amortization ("EBITDA") [1]	**6**	7
Depreciation and amortization	**(3)**	(3)
Interest and other finance	**(1)**	(2)
Net income before tax	**2**	2
Distributable cash	**4**	4
Volumes (mbbls/d [2])	**286**	293

(1) This item is not a standard measure under US GAAP and may not be comparable to similar measures presented by other entities. See section entitled "Non-GAAP Financial Measures" in this MD&A.
(2) Average daily volumes are based on toll volumes.

Operational Highlights
Toll volumes for the three months ended March 31, 2016 were 286 mbbls/d, consistent with the 293 mbbls/d for the same period last year.

Financial Highlights
For the three months ended March 31, 2016, AEGS generated $4 million in distributable cash and $2 million in net income before tax, compared to $4 million in distributable cash and $2 million in net income before tax for the same period last year. Current quarter results were consistent with the same quarter last year.

Midstream Business

	2016		2015	
	Net Income (Loss) Before Tax	**Distributable Cash**	Net Income (Loss) Before Tax	Distributable Cash
Three months ended March 31				
Veresen Midstream	**4**	**15**	(1)	-
Hythe/Steeprock	**-**	**-**	11	20
Aux Sable	**(2)**	**1**	6	9
	2	**16**	16	29

Veresen Midstream

Operational Highlights

	Three months ended March 31 **2016**	2015
Throughput volumes (mmcf/d)		
Hythe/Steeprock [1]	386	394
Dawson [2]	767	-
	1,153	394

(1) Hythe/Steeprock fee volumes represent (i) either the minimum commitment volumes for which we earned processing fees or actual volumes processed if in excess of the minimum threshold in respect of the Midstream Services Agreement with our primary customer, and (ii) fees for volumes processed for other producers.
(2) Dawson throughput volumes represent actual volumes processed from our primary customer.

Fee volumes at Hythe/Steeprock averaged 386 mmcf/d for the three months ending March 31, 2016. Fee volumes are comprised of the minimum volume commitment under the Hythe/Steeprock MSA and natural gas from third party producers. Compared to the same period last year, the Hythe/Steeprock fee volumes decreased two percent in line with the contractual commitment. During the three months ending March 31, 2016, the Hythe and Steeprock facilities operated at reliability factors of 99.8%, exceeding their respective target factors under the MSA.

During the first quarter of 2016, actual volumes received from Encana and CRP at Dawson averaged 767 mmcf/d, compared to 709 mmcf/d during the fourth quarter of 2015. The increased throughput is a result of the resolution of bottleneck issues in the northern part of Dawson and the resolution of integrity maintenance-related curtailments imposed by downstream pipelines in the southern portion of Dawson at the end of the fourth quarter.

Financial Highlights

Components of Veresen Midstream Equity Income:

	Three months ended March 31	
(Veresen's share; $ Millions)	**2016**	2015
Hythe/Steeprock EBITDA (1)	**10**	-
Dawson EBITDA	**10**	-
Corporate general and administrative	**(2)**	-
Depreciation and amortization	**(9)**	-
Interest and other finance	**(6)**	-
Unrealized gain (loss) on translation of US dollar debt	**24**	(5)
Unrealized gain (loss) on cross currency swap	**(23)**	4
Net income (loss) before tax / equity income (loss)	**4**	(1)
Distributable cash	**15**	-

(1) Hythe/Steeprock assets were wholly owned by us until March 31, 2015

During the first quarter of 2016, Hythe/Steeprock and Dawson each generated $10 million of EBITDA. The EBITDA generated by Hythe/Steeprock is mainly comprised of the minimum volume and fee commitment provided under the Hythe/Steeprock Management Services Agreement. Dawson EBITDA is based on actual throughput received from Encana and CRP and fee for service revenues governed under the Dawson MSA.

On March 31, 2016, Veresen Midstream paid a distribution of $23 million, of which our share is $15 million. The PIK structure allowed us to receive two-thirds of the cash distributions while we were entitled to approximately 48.5% of the net income during the first quarter of 2016.

Results for the period ending March 31, 2016 include a $23 million fair value loss on Veresen Midstream's cross currency swap, offset by a $24 million foreign exchange gain on the revaluation of Veresen Midstream's US dollar denominated Term Loan. During the same period last year, results included a $4 million fair value gain on the cross currency swap, offset by a $5 million foreign exchange loss on the revaluation of the Term Loan. There were no operating earnings or distributions from Veresen Midstream during the first quarter of 2015 as its operating assets, including Hythe/Steeprock, were not acquired until March 31, 2015.

To fund the initial acquisition of assets from Encana and CRP, as well as ongoing construction, Veresen Midstream had fully drawn its US$575 Term Loan B and $465 million from its $1,275 million (100%) expansion credit facility as at March 31, 2016. By the end of the first quarter of 2016, Veresen Midstream had invested $525 million (100%) in the Sunrise, Tower and Saturn Phase II facilities.

Hythe/Steeprock

In the first quarter of 2015, the Hythe/Steeprock assets, while wholly owned by us, generated $20 million of distributable cash and $11 million of net income prior to the Veresen Midstream transaction closing on March 31, 2015. Fee volumes at Hythe/Steeprock averaged 394 mmcf/d for the three months ending March 31, 2015. During the first quarter of 2015, the Hythe/Steeprock facilities operated at reliability factors near 100%.

Aux Sable

NGL Market Overview

	Three months ended March 31	
	2016	2015
Average USGC ethane margin (US$/gallon)	**0.03**	(0.01)
Average USGC propane plus margin (US$/gallon)	**0.26**	0.34
Average USGC propane (US$/gallon)	**0.39**	0.53
Average Henry Hub natural gas (US$/mmbtu)	**1.99**	2.83
Average Chicago Citygate natural gas (US$/mmbtu)	**2.04**	3.31
Average WTI crude oil (US$/bbl)	**33.45**	48.63
Average Chicago - AECO differential ($/mmbtu)	**0.96**	1.41

U.S. Gulf Coast ("USGC") ethane margins remained weak throughout the first quarter of 2016 due to continued oversupply.

High inventory levels in the U.S. during the first quarter of 2016 continued to depress USGC propane plus margins relative to the same period last year. U.S. propane stocks ended the winter season at record levels of nearly 60 million barrels, over two million barrels higher than at the end of last winter, driven by consecutive fall seasons of insufficient crop drying demand and repeated warmer temperatures during the past two winter seasons. USGC propane prices averaged US$0.39 per gallon in the first quarter of 2016 compared to US$0.53 per gallon during the same period in 2015, reflecting the high inventory levels and downward pressure on natural gas liquids prices driven by continued weakness in crude oil prices.

Natural gas prices in the first quarter of 2016 reflected a buildup of inventories to record levels resulting from unseasonably warm winter temperatures during the past two winter seasons and strong North American natural gas production in the second half of 2015. The Chicago Citygate gas price averaged US$2.04 per mmbtu in the first quarter of 2016, decreasing $1.27 per mmbtu compared to the same period last year.

Operational Highlights

	Three months ended March 31	
	2016	2015
Average volume receipts (mmcf/d)		
Prairie Rose Pipeline	**99**	97
Average sales (mmcf/d)		
Ethane	**23**	18
Propane plus	**46**	48
Total NGLs	**69**	66

During the three months ended March 31, 2016, Aux Sable processed nearly 100% of the natural gas delivered by Alliance compared to 89% for the same period last year. The increase is attributed to rail distribution constraints and bypassing volumes to alleviate high inventories, as well as downtime for planned and accelerated maintenance during the first quarter of 2015.

