UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) **November 16, 2015**

Black Hills Corporation
(Exact name of registrant as specified in its charter)

South Dakota
(State or other jurisdiction of incorporation)

001-31303 (Commission File Number)	**46-0458824** (IRS Employer Identification No.)
625 Ninth Street **Rapid City, South Dakota** (Address of principal executive offices)	**57709-1400** (Zip Code)

605.721-1700
(Registrants telephone number, indicating area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting materials pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(d))

o Pre-commencement communications pursuant to Rule 13e-e(c) under the Exchange Act (17 CFR 240.13e-4(c)

Item 8.01 Other Events.

Black Hills Corporation is filing this Current Report on Form 8-K to provide certain pro forma financial information with respect to SourceGas Holdings LLC (“SourceGas”), and the pending acquisition by Black Hills Corporation of SourceGas and related financings related thereto. As previously disclosed in its’ Current Report on Form 8-K filed on July 14, 2015, Black Hills Corporation has entered into a definitive agreement to acquire SourceGas from investment funds managed by Alinda Capital Partners and GE Energy Financial Services, a unit of General Electric Co. for a purchase price of approximately $1.89 billion. In connection with entering into the agreement to acquire SourceGas, Black Hills Corporation entered into a bridge term loan agreement with Credit Suisse as the Administrative Agent and 10 additional banks, collectively, for commitments totaling $1.17 billion.

The agreement for the acquisition of SourceGas is subject to regulatory approvals from public utility regulators in Wyoming, Colorado, Nebraska and Arkansas. Completion of the acquisition is also subject to various provisions including representations, warranties, and covenants with respect to Wyoming, Colorado, Nebraska and Arkansas utility businesses that are subject to customary conditions and limitations. The acquisition received Hart-Scott-Rodino clearance from the Federal Trade Commission on August 18, 2015. On August 10, 2015, Black Hills filed joint applications with the public utility regulators in Wyoming, Colorado, Nebraska and Arkansas. The discovery process with all four state commissions is ongoing and the acquisition is expected to close during the first half of 2016.

Black Hills Corporation is filing the information under this Item 8.01 solely to file historical financial statements of SourceGas and the unaudited pro forma combined condensed financial statements, which give pro forma effect to the SourceGas acquisition described above and related financings as if the acquisition of SourceGas and the related financings occurred on January 1, 2014.

This Item 8.01 contains:

- Historical financial statements of SourceGas in accordance with Rule 3-05 of Regulation S-X, included as exhibits 99.1 and 99.2, which are incorporated herein by reference; and

- Pro forma financial information of Black Hills Corporation and SourceGas on a combined basis in accordance with Article 11 of Regulation S-X giving effect to certain pro forma events relating to Black Hills Corporation's pending acquisition of SourceGas, included as Exhibit 99.3 hereto, which is incorporated by reference.

This Current Report on Form 8-K contains statements reflecting assumptions, expectations, projections, intentions or beliefs about future events that are intended as "forward-looking statements." We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Current Report on Form 8-K that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. This includes, without limitations, completion of the acquisition of SourceGas and the related financings. These forward-looking statements are based on assumptions which we believe are reasonable based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in Item 1A of Part I of our 2014 Annual Report on Form 10-K for the year ended December 31, 2014, as amended by Form 10-K/A filed on August 7, 2015, in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, and in other reports that we file with the SEC from time to time.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business acquired

Filed herewith are the following financial statements of SourceGas

- Audited Financial Statements of SourceGas as of and for the year ended December 31, 2014 attached hereto; and

- Unaudited Financial Statements of SourceGas as of and for the nine months ended September 30, 2015.

(b) Pro Forma Financial Information

Filed herewith is the following pro forma financial information:

Unaudited Pro Forma Combined Condensed Statements of Income for the nine months ended September 30, 2015 and for the year ended December 31, 2014 and Unaudited Pro Forma Combined Condensed Balance Sheet as of September 30, 2015.

(d) Exhibits

The following exhibits are filed herewith:

23.1 Consent of Independent Registered Public Accounting Firm

99.1 Audited financial statements of SourceGas Holdings LLC as of and for the year ended December 31, 2014

99.2 Unaudited financial statements of SourceGas Holdings LLC as of and for the nine months ended September 30, 2015

99.3 Unaudited Pro Forma Combined Condensed Statements of Income for the nine months ended September 30, 2015 and for the year ended December 31, 2014 and Unaudited Pro Forma Combined Condensed Balance Sheet as of September 30, 2015 of Black Hills Corporation and SourceGas Holdings LLC

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BLACK HILLS CORPORATION

By: /s/ Richard W. Kinzley
Richard W. Kinzley
Senior Vice President
and Chief Financial Officer

Date: November 16, 2015

Exhibit Index

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Audited financial statements of SourceGas Holdings LLC as of and for the year ended December 31, 2014
99.2	Unaudited financial statements of SourceGas Holdings LLC as of and for the nine months ended September 30, 2015
99.3	Unaudited Pro Forma Combined Condensed Statements of Income for the nine months ended September 30, 2015 and for the year ended December 31, 2014 and Unaudited Pro Forma Combined Condensed Balance Sheet as of September 30, 2015 of Black Hills Corporation and SourceGas Holdings LLC

Exhibit 23.1

Consent of Independent Auditors

The Board of Directors
SourceGas Holdings LLC:

We consent to the incorporation by reference in the registration statements (Nos. 333-197895 and 333-197894) on Form S-3 and (Nos. 333-61969, 333-170451, 333-125697, 333-170448 and 333-170452) on Form S-8 of Black Hills Corporation of our report dated March 26, 2015, with respect to the consolidated balance sheet of SourceGas Holdings LLC as of December 31, 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year ended December 31, 2014, which report appears in the Form 8-K of Black Hills Corporation dated November 16, 2015 and the reference to our firm under the heading "Experts" in the registration statement No. 333-197895 on Form S-3.