Receipts into the Prairie Rose Pipeline in North Dakota averaged 99 mmcf/d during the first quarter of 2016, consistent with the 97 mmcf/d realized during the same period last year.

Propane plus sales volumes were 46 mbbls/d during the first quarter of 2016 compared to 48 mbbls/d during the same period last year due to lower rich gas volumes at the plant inlet. Aux Sable produced 23 mbbls/d of ethane during the first quarter, increasing from the same period last year due to higher local demand.

Financial Highlights

Components of Aux Sable Equity Income:

(Veresen's share; $ Millions)	Three months ended March 31 **2016**	2015
Margin based lease revenues recognized	**-**	1
Pipeline capacity margin	**(1)**	1
Other margin based activities	**(1)**	2
Fixed fee activities	**11**	9
General, administrative, operating and maintenance	**(6)**	(4)
Depreciation, amortization and other	**(5)**	(3)
Net income (loss) before tax / equity income (loss)	**(2)**	6
Distributable cash	**1**	9

For the three months ended March 31, 2016, Aux Sable generated $1 million of distributable cash and a $2 million net loss before tax, compared to $9 million of distributable cash and $6 million in net income before tax during the same period last year.

During the first quarter of 2016, Aux Sable's NGL Sales Agreement continued to provide downside protection against the weak NGL market environment, delivering the fixed fee and covering the Channahon facility's operating costs with no margin based lease revenues being generated.

Aux Sable's other margin-based activities decreased this quarter relative to the same period last year due to lower NGL fractionation margins realized at its Palermo Conditioning Plant in North Dakota and its off-gas processing facility in Alberta.

Fixed fee activities increased during the first quarter of 2016 relative to the same period last year due to the impact of a weaker Canadian dollar.

Power Business

($ Millions, except where noted)	Three months ended March 31 **2016**	2015
Loss on interest rate hedges	**(7)**	(5)
Other equity income	**4**	1
Equity loss	**(3)**	(4)
EBITDA from wholly and majority-owned businesses	**12**	12
Depreciation and amortization	**(9)**	(7)
Interest and other finance	**(3)**	(2)
Net loss before tax	**(3)**	(1)
Distributable cash	**12**	12
Volumes (GWh)		
Gross	**256**	193
Net	**208**	160

Operational Highlights

For the three months ended March 31, 2016, our power facilities operated in line with our expectations, providing consistent earnings compared to the same period last year. Our gas-fired and district energy systems had limited opportunities to take advantage of high energy demand due to mild winter weather in the first quarter of 2016.

Financial Highlights

For the three months ended March 31, 2016, distributable cash was $12 million, unchanged from the same period last year. Incremental earnings from our St. Columban and Grand Valley Phase III wind facilities, commencing operations in the second half of 2015, were offset by lower earnings from our gas-fired and district energy businesses due to mild winter weather in eastern Canada.

Net loss before tax during the first quarter of 2016 increased compared to the same period last year due to higher losses on interest rate hedges and incremental depreciation on our new facilities.

Veresen-Corporate

	Three months ended March 31	
($ Millions)	**2016**	2015
Equity loss	**3**	3
General & administrative	**9**	8
Project development	**40**	18
Depreciation and amortization	**1**	1
Interest and other finance	**8**	12
Foreign exchange and other	**-**	(3)
Net expenses before tax	**61**	39
Distributable cash	**(16)**	(19)

For the three months ended March 31, 2016, we incurred $61 million of net corporate expenses before taxes, a $22 million increase compared to the same period last year. The increase reflects higher project development spending related to our Jordan Cove LNG and Pacific Connector Gas Pipeline projects, and lower interest costs resulting from lower debt levels.

Taxes

	Three months ended March 31	
($ Millions)	**2016**	2015
Net income before tax	**22**	75
Current tax	**(2)**	(20)
Deferred tax	**(7)**	(1)
Total tax	**(9)**	(21)
Effective rate	**41%**	28%

Our effective tax rate for the first quarter of 2016 is comparatively higher to the same period in 2015 as a result of the U.S.-based organizational restructuring we implemented on January 1, 2016 which, while deferring cash taxes with the exception of Part VI.1 taxes on our Preferred Share dividends for approximately the next five years, resulted in a taxable capital gain.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended March 31			
($ Millions, except where noted)	**2016**		2015	
Cash flows				
Operating activities	**48**		33	
Investing activities	**(143)**		437	
Financing activities	**94**		(448)	
	March 31, 2016		December 31, 2015	
Cash and short-term investments	**54**		58	
Capitalization				
Senior debt (1)	**1,222**	**30%**	1,089	26%
Shareholders' equity	**2,899**	**70%**	3,087	74%
	4,121	**100%**	4,176	100%

(1) Includes current portion of long-term senior debt.

In 2015 we advanced our goal of reducing leverage and borrowing costs and improving liquidity. We used cash proceeds from the Veresen Midstream transaction and issuance of preferred shares in the first half of 2015 to repay a portion of our credit facility used to fund the 2014 acquisition of Ruby. As a result of these transactions, we reduced our debt to total capitalization ratio from 42% at the beginning of 2015 to 26% and 30% at the end of 2015 and the first quarter of 2016, respectively.

We expect to continue to utilize cash from operations, drawings on our Revolving Credit Facility and cash raised through our DRIP to fund liabilities as they become due, finance capital expenditures, fund debt repayments, pay dividends and to provide flexibility for new investment opportunities. As at March 31, 2016, we had $750 million of committed credit facilities of which $299 million was drawn, including $20 million in letters of credit.

At March 31, 2016, we had cash and short-term investments of $54 million (December 31, 2015 - $58 million and a non-cash working capital deficit of $17 million (December 31, 2015 - $17 million deficit).

Investing Activities
For the three months ended March 31, 2016, we used $143 million of cash to fund our investing activities, compared to $437 million of cash flow generated in the same period last year. Significant investing activities for the three months ended March 31, 2016 and 2015 are presented in the table below.

	Three months ended March 31	
($ Millions)	**2016**	2015
Acquisitions and dispositions		
Proceeds from sale of assets	**-**	420
Investments in jointly-controlled businesses		
Equity contributions	**(136)**	(14)
Return of capital	**1**	25
	(135)	11
Capital expenditures		
Burstall	**(5)**	(4)
Dasque-Middle run-of-river hydro facility	**-**	(3)
St. Columban wind project	**-**	(16)
Other capital expenditures	**(3)**	(3)
	(8)	(26)
Other	**-**	(2)
Cash provided in discontinued operations	**-**	34
Investing	**(143)**	437

Financing Activities
For the three months ended March 31, 2016, we had a net cash inflow of $94 million from our financing activities, compared to a net outflow of $448 million for the same period last year. Financing activities for the three months ended March 31, 2016 and 2015 included:

	Three months ended March 31	
($ Millions)	**2016**	2015
Common Share dividend payments	**(30)**	(24)
Net draws on Revolving Credit Facility	**132**	2
Senior debt repayments	**(2)**	(422)
Preferred Share dividend payments	**(6)**	(4)
Financing	**94**	(448)

Equity Financing Activities
Commencing with the cash dividend payable to shareholders of record on October 31, 2014, eligible shareholders may participate in the Premium Dividend™ component of the Dividend Reinvestment Plan ("DRIP") which will entitle such shareholders to reinvest their dividends in Common Shares issued from treasury and to have such Common Shares exchanged for a premium cash payment equal to 102% of the cash dividend that such shareholders would otherwise be entitled to receive on the applicable dividend payment date. The availability of the Premium Dividend™ (Trademark of Canaccord Genuity Corp.) to shareholders has substantially increased participation in our DRIP program, providing us with additional cash to fund our various growth initiatives.

Debt Financing Activities
On March 31, 2015 we used the $420 million in cash we received from Veresen Midstream to partially repay our Acquisition Credit Facility related to the Ruby acquisition in the fourth quarter of 2014.

DIVIDENDS

Policy

Our general dividend policy is to establish and maintain a sustainable and stable monthly dividend, having regard for forecast distributable cash and our growth capital requirements.

We pay dividends on our Common Shares on a monthly basis to common shareholders of record as at the last business day of each month on the 23rd day of the month following such record date, or if not a business day, then on the preceding business day.

Holders of our Cumulative Redeemable Preferred Shares are entitled to receive fixed cumulative preferential cash dividends, if and when declared by our Board of Directors, at specified rates, detailed below, payable quarterly.

Preferred Shares	**Face Value ($ Millions)**	**Annual Dividend Rate**	**Dividend Rate Reset Date**
Series A	200	4.40%	September 30, 2017 and every five years thereafter based on then-market rates
Series C	150	5.00%	March 31, 2019 and every five years thereafter based on then-market rates
Series E	200	5.00%	June 30, 2020 and every five years thereafter based on then-market rates

Sustainability of Dividends and Productive Capacity

We intend to continue to pay dividends, although such dividends are not guaranteed and do not represent a legal obligation. The sustainability of such dividends is a function of several factors including, among other things:

- earnings and cash flows we generate;
- ongoing maintenance of each business's physical and economic productive capacity;
- our ability to comply with debt covenants and refinance debt as it comes due; and
- our ability to satisfy any applicable legal requirements.

For a complete discussion of the significant risks and uncertainties affecting us, see the "Risks" section contained in our 2015 MD&A.

Dividends Paid/Payable Relative to Cash from Operating Activities and Net Income Attributable to Common Shares

	Three months ended March 31	
($ Millions)	**2016**	2015
Cash from operating activities	**48**	33
Net income attributable to Common Shares	**7**	50
Dividends paid/payable	**76**	72
Less dividends paid in Common Shares under DRIP	**(47)**	(47)
Net dividends paid/payable	**29**	25
Excess of cash from operating activities over net dividends paid/payable	**19**	**8**
Excess (Deficiency) of net income attributable to Common Shares over net dividends paid/payable	**(22)**	**25**

The excess of cash from operating activities over net dividends paid/payable generally represents the cash we use for maintenance capital expenditures, scheduled amortization of any long-term debt, and cash we retain to fund growth.

Net income attributable to Common Shares is generally less than dividends paid/payable as our net income includes certain non-cash expenses such as depreciation and deferred tax, and can include unrealized foreign exchange and fair value gains and losses which are not reflected in calculating the amount of cash available for the payment of dividends. In the first quarter of 2015, net income attributable to Common Shares exceeded dividends paid/payable due to the $37 million gain relating to the sale of our Hythe/Steeprock assets to Veresen Midstream.

FINANCIAL INSTRUMENTS

We and our jointly-controlled businesses periodically enter into interest rate hedges to manage interest rate exposures. For the three months ended March 31, 2016, equity income from our Power business includes a $7 million unrealized mark-to-market loss ($6 million after tax), associated with an interest rate hedge. For the same period last year, equity income from our Power business includes a $5 million unrealized mark-to-market loss ($4 million after tax).

During the first quarter of 2015, Veresen Midstream entered into a cross currency swap to manage both interest rate and foreign exchange rate exposures on its US$575 drawn Term Loan B. For the three months ended March 31, 2016, equity income from Veresen Midstream includes a $23 million unrealized mark-to-market loss ($17 million after tax), associated with the cross currency swap. For the same period last year, equity income from Veresen Midstream includes a $5 million unrealized mark-to-market gain ($4 million after tax)

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

On April 15, 2015, Aux Sable received a Notice and Finding of Violation from the United States Environmental Protection Agency ("EPA") for exceedances of permitted limits for Volatile Organic Compounds at Aux Sable's Channahon, Illinois Facility. Aux Sable is engaged in discussions with the EPA to resolve the matter. The initial EPA proposal confirms the settlement amount will not be material.

NEW ACCOUNTING STANDARDS

Adoption of New Standards
Effective January 1, 2016, the we adopted Accounting Standards Update (“ASU”) 2014-10, "*Development Stage Entities: Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*". This ASU eliminates the concept of a development-stage entity from US GAAP along with the associated presentation and disclosure requirements for development-stage entities. The consolidation guidance was also amended to eliminate the development stage entity relief when applying the variable interest entity model and evaluating the sufficiency of equity at risk. This guidance was applied retrospectively and did not have a material impact to us.

Effective January 1, 2016, we adopted ASU 2014-16, “*Derivatives and Hedging*.” This ASU provides guidance to clarify the criteria in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. This guidance was applied retrospectively and did not have a material impact to us.

Effective January 1, 2016, we adopted ASU 2015-01, "*Income Statement - Extraordinary and Unusual Items*". This ASU simplifies income statement classification by removing the concept of extraordinary items from US GAAP. This guidance was applied retrospectively and did not have a material impact to us.

Effective January 1, 2016, we adopted ASU 2015-02, “Consolidation: Amendments to the Consolidation Analysis". This ASU amends the current consolidation guidance, specifically the guidance in determining whether or not an entity is a variable interest entity. We have various limited partnerships which are now considered to be Variable Interest Entities (“VIE”). The only impact of this guidance is to add further note disclosure around the limited partnerships that now are considered VIEs.

Effective January 1, 2016, we adopted ASU 2015-03, "Interest - Simplifying the Presentation of Debt Issuance Costs". This ASU changes the presentation of debt issue costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct reduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. This guidance was applied retrospectively. As a result, certain comparative figures were restated. For the comparative period ending December 31, 2015, $11 million of debt issuance costs formerly held as other assets are classified with long-term senior debt on the Consolidated Statement of Financial Position.

Effective January 1, 2016, we adopted ASU 2015-10, "*Technical Corrections and Improvements*". This ASU represents changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. This guidance was applied prospectively and did not have a material impact to us.

Future accounting policy changes

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*". This ASU provides guidance for changes in criteria for revenue recognition from contracts with customers. This guidance is effective for annual and interim periods beginning after December 15, 2016, and is to be applied retrospectively. In August 2015, the FASB issued ASU 2015-14, "*Revenue from Contracts with Customers - Deferral of the effective date*". This ASU defers the effective date of ASU 2014-09 for all entities by one year. This guidance is therefore effective for annual and interim periods beginning after December 15, 2017. We are currently evaluating the impact of the standard.