(Signed) KPMG LLP

Denver, Colorado
November 13, 2015

SOURCEGAS HOLDINGS LLC

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
AND REPORT OF INDEPENDENT AUDITORS

Independent Auditors' Report

The Board of Directors
SourceGas Holdings LLC:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SourceGas Holdings LLC and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SourceGas Holdings LLC and its subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

(signed) KPMG LLP

Denver, Colorado
March 26, 2015

SOURCEGAS HOLDINGS LLC
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2014

		(In thousands) 2014
ASSETS		
Current assets:		
Cash	$	3,806
Trade accounts receivable (less allowance for doubtful accounts of $2,122)		103,062
Gas in underground storage		15,686
Regulatory assets		16,885
Inventories		6,423
Deferred income taxes, net		8,948
Prepayments		4,321
Other current assets		6,196
Total current assets		165,327

Property, plant and equipment, net		840,189
Goodwill		384,229
Regulatory assets		28,639
Other assets		4,435
Total assets	$	1,422,819
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$	68,959
Interest accrued		6,221
Taxes accrued		4,745
Regulatory liabilities		5,010
Derivative instruments		13,213
Customer deposits		12,372
Deferred revenue		5,780
Other		23,026
Total current liabilities		139,326
Derivative instruments		3,651
Deferred income taxes, net		44,012
Other liabilities		39,656
Long-term debt, net		858,869
Total liabilities		1,085,514
Equity:		
Members' capital		345,458
Accumulated other comprehensive loss		(8,153)
Total equity		337,305
Total liabilities and equity	$	1,422,819

See accompanying notes to consolidated financial statements.

SOURCEGAS HOLDINGS LLC
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2014

		(In thousands) 2014
Operating revenues:		
Regulated natural gas sales	$	300,663
Regulated transportation and storage		88,821
Other regulated operating revenues		5,575
Unregulated and other revenues		97,069
Total operating revenues		492,128
Operating costs and expenses:		
Purchases and other costs of sales		252,940
Operation and maintenance		71,297
General and administrative		50,641
Depreciation and amortization		41,003
Taxes, other than income taxes		7,694
Total operating costs and expenses		423,575
Operating income		68,553
Other income (expense):		
Interest income		386
Interest expense and other financing costs		(32,511)
Other, net		1,375
Total other income (expense), net		(30,750)
Income before income taxes		37,803
Income tax provision		(2,941)
Net income	$	34,862

See accompanying notes to consolidated financial statements.

SOURCEGAS HOLDINGS LLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2014

	(In thousands) 2014
Net income	$ 34,862
Other comprehensive income:	
Derivative instruments designated as cash flow hedges:	
Unrealized losses on commodity derivatives, net of tax of $258	(395)
Reclassification of net realized gains on commodity derivatives into purchases and other costs of sales, net of tax of $480	(733)
Reclassification of net realized losses on commodity derivatives into unregulated revenues, net of tax of tax of $(38)	57
Unrealized losses on interest rate swaps	(2,130)
Reclassification of net realized losses on interest rate swaps into net income	4,624
Other comprehensive income	1,423
Comprehensive income	$ 36,285

See accompanying notes to consolidated financial statements.

SOURCEGAS HOLDINGS LLC
CONSOLIDATED STATEMENT OF EQUITY
YEAR ENDED DECEMBER 31, 2014

(In thousands)

	Class A Member	Class B Members	Members' Capital Total	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2013	$ 175,798	$ 175,798	$ 351,596	$ (9,576)	$ 342,020
Comprehensive income	17,431	17,431	34,862	1,423	36,285
Distributions to members	(20,500)	(20,500)	(41,000)	—	(41,000)
Balance, December 31, 2014	$ 172,729	$ 172,729	$ 345,458	$ (8,153)	$ 337,305

See accompanying notes to consolidated financial statements.

SOURCEGAS HOLDINGS LLC
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

	(In thousands) 2014
Cash flows from operating activities:	
Net income	$ 34,862
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	41,003
Deferred income taxes, net	9,411
Unrealized derivative losses	3,402
Other adjustments	4,131
Changes in operating assets and liabilities:	
Trade accounts receivable	(5,176)
Gas in underground storage	(2,567)
Regulatory assets and liabilities	(14,182)
Other assets	(1,204)
Trade accounts payable	(177)
Accrued expenses and other liabilities	(961)
Net cash provided by operating activities	68,542
Cash flows for investing activities:	

Capital expenditures		(121,657)
Other, net		5,219
Net cash used in investing activities		(116,438)
Cash flows from financing activities:		
Payments on term loans		(70,000)
Net borrowings on revolving credit facility		43,600
Proceeds from long-term debt		115,000
Payment of debt issuance costs		(1,015)
Distributions to members		(41,000)
Net cash provided by financing activities		46,585
Net decrease in cash		(1,311)
Cash at beginning of year		5,117
Cash at end of year	$	3,806
Supplemental cash flow information:		
Cash paid for interest	$	31,882
Cash paid for income taxes, net	$	428
Capital expenditures included in trade accounts payable	$	11,225

See accompanying notes to consolidated financial statements.

SourceGas Holdings LLC
Notes to Consolidated Financial Statements
Year Ended December 31, 2014

1. Organization and Business

SourceGas Holdings LLC ("SourceGas Holdings") and its wholly owned subsidiary, SourceGas LLC, were formed as Delaware limited liability companies in September 2006. As used herein, the terms "the Company" and "SourceGas" refer to SourceGas Holdings and its consolidated subsidiaries, collectively.