In November 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-017, "*Income Taxes: Balance Sheet Classification of Deferred Taxes*". This ASU changes the classification of deferred tax liabilities and assets. Under the ASU, an entity classifies deferred tax liabilities and assets as non-current in the statement of financial position. This guidance is effective for annual and interim periods beginning after December 15, 2016 and is to be applied on a retrospective or prospective basis. We do not expect the standard to have a material impact.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities*". This ASU addresses certain aspects of the guidance regarding recognition, measurement, presentation and disclosure of financial instruments, specifically the guidance for measuring the fair value of equity investments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied by means of a cumulative-effect adjustment to the Statement of Financial Position as of the beginning of the fiscal year of adoption, with amendments related to equity securities without readily determinable fair values to be applied prospectively. We do not expect the standard to have a material impact.

In February 2016, the FASB issued ASU 2016-02, "*Leases*". This ASU addresses the recognition, measurement, presentation and disclosure in the financial statements of the assets and liabilities related to operating leases. This guidance is effective for annual and interim periods beginning after December 15, 2018. We are currently evaluating the impact of the standard.

In March 2016, the FASB issued ASU 2016-07, "*Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting*". This ASU eliminates the requirement for an investor to adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held, in the event that an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. This guidance is effective for annual and interim periods beginning after December 15, 2016, and is to be applied prospectively. We do not expect the standard to have a material impact.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A are not measures recognized under US GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by US GAAP and therefore may not be comparable to similar measures presented by other entities. We caution investors not to construe these non-GAAP financial measures as alternatives to other measures of financial performance calculated in accordance with US GAAP. We further caution investors not to place undue reliance on any one financial measure.

We provide the following non-GAAP financial measures to assist investors with their evaluation of us, including their assessment of our ability to generate distributable cash to fund monthly dividends. We consider these non-GAAP financial measures, together with other financial measures calculated in accordance with US GAAP, to be important factors that assist investors in assessing performance.

Distributable Cash - represents the cash we have available for distribution to common shareholders after providing for debt service obligations, Preferred Share dividends, and any maintenance and sustaining capital expenditures. Distributable cash does not include distribution reserves, if any, available in jointly-controlled businesses, project development costs, or costs incurred in conjunction with acquisitions and dispositions.

Project development costs are discretionary, non-recoverable costs incurred to assess the commercial viability of greenfield business initiatives unrelated to our operating businesses. We consider acquisition and disposition costs, including associated taxes, to be unrelated to our operating businesses. The investment community uses distributable cash to assess the source and sustainability of our dividends. The following is a reconciliation of distributable cash to cash from operating activities.

Reconciliation of Distributable Cash to Cash From Operating Activities

	Three months ended March 31	
($ Millions)	**2016**	2015
Cash from operating activities	**48**	33
Add (deduct):		
Project development costs [(1)]	**40**	18
Change in non-cash working capital and other	**10**	39
Principal repayments on senior notes	**(3)**	(3)
Maintenance capital expenditures	**(1)**	(1)
Distributions earned less than distributions received [(2)]	**(7)**	(1)
Preferred Share dividends	**(6)**	(4)
Distributable cash	**81**	81

(1) Represents costs incurred by us in relation to projects where the recoverability of such costs has not yet been established. Amounts incurred for the three months ended March 31, 2016 relate primarily to the Jordan Cove LNG terminal project, the Pacific Connector Gas Pipeline project, and various other development projects.
(2) Represents the difference between distributions declared by jointly-controlled businesses and distributions received.

Distributable Cash per Common Share - reflects the per common share amount of distributable cash calculated based on the average number of common shares outstanding on each record date.

EBITDA - refers to earnings before interest, tax, depreciation and amortization. EBITDA is reconciled to net income before tax by deducting interest, depreciation and amortization, and asset impairment losses, if any. The investment community uses this measure, together with other measures, to assess the source and sustainability of cash distributions.

Adjusted Net Income attributable to Common Shares - represents net income adjusted for specific items that are significant, but are not reflective of our underlying operations. Specific items are subjective, however, we use our judgement and informed decision-making when identifying items to be included or excluded in calculating adjusted net income. Specific items may include, but are not limited to, certain income tax adjustments, gains or losses on sales of assets, certain fair value adjustments, and asset impairment losses. We believe our use of adjusted net income attributable to Common Shares provides useful information to us and our investors by improving the ability to compare financial results among reporting periods, and by enhancing the understanding of our operating performance and our ability to fund distributions. The following is a reconciliation of adjusted net income attributable to Common Shares to net income attributable to Common Shares.

	Three months ended March 31	
($ Millions)	**2016**	2015
Adjusted net income attributable to Common Shares	**18**	27
Midstream - gain on sale of assets [(1)]	**-**	37
Midstream - unrealized gain (loss) on revaluation of Veresen Midstream debt [(2)]	**24**	(5)
Midstream - unrealized gain (loss) on Veresen Midstream cross currency swap [(3)]	**(23)**	4
Power - unrealized loss on interest rate hedge [(4)]	**(7)**	(5)
Taxes [(5)]	**2**	(8)
Capital gains tax on U.S.-based organizational restructuring [(6)]	**(7)**	-
Net income attributable to Common Shares	**7**	50

Net income attributable to Common Shares includes the following items which are non-operating in nature and/or unusual items and which we do not expect to recur:
(1) Gain on the sale of the Hythe/Steeprock assets to Veresen Midstream on March 31, 2015.

(2) Gain (loss) on the revaluation of US dollar-denominated Term Loan B held by Veresen Midstream.
(3) Gain (loss) on the Veresen Midstream cross currency swap entered into to hedge the impact of changes in foreign exchange and interest rates on the Term Loan B held by Veresen Midstream.
(4) Loss on revaluation of interest rate hedges held by York Energy Centre and Grand Valley II.
(5) The related taxes on the adjusting items described above.
(6) Capital gains tax arising from our U.S.-based organizational restructuring effective January 1, 2016

SELECTED QUARTERLY FINANCIAL INFORMATION

	2016	2015				2014		
($ Millions, except where noted)	**Q1**	Q4	Q3 (1)	Q2 (1)	Q1 (1)	Q4 (1)	Q3 (1)	Q2 (1)
Operating revenues	**37**	40	38	37	72	68	68	79
Net income (loss) attributable to Common Shares	**7**	14	8	(12)	50	21	3	(3)
Net income (loss) per Common Share ($) – basic and diluted	**0.02**	0.05	0.03	(0.04)	0.17	0.08	0.01	(0.01)
Distributable cash	**81**	93	71	65	81	68	55	64
Distributable cash per Common Share ($) – basic and diluted	**0.27**	0.31	0.25	0.22	0.28	0.26	0.24	0.29
Cash from operating activities	**48**	76	77	101	33	71	50	49

(1) Comparative figures in this table have been reclassified. See Note 5 in our December 31, 2014 consolidated financial statements

Significant items that affected quarterly financial results include the following:

- First quarter 2016 reflects strong earnings from Alliance under its new service model, a continuation of low fractionation margins impacting Aux Sable and higher Jordan Cove related spending
- Fourth quarter 2015 reflected a continuation of low fractionation margins at Aux Sable and higher Jordan Cove-related spending.
- Third quarter 2015 reflected lower earnings from Aux Sable driven by low fractionation margins.
- Second quarter 2015 reflected lower earnings from Aux Sable driven by low fractionation margins and the provision recognized relating to Aux Sable customer obligations.
- First quarter 2015 reflected a full quarter of Ruby distributions and higher Jordan Cove-related project development costs.
- Fourth quarter 2014 reflected new distributions received from Ruby, higher Jordan Cove-related project development costs and lower earnings from Aux Sable driven by weak commodity prices.
- Third quarter 2014 reflected lower earnings from Aux Sable and higher Jordan Cove related project development costs.
- Second quarter 2014 reflected lower earnings from Aux Sable and higher project development costs.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President & Chief Executive Officer (CEO) and Senior Vice President, Finance and Chief Financial Officer (CFO), on a timely basis so appropriate decisions can be made regarding public disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision of our CEO and CFO. Based on this evaluation, we concluded the disclosure controls and procedures, as defined in National Instrument 52-109, were effective as of March 31, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. We assessed the design and effectiveness of internal controls over financial reporting as at March 31, 2016, and, based on that assessment, determined the design and operating effectiveness of internal controls over financial reporting was effective. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

No changes were made to internal controls over financial reporting during the period ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Veresen Inc.