SourceGas is a natural gas utility company providing distribution, transportation, storage and sales to a diverse mix of customers in the Rocky Mountains and Midwest United States. The Company's primary business is the operation of regulated natural gas local distribution companies located in Arkansas, Colorado, Nebraska and Wyoming. The Company is also engaged in the regulated transportation of natural gas for third parties through its intrastate pipeline systems. In addition to its regulated activities, the Company (i) provides unbundled natural gas sales in Nebraska and Wyoming and (ii) sells, installs and services appliances and equipment. The Company operates primarily through the four subsidiaries of SourceGas LLC as described below.

SourceGas Distribution LLC ("SGD"). SGD is a regulated public utility consisting of retail natural gas distribution operations that serves approximately 263,000 customers in Colorado, Nebraska and Wyoming. SGD also sells appliances and heating equipment and provides associated repair services and appliance protection plans.

SourceGas Arkansas ("SGA"). SGA is a regulated public utility consisting of retail natural gas distribution operations that serves approximately 161,000 customers in Arkansas. SGA also sells appliances and heating equipment and provides associated repair services and appliance protection plans.

Rocky Mountain Natural Gas LLC ("RMNG"). RMNG is a regulated public utility that provides regulated transmission and wholesale natural gas service to SGD at town border stations in western Colorado and also provides intrastate transportation services for natural gas producers, shippers and industrial customers. RMNG generates additional revenues from the processing and sale of natural gas liquids.

SourceGas Energy Services Co. ("SGES"). SGES is an unregulated natural gas marketer providing retail distribution customers in Nebraska and Wyoming with unbundled natural gas commodity offerings under the regulatory-approved Choice Gas program.

2. Summary of Significant Accounting Policies

Principles of Consolidation

These consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of SourceGas Holdings and its subsidiaries, all of which are wholly owned. All material intercompany transactions have been eliminated.

Use of Estimates

The preparation of these financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. Estimates are based on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. These estimates may involve complex situations requiring a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact the financial statements. The most significant estimates relate to the accounting for regulatory infrastructure program accruals, uncollectible accounts and other allowances for contingent losses, valuation of goodwill and intangible assets, retirement plan benefit obligations, derivative and hedging activities and provisions for income taxes. SourceGas evaluates its estimates on an ongoing basis and actual results could differ from estimates.

Effects of Regulation

SourceGas' natural gas utility operations are subject to regulation with respect to rates, service, maintenance of accounting records, pipeline integrity and various other matters by the respective regulatory authorities in the states in which the Company operates. The Company's accounting policies reflect the financial effects of the ratemaking and accounting practices and policies of those regulatory authorities, where appropriate. As a result, SourceGas recognizes certain costs as regulatory assets that would otherwise be charged to expense and recognizes certain proceeds as regulatory liabilities that would otherwise be recorded as revenue. The Company records regulatory assets when it is probable that costs will be recovered through rates charged to customers and records regulatory liabilities when it is probable that credits will be provided to customers as a result of the ratemaking process.

Revenue Recognition

Revenue from Regulated Operations. Regulated retail natural gas distribution revenues, derived primarily from the sale and transportation of natural gas, are recognized when gas is delivered to and received by the customer. SourceGas bills customers of its regulated retail natural gas distribution businesses on a monthly billing cycle basis; however, the billing cycle periods for certain classes of customers do not necessarily coincide with accounting periods used for financial reporting purposes. The Company estimates and accrues revenues applicable to gas delivered to customers, but not yet billed. Estimated unbilled revenue was $58.6 million at December 31, 2014. Payments received from customers who participate in budget billing, whose balance represents the amount paid in excess of gas delivered, are included in deferred revenue.

SourceGas' revenues for its regulated transmission operations are recognized in the period in which actual volumes are transported. The Company also provides various types of natural gas transportation services to its customers in which the natural gas remains the property of these customers at all times. The customer pays a two-part rate that includes a fixed fee and a per-unit rate for volumes actually transported. The fixed-fee component of the overall rate is recognized as revenue ratably over the contract period. The per-unit charge is recognized as revenue when the volumes are transported.

Revenue from Unregulated Operations. Revenue from unregulated natural gas marketing operations is recognized when gas is delivered to the customer. The Company also offers a pricing option known as WinterGuard® under which the customer pays a fixed amount per month over a one- or two-year contract period from June to May for the customer's gas consumption during the contract period. The total contract fee is recognized as revenue over the contract period based on the delivered portion of the customer's total estimated consumption. Future consumption is estimated based on the customer's historical gas consumption and normalized weather patterns. Amounts billed to those customers in excess of revenue recognized are recorded as deferred revenue. In January 2015, SGES acquired new Choice Gas Program customers in Nebraska and Wyoming, which increased its customer base by approximately 9,500.

In both regulated and unregulated operations, SourceGas bills and collects from its customers certain taxes based on revenues that are imposed by governmental authorities in the jurisdictions in which the Company operates. SourceGas records revenues net of such taxes.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable arise primarily from natural gas sales to residential, commercial, industrial and other customers. Merchandise loans with maturities of less than one year relating to the sales of appliances and heating equipment are included in the trade accounts receivable balance. These receivables are stated on the consolidated balance sheet net of a $2.1 million allowance for doubtful accounts at December 31, 2014. The allowance for doubtful accounts reflects the Company's estimate of probable losses in its receivable balance determined on the basis of historical experience, specific allowances for high credit risk accounts and other currently available evidence. When specific accounts are determined to be uncollectible, the allowance and receivable are relieved.

Gas in Underground Storage

The Company uses underground gas storage facilities to help manage the seasonality of its business and to optimize the prices for which gas is purchased. SourceGas' natural gas inventories for unregulated operations are generally carried at the lower of cost or market value using the weighted average cost method. The Company's natural gas inventories for regulated utility operations are generally stated at the lower of average cost or net realizable value. The regulatory treatment of utility gas inventories provides for cost recovery in customer rates.

Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	December 31, 2014
Property, plant and equipment:	
Natural gas distribution	$ 721,797
Natural gas transmission	288,686

Other property, plant and equipment in service	353,543
Construction work in progress	57,218
Total property, plant and equipment	1,421,244
Less accumulated depreciation and amortization	(581,055)
Property, plant and equipment, net	$ 840,189

Property, plant and equipment are stated at original cost, net of contributions in aid of construction. For constructed plant, original cost includes indirect costs from shared resource activities, allowance for funds used during construction (“AFUDC”) and other costs that clearly relate to plant construction. AFUDC represents the estimated cost of funds used to finance the construction of major projects and is capitalized when the completed projects are placed in service. Interest expense of $1.4 million was capitalized in the year ended December 31, 2014.

Expenditures that increase capacity, improve efficiency or extend service lives are capitalized. Repairs and maintenance costs are expensed as incurred. The original cost of retirements of depreciable regulated property, plant and equipment, plus the cost of removal, less salvage, is recorded in accumulated depreciation with no effect on current period earnings. Gains or losses are recognized upon retirement of unregulated and regulated property, plant and equipment constituting an operating unit or system when sold or abandoned.

Regulated plant depreciation is computed on the straight-line remaining life method at composite rates considered sufficient to amortize costs over estimated service lives. Depreciation rates include components that compensate for nonlegal costs of removal (net of salvage value), and retirements, as approved by the appropriate regulatory agency. The composite weighted average depreciation rate was 3.49 percent for the year ended December 31, 2014. Depreciation on unregulated property, plant and equipment is generally computed on the straight-line method based upon estimated service lives ranging from 3 to 52 years.

Asset Retirement Obligations

The Company records a liability at fair value for an asset retirement obligation (“ARO”) and corresponding accretion expense when the legal obligation to retire the asset has been incurred with an offsetting increase to the carrying value of the related asset. SourceGas has recorded an ARO in other liabilities of $0.3 million as of December 31, 2014.

Impairment of Long-lived Assets

SourceGas reviews the carrying values of its long-lived assets whenever events or changes in circumstances indicate that such carrying values may not be recoverable. For any assets with carrying values that are determined to be unrecoverable, the Company records an impairment charge to write down the carrying amount of the asset to its estimated fair value. SourceGas has not recorded any material asset impairments for the year ended December 31, 2014.

Goodwill and Intangible Assets

Goodwill is assigned to reporting units as of the date of the related business combination. SourceGas’ reporting units include SGD, SGA, RMNG and SGES. In accordance with the Financial Accounting Standards Board (“FASB”) *Accounting Standards Codification (“ASC”) 350 Intangibles — Goodwill and Other*, goodwill and other intangible assets with indefinite lives, such as trademarks and trade names, are reviewed for impairment annually during the fourth fiscal quarter and whenever an event or a change in circumstances indicates that impairment may have occurred. This standard provides companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. The Company’s reporting units’ fair value exceeded their carrying value, therefore, only step one of the analysis was performed. An impairment loss is recorded when the carrying amount of goodwill and other intangibles exceeds their fair value. No impairment was recorded for the year ended December 31, 2014.

Derivative Instruments

SourceGas utilizes derivative instruments for the purpose of mitigating risks resulting from changes in interest rates, energy commodity prices and volumetric load variances. The objectives and strategies for using derivatives have been tailored to the Company’s regulated and unregulated businesses.

SourceGas records all derivative instruments at fair value in the consolidated balance sheets as either an asset or liability unless they qualify for certain exceptions, including the normal purchases and normal sales exception. Changes in a derivative’s fair value are ultimately recognized in earnings. The timing of when the changes in fair value are recorded in earnings depends on whether the derivative has been designated and qualifies as part of a hedging relationship or if authoritative guidance for rate-regulated entities allows an alternative accounting treatment. Changes in fair value for derivatives that do not meet one of these criteria are recognized in earnings as they occur.

Note 7 describes SourceGas' use of derivative instruments and the related effect on its consolidated financial statements.

Fair Value of Financial Instruments

Certain assets and liabilities are recognized or disclosed at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). GAAP established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. These levels are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities
- Level 2 — Pricing inputs other than quoted prices included within Level 1, which are either directly or indirectly observable for the asset or liability as of the reporting date. These inputs are derived principally from, or corroborated by, observable market data.
- Level 3 — Pricing based upon inputs that are generally unobservable, based on the best information available and reflect management's assumptions on how market participants would price the asset or liability.

The Company's financial instruments consist of cash, accounts receivable, accounts payable, long-term debt and derivative instruments. Except for the Senior Notes the fair values of SourceGas' financial instruments approximate their respective carrying amounts in the consolidated balance sheets. As a result of changes in market interest rates and other factors, the fair value of the Company's fixed-rate Senior Notes was approximately $351.0 million compared with a net carrying amount of approximately $324.8 million as of December 31, 2014. SourceGas determined the fair value of the Senior Notes based on the mid-range market price as determined by the bond dealer, which is based on significant other observable inputs within Level 2 of the fair value hierarchy.

See Note 7 for fair value measurements of the Company's derivative instruments.

Income Taxes

SourceGas' operations are conducted in the United States through limited liability companies and corporations. The Company is treated as a partnership for federal and state income tax purposes, with each partner taxed separately on its allocated share of the Company's taxable income. Accordingly, the accompanying consolidated financial statements do not include a provision or liability for federal income taxes except for the Company's corporate subsidiaries that are subject to federal or state income taxes. SourceGas accounts for these income taxes using the asset and liability method in accordance with ASC 740, Accounting for Income Taxes. The asset and liability method provides that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above are reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties payable to the taxing authorities.