Consolidated Statement of Financial Position

(Canadian $ Millions; number of shares in Millions; unaudited)	**March 31, 2016**	**December 31, 2015**
Assets		
Current assets		
Cash and short-term investments	54	58
Restricted cash	7	7
Distributions receivable	42	52
Accounts receivable and other	46	36
	149	153
Investments in jointly-controlled businesses (note 4)	1,396	1,312
Investments held at cost (note 7)	1,857	1,981
Pipeline, plant and other capital assets (note 3)	909	919
Intangible assets (note 3)	147	151
Due from jointly-controlled businesses	42	42
Other assets	5	2
	4,505	4,560
Liabilities		
Current liabilities		
Payables	66	65
Deferred revenue	2	2
Dividends payable	25	25
Current portion of long-term senior debt	12	13
	105	105
Long-term senior debt (note 5)	1,210	1,076
Deferred tax liabilities	255	256
Other long-term liabilities	36	36
	1,606	1,473
Shareholders' Equity		
Share capital (note 6)		
Preferred shares	536	536
Common shares (305 and 299 outstanding at March 31, 2016 and December 31, 2015, respectively)	3,399	3,354
Additional paid-in capital	4	4
Cumulative other comprehensive income	195	359
Accumulated deficit	(1,235)	(1,166)
	2,899	3,087
	4,505	4,560

Commitments and Contingencies (note 10)

Variable Interest Entities (note 11)

See accompanying Notes to the Consolidated Financial Statements

Veresen Inc.

Consolidated Statement of Income

(Canadian $ Millions, except per Common Share amounts (note 6); unaudited)	Three months ended March 31 2016	2015
Equity income (note 4)	47	30
Dividend income	31	28
Operating revenues	37	72
Operations and maintenance	(15)	(28)
General and administrative	(13)	(12)
Project development	(40)	(18)
Depreciation and amortization	(13)	(20)
Interest and other finance	(12)	(16)
Foreign exchange and other (note 7)	-	2
Gain on sale of assets (note 3)	-	37
Net income before tax	22	75
Current tax	(2)	(20)
Deferred tax	(7)	(1)
Net income	13	54
Preferred Share dividends	(6)	(4)
Net income attributable to Common Shares	7	50
Net income per Common Share	0.02	0.17

Consolidated Statement of Comprehensive Income (Loss)

(Canadian $ Millions; unaudited)	Three months ended March 31 2016	2015
Net income	13	54
Other comprehensive income		
Unrealized foreign exchange gain (loss) on translation	(164)	202
Other comprehensive income (loss)	(164)	202
Comprehensive income (loss)	(151)	256
Preferred Share dividends	(6)	(4)
Comprehensive income (loss) attributable to Common Shares	(157)	252

See accompanying Notes to the Consolidated Financial Statements

Veresen Inc.

Consolidated Statement of Cash Flows

(Canadian $ Millions; unaudited)	Three months ended March 31 2016	2015
Operating		
Net income	13	54
Equity income	(47)	(30)
Distributions from jointly-controlled businesses	68	52
Depreciation and amortization	13	20
Foreign exchange and other non-cash items	2	3
Deferred tax	7	1
Gain on sale of assets (note 3)	-	(37)
Changes in non-cash working capital (note 9)	(8)	(30)
	48	33
Investing		
Proceeds from sale of assets (note 3)	-	420
Proceeds from sale of discontinued operations	-	34
Investments in jointly-controlled businesses	(136)	(14)
Return of capital from jointly-controlled businesses	1	25
Pipeline, plant and other capital assets	(8)	(26)
Other	-	(2)
	(143)	437
Financing		
Long-term debt repaid	(2)	(422)
Net change in credit facilities	132	2
Common Share dividends paid	(30)	(24)
Preferred Share dividends paid	(6)	(4)
	94	(448)
Increase (decrease) in cash and short-term investments	(1)	22
Effect of foreign exchange rate changes on cash and short-term investments	(3)	5
Cash and short-term investments at the beginning of the period	58	51
Cash and short-term investments at the end of the period	54	78

See accompanying Notes to the Consolidated Financial Statements

Veresen Inc.

Consolidated Statement of Shareholders' Equity

	Three months ended March 31	
(Canadian $ Millions; unaudited)	**2016**	**2015**
Preferred Shares		
Balance at the beginning and end of the period	536	342
Common Shares		
January 1	3,354	3,186
Common Shares issued under Premium Dividend and Dividend Reinvestment Plan ("DRIP")	45	32
Balance at the end of the period	3,399	3,218
Additional paid-in capital		
Balance at the beginning and end of the period	4	4
Cumulative other comprehensive income (loss)		
January 1	359	(65)
Other comprehensive income (loss)	(164)	202
Balance at the end of the period	195	137
Accumulated deficit		
January 1	(1,166)	(935)
Net income	13	54
Preferred Share dividends	(6)	(4)
Common Share dividends	(76)	(72)
Balance at the end of the period	(1,235)	(957)
Shareholders' Equity	2,899	2,744

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Three months ended March 31, 2016 and 2015
(Canadian $ Millions, except where noted; unaudited)

1. Basis of Presentation

These unaudited interim consolidated financial statements of Veresen Inc. (“Veresen” or the “Company”) have been prepared by management in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Amounts are stated in millions of Canadian dollars unless otherwise indicated.

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, financial instruments and taxes. Actual amounts could differ from these estimates. Significant estimates used in the preparation of these consolidated financial statements relate to the determination of any impairment in the carrying value of long-term assets, the estimated useful lives over which certain assets are depreciated or amortized, and the measurement of asset retirement obligations, and contingencies.

These consolidated financial statements include the accounts of the Company and its subsidiaries. The Company consolidates its interest in entities over which it is able to exercise control. To the extent there are interests owned by other parties, the other parties’ interests are included in Non-Controlling Interest. Veresen accounts for its jointly-controlled businesses using the equity method, and its investment in Ruby Pipeline Holding Company LLC ("Ruby") using the cost method.

Other than as described in note 2, the accounting policies applied are consistent with those outlined in Veresen’s annual audited consolidated financial statements for the year ended December 31, 2015. The year-end balance sheet data was derived from audited financial statements but these interim financial statements do not include all disclosures required by US GAAP and should be read in conjunction with the December 31, 2015 audited consolidated financial statements. Operating results for the three months ended March 31, 2016 and March 31, 2015 are not necessarily indicative of the results for the full year.

In management’s opinion the interim consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which management considers necessary to present fairly the Company’s financial position as at March 31, 2016 and results of operations and cash flows for the three months ended March 31, 2016 and 2015.