The Company records interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses.

See Note 8 for income tax disclosures and the tax effects of temporary differences that impact deferred tax assets and liabilities.

Concentration of Credit Risk

Credit risk is the risk of financial loss to the Company if a customer fails to perform its contractual obligations. SourceGas engages in transactions for the purchase and sale of products and services with companies in the natural gas industry and with industrial, commercial and residential natural gas consumers. These transactions principally occur in the Rocky Mountain and Midwest regions of the United States. SourceGas believes that this geographic concentration does not contribute significantly to its overall exposure to credit risk. Credit risk associated with trade accounts receivable is mitigated by the large number of individual customers and the diversity in the Company's customer base.

SourceGas also has credit risk exposure to counterparties with whom the Company has open derivative instruments in asset positions. The Company's over-the-counter financial commodity derivatives are with a number of counterparties each of which has an investment-grade credit rating. SourceGas' physical commodity derivatives with nonrated counterparties are reviewed in accordance with the Company's credit risk policy. SourceGas enters into interest swaps only with counterparties whose debt securities are rated investment-grade by the major rating agencies, and the Company actively monitors the counterparties' credit ratings. Based on the external credit rating and internal credit review of the counterparties, SourceGas believes the risk of default is remote.

New Accounting Standards

Recent Accounting Pronouncements

In May 2014, FASB issued *ASU 2014-09, Revenue from Contracts with Customers*, which requires entities to recognize revenue depicting the transfer of goods or services to customers at amounts expected to be entitled to in exchange for those goods or services. The standard provides a five-step approach to revenue recognition: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; (5) recognize revenue when (or as) each performance obligation is satisfied. The new requirements are effective for nonpublic companies beginning January 1, 2018. Early adoption is not permitted. SourceGas is currently assessing the impact of this standard on its financial statements and disclosures.

There were no other new significant accounting standards applicable to the Company that have been issued but not yet adopted by the Company as of December 31, 2014 and through the issuance of these financial statements.

3. Regulatory Matters

Regulatory Assets and Liabilities

The following regulatory assets and liabilities are reflected in the consolidated balance sheet (in thousands):

	December 31, 2014
Regulatory Assets:	
Purchased gas costs	$ 21,876
Unrealized losses on derivative instruments	2,591
Pension plan	14,248
Postretirement medical plan	4,397
Rate Regulation and application costs	877
Other	1,535
Total regulatory assets	45,524
Less amount included in current assets	(16,885)
Regulatory assets, noncurrent	$ 28,639
Regulatory Liabilities:	
Purchased gas costs	$ 1,457
Recoverable Demand Side Management expenses	2,273
Unrealized losses on derivative instruments	820
Other	1,262
Total regulatory liabilities	5,812
Less amount included in current liabilities	(5,010)
Regulatory liabilities, non-current	$ 802

SourceGas defers purchased gas costs that otherwise would be charged to expense in accordance with gas cost adjustment mechanisms set forth in filings approved by the public utility commissions. The Company is permitted to recover such costs through rates charged to customers. The Company records an asset when purchased gas costs cumulatively exceed related billings and records a liability when billings cumulatively exceed related costs.

At December 31, 2014, purchased gas costs in regulatory assets include $13.1 million in unrecovered gas costs related to the Litigated Settlement Special Rate Surcharge approved by the Colorado Public Utilities Commission ("CPUC"). RMNG is authorized to recover these amounts from customers through rate surcharges before November 1, 2017. Other purchased gas costs included in regulatory assets and regulatory liabilities are being recovered or refunded in rates, or are deferred pending regulatory review and approval. Generally, the applicable gas cost adjustment mechanisms provide for recovery or refund of deferred purchased gas costs over a 12-month period following the approval of a filing with the state public utility commissions with respect to such costs.

The following table presents the purchased gas costs by state in an under or (over) collected gas position:

	December 31, 2014
Arkansas	$ 4,673
Colorado	3,253

Nebraska		(1,457)
Wyoming		900
RMNG (1)		—
Total purchased gas cost, net	$	7,369

(1) Excludes the Litigated Settlement Special Rate Surcharge discussed above.

At December 31, 2014, regulatory assets also include (i) unamortized costs incurred in connection with various regulatory applications that the Company is permitted to amortize and recover in its rates, (ii) unrealized gains and losses on derivative instruments that are used to mitigate the volatility in purchased gas costs for regulated utility customers and (iii) uncollectible customer accounts that the Company is permitted to recover in its rates. As discussed further in Note 6, SourceGas also has recorded regulatory assets for actuarial losses that have not yet been recognized in periodic benefit cost for the Company's pension and other postretirement benefit plans. The amounts recorded as regulatory assets at December 31, 2014 are not earning a rate of return.

Rate Filings and Other Matters

SourceGas Arkansas Inc.

On August 1, 2013, SGA filed an "Act 310" Surcharge with the Arkansas Public Service Commission ("APSC"). The purpose of the surcharge is to recover expenditures that SGA has reasonably incurred as a direct result of legislative or regulatory requirements relating to the protection of the public health, safety or the environment. The surcharge, which was projected to recover annual expenses of approximately $1.4 million through revenues, became effective upon filing. On January 14, 2014, an Administrative Law Judge issued an order approving SGA's Act 310 Surcharge. That order became the final order of the APSC on February 13, 2014. Between August 1, 2013 and early July 2014, when SGA stopped billing its customers under its Act 310 Surcharge (see below), SGA recovered approximately $1.6 million under that surcharge.

On September 9, 2013, SGA made a general rate case filing with the APSC, seeking approval of revised rates, which would increase annual revenues by approximately $18.7 million. After filing all of their testimony, the parties to the rate case reached a settlement agreement which increased SGA's annual revenues by approximately $13.8 million, reflecting a 9.30 percent return on equity. On July 7, 2014, the APSC approved that settlement agreement and the Company began billing its customers and recognizing revenues on that date. The increased rates provided SGA with, among other things, recovery of expenditures, which it had been recovering under its Act 310 Surcharge. Therefore, SGA stopped billing customers under that surcharge when the rates went into effect.

The settlement agreement approved by the APSC also provided SGA with two new riders: The Main Replacement Program Rider ("MRP Rider"); and the At-Risk Meter Relocation Program Rider ("ARMRP Rider"). Through the MRP Rider, SGA will recover the costs of replacing bare steel mains, coated steel mains that are not catholically protected and mains that are the subject of an advisory issued by a federal or state agency and which SGA has determined to be in unsatisfactory condition. Through the ARMRP Rider, SGA will recover the costs of relocating meters susceptible to being struck by a motor vehicle. As of December 31, 2014 through the issuance of these financial statements, it is not possible to determine how much SGA will recover under these two riders.

On January 20, 2015, SGA filed a notice with the APSC of SGA's intent to make a general rate case filing no sooner than 60 days and no later than 90 days from the date of the notice. SGA is currently preparing that rate case filing.

SourceGas Distribution LLC

On September 9, 2013, SGD filed an application with the Wyoming Public Service Commission ("WPSC") to construct major facilities consisting of a new compressor station (called "Chokecherry"), natural gas transmission pipeline and other facilities that will interconnect SGD's facilities with adjacent interstate pipelines. SGD is also seeking authority to implement new unbundled storage services, market center services and a revenue sharing mechanism. At its hearing on March 27, 2014, the WPSC approved the major elements of SGD's application with revisions to the revenue sharing agreement and on August 14, 2014 issued its written order reflecting such approval.

SGD periodically files with the Nebraska Public Service Commission ("NPSC") seeking approval of an infrastructure system replacement cost recovery charge ("ISR Charge"). The purpose of the ISR Charge is to recover capital expenditures that SGD has incurred as a result of legislative or regulatory requirements relating to the protection of the public health, safety or the environment and is in addition to SGD's currently effective base rates. On June 25, 2013, the NPSC approved, and SGD implemented an ISR Charge, which generated annual revenues of $0.7 million effective July 1, 2013. On May 1, 2014, SGD filed an application with the NPSC seeking approval of a second ISR Charge. A hearing on the stipulation between SGD and the Public Advocate was held on July 30, 2014. The NPSC approved the SGD's second ISR Charge which was implemented September 1, 2014, and it is designed to generate annual revenues of $0.5 million.

On May 1, 2014, SGD filed an application with the NPSC seeking approval to put into effect a System Safety and Integrity Rider ("SSIR") and initial SSIR charges designed to collect $1.5 million of revenue requirement for SSIR projects completed in 2014. The NPSC granted SGD's SSIR application with certain conditions.

On November 10, 2014, SGD filed an application with the NPSC seeking approval to put into effect a 2015 SSIR to collect $1.4 million of revenue requirement for SSIR projects that will be completed in 2015. The NPSC approved the application but reduced the amount to be recovered to $1.3 million.

Rocky Mountain Natural Gas LLC

On January 31, 2013, RMNG filed a general rate case with CPUC requesting a net annual revenue increase of approximately $1.4 million. On November 13, 2013, parties, including RMNG filed a stipulation with the CPUC for a $0.4 million revenue decrease, a 10.60 percent return on equity, an SSIR, a straight-fixed variable rate structure, the elimination of RMNG's bundled service, RMNG's exit from the merchant function, a new suite of unbundled and open access transportation, storage and market center services and a revenue adjustment mechanism associated with those services. On January 30, 2014, the CPUC issued a Recommended Decision approving the stipulation including the 10.60 percent return on equity. On March 1, 2014, the rates went into effect and the Company began billing its customers and recognizing revenue on that date.

On March 31, 2014, RMNG filed an advice letter proposing an SSIR rate designed to collect $1.8 million of revenue requirement for SSIR projects to be completed in 2014. The rate went into effect on June 1, 2014, on an interim basis, subject to refund. On September 17, 2014, a settlement was reached and the CPUC approved most of the SSIR projects for inclusion in the SSIR rate. RMNG issued a refund of $0.5 million to ratepayers on December 16, 2014. On October 31, 2014, RMNG filed an advice letter proposing an SSIR rate to collect $0.4 million of revenue requirement for SSIR projects that will be completed in 2015. This SSIR rate went into effect on January 1, 2015.

Various other matters affecting SourceGas' regulated utility operations are subject to proceedings before the state public utility regulatory commissions in Arkansas, Colorado, Nebraska and Wyoming, as well as the Federal Energy Regulatory Commission.

4. Debt

Long-term Debt

Long-term debt consisted of the following (in thousands):

			December 31, 2014	
	Year Due	Interest	Weighted average Interest Rate	Outstanding
Senior Notes, unsecured	2017	Fixed	5.90%	$ 325,000
Senior Secured Notes	2019	Fixed	3.98%	95,000
Term loan, secured by substantially all assets of SourceGas Holdings LLC by substantially all assets of SourceGas LLC	2018	Variable(1)	1.92%	150,000
Term loan, unsecured	2016	Variable(1)	1.41%	150,000
$175.0 million revolving credit agreement, unsecured	2016	Variable(1)	1.42%	139,100
Total				859,100
Less: Unamortized original issue discount on Senior Notes				(231)
Current maturities				—
Long-term debt, net				$ 858,869

(1) Variable rate based on one, two, three, or six-month LIBOR

On June 30, 2014, SourceGas Holdings borrowed additional funds on its existing $200.0 million term loan in the amount of $20.0 million. The borrowings under this term loan bear interest at a variable rate based on one, two, three, or six-month LIBOR plus a margin dependent upon the Senior Notes' rating. Upon closing, the applicable margin was 1.75 percent. SourceGas Holdings received proceeds totaling $20.0 million from the majority of its existing lenders. All proceeds were used to pay down a portion of the revolving credit agreement held at SourceGas LLC.