2. New Accounting Pronouncements

Adoption of New Standards

Effective January 1, 2016, the Company adopted Accounting Standards Update (“ASU”) 2014-10, "*Development Stage Entities: Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*". This ASU eliminates the concept of a development-stage entity from US GAAP along with the associated presentation and disclosure requirements for development-stage entities. The consolidation guidance was also amended to eliminate the development stage entity relief when applying the variable interest entity model and evaluating the sufficiency of equity at risk. This guidance was applied retrospectively and did not have a material impact to the Company.

Effective January 1, 2016, the Company adopted ASU 2014-16, “*Derivatives and Hedging*.” This ASU provides guidance to clarify the criteria in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. This guidance was applied retrospectively and did not have a material impact to the Company.

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Effective January 1, 2016, the Company adopted ASU 2015-03, "Interest - Simplifying the Presentation of Debt Issuance Costs". This ASU changes the presentation of debt issue costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct reduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. This guidance was applied retrospectively. As a result, certain comparative figures were restated. For the comparative period ending December 31, 2015, $11 million of debt issuance costs formerly held as other assets are classified with long-term senior debt on the Consolidated Statement of Financial Position.

Effective January 1, 2016, the Company adopted ASU 2015-10, "*Technical Corrections and Improvements*". This ASU represents changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. This guidance was applied prospectively and did not have a material impact to the Company.

Future accounting policy changes

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In November 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-017, "*Income Taxes: Balance Sheet Classification of Deferred Taxes*". This ASU changes the classification of deferred tax liabilities and assets. Under the ASU, an entity classifies deferred tax liabilities and assets as non-current in the statement of financial position. This guidance is effective for annual and interim periods beginning after December 15, 2016 and is to be applied on a retrospective or prospective basis. The Company does not expect the standard to have a material impact.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities*". This ASU addresses certain aspects of the guidance regarding recognition, measurement, presentation and disclosure of financial instruments, specifically the guidance for measuring the fair value of equity investments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and is to be applied by means of a cumulative-effect adjustment to the Statement of Financial Position as of the beginning of the fiscal year of adoption, with amendments related to equity securities without readily determinable fair values to be applied prospectively. The Company does not expect the standard to have a material impact.

In February 2016, the FASB issued ASU 2016-02, "*Leases*". This ASU addresses the recognition, measurement, presentation and disclosure in the financial statements of the assets and liabilities related to operating leases. This guidance is effective for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact of the standard.

In March 2016, the FASB issued ASU 2016-07, "*Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting*". This ASU eliminates the requirement for an investor to adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held, in the event that an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. This guidance is effective for annual and interim periods beginning after December 15, 2016, and is to be applied prospectively. The Company does not expect the standard to have a material impact.

3. Veresen Midstream Transaction

On December 22, 2014, a new entity, Veresen Midstream L.P. ("Veresen Midstream") was formed, which is jointly-controlled by the Company and affiliates of Kohlberg Kravis Roberts & Co L.P. ("KKR"), a global investment firm. On March 31, 2015, the Company funded its interest in Veresen Midstream by contributing its Hythe/Steeprock gathering and processing assets valued at $920 million, and in exchange received from Veresen Midstream $420 million in cash, resulting in a 50% equity position valued at $500 million. As at March 31, 2015, the net book value of the Hythe/Steeprock assets contributed was $839 million, resulting in a pre-tax gain on sale to the Company of $37 million attributable to the monetary portion of the transaction. KKR funded its 50% interest in Veresen Midstream by contributing $500 million in cash.

All of the Company's and half of KKR's Veresen Midstream equity are held in partnership units that are eligible to receive cash distributions. The remaining half of KKR's initial equity investment is in the form of payment-in-kind ("PIK") units which do not receive cash distributions and instead accrete at a rate equal to the cash yield on the remaining equity plus 4% per year. The PIK units are convertible to cash-paying units after four years at either KKR's or the Company's option. Such conversion of the PIK units will cause dilution in the Company's ownership interest in Veresen Midstream. As a result of cash distributions paid by Veresen Midstream, the Company's ownership decreased from 50% as at March 31, 2015 to 48.1% as at March 31, 2016. The Company and KKR will have equal governance rights in Veresen Midstream so long as either partner's equity interest remains above 35%.

4. Investments in Jointly-Controlled Businesses

Condensed financial information (100%) for the Company's jointly-controlled businesses:

	As at March 31, 2016					Three months ended March 31, 2016				As at March 31, 2016	Three months ended March 31, 2016
100%	**Current Assets**	**Non-Current Assets**	**Current Liabilities[1]**	**Non-Current Liabilities[1]**	**Senior Debt**	**Revenues**	**Expenses**	**Profit (Loss) before Tax**	**Owner-ship (%)**	**Equity Investment**	**Equity Income (Loss)**
Alliance Canada [2]	181	1,164	45	29	951	135	80	55	50	187	26
Alliance U.S. [3] [7]	95	1,150	49	15	586	111	61	50	50	256	25
Aux Sable Canada	28	105	38	7	-	93	93	-	50	44	-
ASLP [4] [7]	47	602	158	3	-	34	39	(5)	43	173	(1)
ASM [7]	23	294	19	-	-	54	53	1	43	127	-
ACM	10	-	12	-	-	21	25	(4)	43	(1)	(1)
York Energy Centre [5]	15	256	10	52	241	15	19	(4)	50	22	(2)
Grand Valley	15	171	2	7	150	8	9	(1)	75	20	(1)
Veresen Midstream [6]	189	2,157	31	20	1,137	62	54	8	48	518	4
Other [7]	11	131	3	6	33	4	8	(4)	50	50	(3)
										1,396	**47**

100%	Current Assets	Non-Current Assets	Current Liabilities (1)	Non-Current Liabilities (1)	Senior Debt	Revenues	Expenses	Profit (Loss) before tax	Owner-ship (%)	Equity Investment	Equity Income (Loss)
	As at December 31, 2015					Three months ended March 31, 2015				As at December 31, 2015	Three months ended March 31, 2015
Alliance Canada (2)	132	1,177	33	24	954	118	86	32	50	178	14
Alliance U.S. (3) (7)	73	1,247	53	19	600	102	65	37	50	271	18
Aux Sable Canada	42	107	55	8	-	122	116	6	50	44	3
ASLP (4) (7)	48	620	168	6	-	41	37	4	43	171	2
ASM (7)	26	315	22	1	-	68	64	4	43	136	2
ACM	5	-	3	-	-	37	41	(4)	43	1	(1)
York Energy Centre (5)	15	265	10	44	247	20	25	(5)	50	27	(3)
Grand Valley	22	179	16	4	149	2	1	1	75	24	1
Veresen Midstream (6)	77	2,145	57	20	1,215	(1)	-	(1)	49	410	(1)
Other (7)	9	133	2	6	33	3	10	(7)	50	50	(5)
										1,312	**30**

Upon acquisition of investments accounted for under the equity method, the Company prepared purchase price allocations of the purchase price to the assets and liabilities of the underlying investee and adjusts equity method earnings for the amortization of purchase price adjustments allocated to depreciable assets.