On September 29, 2014, SourceGas Holdings issued the 3.98% Senior Secured Notes (the "Notes") with an aggregate principal amount of $95.0 million due in September 2019. The Notes are secured by substantially all assets of SourceGas Holdings. The interest payments are payable bi-annually, beginning March 29, 2015. Of the proceeds, $70.0 million were used to pay down the $220.0 million term loan at SourceGas Holdings and the remainder paid down the revolving credit agreement held at SourceGas LLC.

On January 15, 2015, SourceGas LLC entered into a term loan with an aggregate principal amount of $275.0 million due July 2016, which bears interest at a variable rate based on one, two, three, or six-month LIBOR plus a margin dependent upon the Senior Notes' rating. Upon closing, the applicable margin rate was 0.75 percent. The interest payments are payable quarterly, beginning March 31, 2015. Initial proceeds were used to pay down the $150.0 million term loan and the remainder was

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used to pay down a portion of the revolving credit agreement, both held at SourceGas LLC. Through March 26, 2015, SourceGas paid down $30.0 million of the $275.0 million term loan.

The Notes, term loans and revolving credit agreement contain certain covenants, including financial covenants that require SourceGas to maintain ratios of indebtedness to total capitalization below specified levels and an interest coverage ratio above a specified level. At December 31, 2014, the Company was in compliance with these covenants.

At December 31, 2014, the aggregate maturities of long-term debt are as follows (in thousands):

Year ending December 31:		
2015	$	—
2016 (1)		289,100
2017		325,000
2018		150,000
2019		95,000
	$	859,100

(1) The issuance of the January 2015 term loan will increase the long-term debt that matures in 2016 to $534.1 million.

5. Commitments and Contingencies

Lease and Purchase Commitments

SourceGas leases certain property, plant and equipment under operating leases. Rent expense related to these leases totaled $2.4 million for the year ended December 31, 2014. Future minimum lease payments under noncancelable operating leases are as follows (in thousands):

Year ending December 31:		
2015	$	2,271
2016		2,241
2017		2,118
2018		2,129
2019		1,676
Thereafter		4,571
	$	15,006

SourceGas assumed agreements, executed under previous ownership, that require the Company to purchase all of the natural gas produced over the productive life of specific leaseholds in the Bowdoin field in Montana. The majority of these purchases are committed to distribution customers of the Company's regulated utility companies in Colorado, Nebraska and Wyoming, which are subject to regulatory cost recovery mechanisms. The prices to be paid under these agreements vary and currently exceed market prices in certain instances. For the year ended December 31, 2014, SourceGas' purchases under these agreements totaled $11.9 million. Based on estimated production and forecasted prices, the Company estimates that purchases under these agreements will range from $8.8 million to $11.4 million for each of the next five years. However, the volumes and cost of purchases under these agreements after five years cannot be reasonably estimated.

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SourceGas has signed agreements providing for the reservation of firm pipeline capacity under which the Company is required to make fixed monthly payments for contracted capacity. SourceGas enters into short-term sale agreements to release certain firm pipeline capacity on an annual basis to natural gas marketers in conjunction with the Choice Gas program. However, as the release agreements are of a short-term nature, they are not reflected on the following schedule.

At December 31, 2014, the Company's commitments for the reservation of firm pipeline capacity are as follows (in thousands):

Year ending December 31:		
2015	$	30,651
2016		25,498
2017		24,822
2018		22,365
2019		17,649
Thereafter		96,519

	$ 217,504

SourceGas' total obligations of fixed charges under the Company's pipeline capacity purchase agreements was $34.4 million as of December 31, 2014, and amounts paid during the year for these contracts was $17.9 million for the year ended December 31, 2014.

SourceGas also enters into gas purchase agreements, which are short-term or long-term in nature. At December 31, 2014, the long-term commitments to purchase physical quantities of natural gas under contracts indexed to the forward Colorado Interstate Gas ("CIG"), Panhandle Eastern Pipeline ("PEPL") and Northwest Wyoming Pool ("NWWY Pool") Natural Gas indices are as follows:

	Million Metric British Thermal Units ("Mmbtu") (in thousands)		
	CIG	PEPL	NW WY Pool
Year ending December 31:			
2015	1,664	1,825	2,273
2016	1,364	1,525	2,205
2017	—	—	2,128
2018	—	—	2,070
2019	—	—	720
	3,028	3,350	9,396

SourceGas' total payments under long-term gas purchase agreements were $16.5 million as of December 31, 2014.