(1) Current liabilities and non-current liabilities exclude senior debt.
(2) At March 31, 2016, the Company had a $47 million (December 31, 2015 - $48 million) increase in the carrying value of Alliance Canada compared to the underlying equity in the net assets primarily resulting from the purchase price discrepancy as part of the acquisitions in 1997, 2002, and 2003 resulting in 50% ownership.
(3) At March 31, 2016, the Company had a US$14 million (December 31, 2015 - US$ 14 million) decrease in the carrying value of Alliance U.S. compared to the underlying equity in the net assets primarily resulting from the purchase price discrepancy as part of the acquisitions in 1997, 2002, and 2003 resulting in 50% ownership.
(4) At March 31, 2016, the Company had a US$27 million (December 31, 2015 - US$ 28 million) decrease in the carrying value of ASLP compared to the underlying equity in the net assets primarily resulting from the purchase price discrepancy as part of the acquisitions in 1997, 2002, and 2003 resulting in 42.7% ownership. During the year ended December 31, 2015 a $32 million provision was recognized in respect of potential adjustments relating to customer obligations and a US$3 million provision was recognized related to an alleged violation of the United States Environmental Protection Agency's ("EPA") Clean Air Act.
(5) At March 31, 2016, the Company had a $40 million (December 31, 2015 - $41 million) increase in the carrying value of York Energy Centre compared to the underlying equity in the net assets primarily resulting from the purchase price discrepancy as part of the acquisition in 2010 resulting in 50% ownership. Expenses include unrealized gains or losses on the interest rate hedge (note 7).
(6) At March 31, 2016, the Company had a $40 million (December 31, 2015 - $42 million) decrease in the carrying value of Veresen Midstream compared to the underlying equity in the net assets primarily resulting from the unrecognized gain on sale relating to the non-monetary portion of the Veresen Midstream transaction, which, on the date of acquisition, March 31, 2015, resulted in 50% ownership.
(7) Assets and liabilities of these investments have been translated into Canadian dollars using the exchange rate in effect at the balance sheet date and revenues and expenses have been translated into Canadian dollars at average exchange rates during the period.

5. Long-term Debt

The $750 million Revolving Credit Facility matures on May 31, 2019. Outstanding advances bear interest based on various quoted floating rates plus a margin. At March 31, 2016, the Facility was drawn by $279 million (December 31, 2015 - $148 million).

6. Share Capital

Common Shares

The weighted average number of Common Shares outstanding used to determine net income per Common Share on a basic and diluted basis for the three months ended March 31, 2016 was 301,513,067 (2015 – 286,311,751).

Preferred Shares
On April 1, 2015, the Company issued 8 million Cumulative Redeemable Preferred Shares, Series E ("Series E Preferred Shares") at a price of $25 per Series E Preferred Share. The holders of Series E Preferred Shares are entitled to receive fixed cumulative preferential cash dividends at an annual rate of 5.00%, payable quarterly for an initial period up to but excluding June 30, 2020, if and when declared by the Board of Directors. The dividend rate will reset on June 30, 2020 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield plus 4.27%. The Series E Preferred Shares are redeemable by the Company, at the Company's option, on June 30, 2020 and on June 30 of every fifth year thereafter.

Holders of Series E Preferred Shares have the right to convert all or any part of their shares into Cumulative Redeemable Preferred Shares, Series F ("Series F Preferred Shares") subject to certain conditions, on June 30, 2020 and on June 30 of every fifth year thereafter. The holders of Series F Preferred Shares are entitled to receive quarterly floating rate cumulative dividends at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate plus 4.27%.

7. Fair Value Measurement and Derivative Financial Instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of financial instruments included in cash and short-term investments, restricted cash, distributions receivable, accounts receivable, due from jointly-controlled businesses, other assets, payables, dividends payable, and other long-term liabilities approximate their carrying amounts due to the nature of the item and/or the short time to maturity. The fair value of the investment held at cost is based on a number of factors, including the present value of anticipated distributable cash flows to be produced from the underlying operations of the Ruby investment. Assessing these cash flows required the use of assumptions related to the future demand for Ruby's operations, forecasted commodity prices and interest rates, anticipated economic conditions, timing of conversion of the preferred interest into a common equity interest, and other inputs, many of which are not available as observable market data. The fair values of senior debt are calculated by discounting future cash flows using discount rates estimated based on government bond rates plus expected spreads for similarly-rated instruments with comparable risk profiles.

The carrying value of investments held at cost are accounted for under the cost method. As part of the Company's impairment review, the Company performs a fair value assessment of the Company's investments held at cost on an annual basis using the most currently available information.

US GAAP establishes a fair value hierarchy that distinguishes between fair values developed based on market data obtained from sources independent of the reporting entity, and fair values developed using the reporting entity's own assumptions based on the best information available in the circumstances. The levels of the fair value hierarchy are:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs are other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Inputs are not based on observable market data.

Veresen has categorized senior debt as Level 2. At March 31, 2016 senior debt had a carrying value of $1,222 million (December 31, 2015 – $1,089 million) and fair value of $1,262 million (December 31, 2015 – $1,143 million). The investment held at cost is categorized as Level 3. At March 31, 2016 the investment held at cost had a carrying value of $1,857 million (December 31, 2015 - $1,981 million) and a fair value of $1,856 million (December 31, 2015 - $2,010 million). The investment held at cost is denominated in US dollars and fluctuations in exchange rates will result in changes to its carrying value.

Financial instruments measured at fair value as at March 31, 2016 were:

	Level 1	Level 2	Level 3	Total
Cash and short-term investments		54		54
Restricted cash		7		7

Interest Rate Hedges

Veresen and its jointly-controlled businesses periodically enter into interest rate hedges to manage interest rate exposures. As at March 31, 2016, York Energy Centre Limited Partnership ("York Energy Centre") and Grand Valley II Limited Partnership ("Grand Valley II"), both jointly-controlled businesses, had interest rate hedges. Future changes in interest rates will affect the fair value of the hedges, impacting the amount of unrealized gains or losses included in equity income from jointly-controlled businesses recognized in the period.
The following is a summary of the interest rate hedges in place as at March 31, 2016:

Jointly-Controlled Business	Variable Debt Interest Rate	Fixed Rate	Notional Amount [1]	Fair Value [1]	Term
York Energy Centre	CAD-BA-CDOR	4.36%	$121	$(26)	April 30, 2012 to June 30, 2032
Grand Valley II	CAD-BA-CDOR	2.31%	$85	$(5)	December 31, 2015 to December 31, 2033

The following is a summary of the interest rate hedge in place as at December 31, 2015:

Jointly-Controlled Business	Variable Debt Interest Rate	Fixed Rate	Notional Amount [1]	Fair Value [1]	Term
York Energy Centre	CAD-BA-CDOR	4.36%	$122	$(22)	April 30, 2012 to June 30, 2032
Grand Valley II	CAD-BA-CDOR	2.31%	$86	$(2)	December 31, 2015 to December 31, 2033

The fair values approximate the amount that York Energy Centre and Grand Valley II would have either paid or received to settle the contract, and are included in the Company's investments in York Energy Centre and Grand Valley II.

Cross Currency Swaps

As at March 31, 2016, Veresen Midstream, a jointly-controlled business, had one cross currency swap ("Swap"). This Swap was entered into to manage the exposure to changes in interest rates and foreign exchange whereby Veresen Midstream receives variable interest rates denominated in US dollars and pays fixed interest rates denominated in Canadian dollars. The Swap had an initial notional amount of US$575 million which declines over the 4 year swap facility, ending March 31, 2019. On May 28, 2015, resulting from the re-pricing of Veresen Midstream's US dollar denominated Term Loan, the Swap was amended and made effective March 31, 2015, resulting in a reduction of 75 basis points. Future changes in interest rates and exchange rates will affect the fair value of the Swap, impacting the amount of unrealized gains or losses included in equity income from jointly-controlled businesses recognized in the period.

The following is a summary of the cross currency swap in place as at March 31, 2016:

Jointly-Controlled Business	Variable Debt Interest Rate	Fixed Rate	Notional Amount [2]	Fair Value [2]	Term
Veresen Midstream	USD-BA-LIBOR	5.81%	$355	$9	March 31, 2015 to March 31, 2019

The following is a summary of the cross currency swap in place as at December 31, 2015:

Jointly-Controlled Business	Variable Debt Interest Rate	Fixed Rate	Notional Amount (2)	Fair Value (2)	Term
Veresen Midstream	USD-BA-LIBOR	5.81%	$383	$32	March 31, 2015 to March 31, 2019

The fair values approximate the amount that Veresen Midstream would have either paid or received to settle the contract, and are included in the Company's investment in Veresen Midstream.

(1) Veresen's interest in the York Energy Centre and Grand Valley II jointly-controlled businesses is 50% and 75% respectively.
(2) Veresen's interest in Veresen Midstream varies for items recognized within the consolidated statement of financial position and the consolidated statement of income. For the purposes of recognizing items in the consolidated statement of financial position, Veresen's ownership interest is based on Veresen's holdings on a fully diluted basis, as at the date of the statement of financial position. As at March 31, 2016, this ownership interest is 48.1%. For the purposes of recognizing items in the consolidated statement of income, Veresen's ownership interest is based on the weighted average of Veresen's holdings on a fully diluted basis during the financial statement period. For the three month period ended March 31, 2016 this ownership interest is 48.5%.

8. Segmented Information

	Pipelines		**Midstream**		**Power**		**Corporate[1]**		**Total**	
Three months ended March 31	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Equity income (loss)	**51**	32	**2**	5	**(3)**	(4)	**(3)**	(3)	**47**	30
Dividend income	**31**	28	**-**	-	**-**	-	**-**	-	**31**	28
Operating revenues	**12**	12	**-**	33	**25**	27	**-**	-	**37**	72
Operations and maintenance	**(5)**	(5)	**-**	(11)	**(10)**	(12)	**-**	-	**(15)**	(28)
General and administrative	**(1)**	-	**-**	(1)	**(3)**	(3)	**(9)**	(8)	**(13)**	(12)
Project development	**-**	-	**-**	-		-	**(40)**	(18)	**(40)**	(18)
Depreciation and amortization	**(3)**	(3)	**-**	(10)	**(9)**	(7)	**(1)**	-	**(13)**	(20)
Interest and other finance	**(1)**	(2)	**-**	-	**(3)**	(2)	**(8)**	(12)	**(12)**	(16)
Foreign exchange and other	**-**	-	**-**	-	**-**	-	**-**	2	**-**	2
Gain on sale of assets	**-**	-	**-**	37	**-**	-	**-**	-	**-**	37
Net income (loss) before tax from continuing operations	**84**	62	**2**	53	**(3)**	(1)	**(61)**	(39)	**22**	75
Tax recovery (expense)[2]	**-**	-	**-**	-	**1**	-	**(10)**	(21)	**(9)**	(21)
Net income (loss)	**84**	62	**2**	53	**(2)**	(1)	**(71)**	(60)	**13**	54
Preferred Share dividends	**-**	-	**-**	-	**-**	-	**(6)**	(4)	**(6)**	(4)
Net income (loss) attributable to Common Shares	**84**	62	**2**	53	**(2)**	(1)	**(77)**	(64)	**7**	50
Total assets[3]	**2,539**	2,523	**899**	866	**1,057**	1,028	**10**	121	**4,505**	4,538
Capital expenditures[4]	**-**	-	**5**	4	**2**	19	**1**	3	**8**	26

(1) Reflects unallocated amounts applicable to Veresen's head office activities.
(2) The Company holds its ownership interests in multiple business lines through partnerships, which are consolidated into various corporate entities. Consequently, the tax provision is determined on a consolidated basis and, as such, the Company is not able to present income tax by segment.
(3) After giving effect to intersegment eliminations and allocations to businesses.
(4) Reflects capital expenditures related only to wholly-owned and majority-controlled businesses.

9. Supplemental Cash Flow Information

	Three months ended March 31	
	2016	**2015**
Receivables	(7)	(37)
Other assets	(3)	1
Payables	2	6
Changes in non-cash operating working capital	(8)	(30)

10. Commitments and Contingencies

The Court of Appeal for Ontario denied Veresen's appeal of a portion of the decision issued in 2015 by an Ontario court in respect of an option held by Energy Fundamentals Group Inc. ("EFG") to acquire up to 20% of Veresen's equity interest in the Jordan Cove LNG terminal. Veresen will not appeal this matter further and will determine the information to be provided to EFG in connection with the option in compliance with the terms of the original decision.

On April 15, 2015, Aux Sable received a Notice and Finding of Violation from the United States Environmental Protection Agency ("EPA") for exceedances of permitted limits for Volatile Organic Compounds at Aux Sable's Channahon, Illinois Facility. Aux Sable is engaged in discussions with the EPA to resolve the matter. The initial EPA proposal confirms the settlement will not be material to earnings.

On March 30, 2012, a Statement of Claim was filed against the Company's equity-accounted investees, Aux Sable Liquid Products, L.P., Aux Sable Canada L.P., Aux Sable Extraction LP and Aux Sable Canada Ltd., relating to differences in interpretation of certain terms of the NGL Sales Agreement. The Company's equity-accounted investees were served with this Statement of Claim on March 18, 2013. Further potential differences in interpretation of certain terms of the NGL Sales Agreement have also been identified on additional years not currently the subject of any claims. At this time, the Company is unable to predict the likely outcome of this matter. The Company will continue to assess the matter and the amount of loss accrued may change in the future.

11. Variable Interest Entity

As a result of adopting ASU 2015-02, a number of entities controlled by the Company are now considered to be VIEs. The Company consolidates VIEs in which it has a variable interest and for which it is considered to be the primary beneficiary. VIEs in which the Company has a variable interest but is not the primary beneficiary are accounted for as equity investments.

Consolidated VIEs

Under the new consolidation standard, a certain number of the Company's wholly-owned and controlled limited partnerships will continue to be consolidated, but are now deemed to be VIEs. For these limited partnerships, the Company has the power to direct activities that most significantly impact its economic performance and the obligation to absorb losses or the right to receive benefits. On an aggregate basis, as at March 31, 2016 these VIEs have total assets of $394 million (December 31, 2015 - $387 million) and total liabilities of $277 million (December 31, 2015 - $273 million), of which $239 million (December 31, 2015 - $241 million) relates to non-recourse debt. The assets of these VIEs must first be used for the settlement of the VIEs' obligations.

Non-consolidated VIEs
The company's non-consolidated VIE consist of one legal entity, Veresen Midstream, where the Company does not have the power to direct activities that most significantly impact the economic performance of this VIE. The Company is not the primary beneficiary and, consequently, this entity is accounted for as an equity investment (note 4). The maximum exposure to loss as a result of the Company's involvement with this VIE is limited to the carrying value of the investment (note 4). None of the Company's other jointly-controlled businesses are classified as VIEs.

12. Subsequent Events

Dividends
On April 20, 2016, the Company declared its April dividend of $0.0833 per Common Share, payable on May 20, 2016 to shareholders of record on April 29, 2016.