Litigation

SGD is a complainant in SGD LLC vs. Bitter Creek Pipelines, LLC ("Bitter Creek"). Bitter Creek provides natural gas gathering services to SGD in the Bowdoin field in Montana under a written gas gathering agreement. SGD initiated arbitration on December 18, 2009 claiming that Bitter Creek breached the gathering agreement by wrongfully installing compression, failing to operate the gathering system at the proper pressure and noncompliance with other requirements of the agreement. Arbitration occurred in August 2010. The arbitration panel agreed that Bitter Creek had breached the agreement and awarded damages in the amount of $26.0 million and attorney fees and expenses in the amount of $0.6 million to SGD. On April 20, 2011, the District Court, Yuma County Colorado confirmed the award and certified the judgment in favor of SGD. On May 4, 2011, Bitter Creek posted a $25.0 million supersedeas bond and initiated an appeal of this judgment. On May 24, 2012, the Colorado Court of Appeals issued an order reversing the judgment and remanding the matter back to the district court for trial. On August 2, 2012, SourceGas filed a petition for review of this decision. On July 22, 2013, the Colorado Court of Appeals denied SourceGas' petition. The Bitter Creek (now known as "WBI Energy Midstream") case is remanded to the Yuma County District for a retrial before the Court instead of an arbitration panel. In August 2013, WBI Energy Midstream filed motions to recover certain costs in the Yuma County District Court case. On April 18, 2014, SGD and WBI Energy Midstream stipulated to a 150 day stay of the District Court proceeding while the parties engaged in settlement discussions. On November 17, 2014, SGD and WBI Energy Midstream entered into an additional 91 day stay which will allow the parties to continue to engage in settlement negotiations. The gas gathering agreement provides gathering services for gas purchased through an agreement between Noble Energy and SGD (the "P-802 Contract"). On January 19, 2015, SGD submitted a written offer to Noble Energy to terminate the P-802 Contract. If the P-802 Contract is terminated, WBI Energy and SGD will negotiate termination of the gathering agreement for the Bowdoin field and settlement of SGD's claims against WBI Energy Midstream.

SourceGas is involved in other litigation and claims arising from the day-to-day operations of the Company's business. SourceGas believes that the ultimate resolution of those matters will not have a material adverse impact on the Company's business, consolidated balance sheets, cash flows or results of operations.

Environmental Matters

SourceGas is subject to federal, state and local laws and regulations governing environmental quality. RMNG is in the process of upgrading facilities at its Wolf Creek Storage Field. Soil and water sampling was requested by the United States Forest Service ("USFS") and the Bureau of Land Management ("BLM") in response to discolored soil found onsite. Small levels of contaminants were found in the immediate area around three of the well pads sampled. RMNG remediated the contamination; however, subsequent samplings requested by the USFS and BLM demonstrated low levels of contamination which will be remediated in the spring of 2015. RMNG continues monitoring efforts. SourceGas accrues liabilities related to these efforts when it is reasonable to estimate the amount, or range of amounts, of probable costs related to these efforts. Management does not believe that it is reasonably possible that there will be a material change in the Company's estimated liability in the near term and does not currently anticipate the disposition of any known efforts to have a material effect on the Company's financial position, results of operations or cash flows.

6. Pension and Other Postretirement Benefits

Retirement Savings Plan

The SourceGas LLC Retirement Savings Plan ("Savings Plan") is a defined contribution retirement plan qualified under Section 401(k) of the Internal Revenue Code and covers substantially all of SourceGas' employees. Savings Plan participants may contribute a portion of their pretax compensation to the plan, subject to limitations as defined in the Savings Plan or by the Internal Revenue Service. The Company makes nonelective and elective employer contributions to the Savings Plan that totaled $4.5 million for the year ended December 31, 2014.

Defined Benefit Pension Plan

The SourceGas LLC Retirement Plan ("Retirement Plan") covers only employees that were eligible for benefits under similar plans sponsored by previous ownership prior to acquisition by SourceGas.

The Retirement Plan provides for defined pension benefits based on employment group. Employment groups are determined based on the acquisition that brought the eligible employees to the Company. As of December 31, 2014, SourceGas has the following employment groups: SG Participants (March 2007 acquisition) and SGA Participants (July 2008 acquisition). The benefits for these groups are based on the participant's compensation rate and years of participation.

SourceGas established a trust that accumulates assets to pay benefits under the Retirement Plan. The Company's funding policy is to contribute annually at least the minimum required contribution under federal law using the actuarial cost method and assumptions used for determining annual funding requirements.

Assets in the trust are invested in cash, fixed income and equity investments in accordance with a written investment policy, which may be revised based on the actions of the SourceGas LLC Retirement Plan Committee (the "Committee"). The Committee monitors actual performance against target allocations and adjusts actual allocations and targets in accordance with the investment policy. The Committee uses outside consultants and investment managers to aid in the determination of asset allocation and the management of actual plan assets. The Retirement Plan seeks to match the long-term nature of its funding obligations with investment objectives for long-term growth and income.

The asset allocation strategy reflects the Retirement Plan's return objectives and risk tolerance. Asset allocations, target and actual, expressed as a percentage of the market value of the Retirement Plan are as follows:

	December 31, 2014	Target Range
Asset category:		
Equity securities	60%	45% – 75%
Fixed-income securities	39%	25% – 55%
Cash	1%	0% – 5%
	100%	

The Company's pension liability balance (the unfunded status) represents the difference between the projected benefit obligation for pensions and the market value of the pension assets. This difference is made up of the unamortized actuarial gain or loss that arises during the period but is not recognized as a component of net periodic pension cost and would typically be recognized as a component of

accumulated other comprehensive income ("AOCI"). SourceGas' regulated utility subsidiaries recover pension costs in rates; therefore, the Company has reported the unamortized actuarial gain or loss in regulatory liabilities or regulatory assets, respectively (see Note 3).

Postretirement Medical Plan

The SourceGas Employee Benefits Plan ("Medical Plan") provides for subsidized healthcare benefits for certain retirees that were covered by similar plans under previous ownership prior to acquisition by SourceGas.

The Medical Plan provides for subsidized healthcare benefits to eligible participants based on two employment groups, SG Participants and SGA Participants. Based on the employment group, the Company has varied levels of discretion in determining (i) the specific benefits to be provided, (ii) the required participant contributions and (iii) other variables that affect the net cost of its Medical Plan benefits.

Various trusts hold assets for postretirement benefits for the SGA Participants. Assets in the trusts are invested in cash, fixed-income and equity investments in accordance with a written investment policy. This allocation may be revised based on the actions of the Committee.

The SGA Participants of the Medical Plan qualify to receive the federal subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Medicare Act"). The effect of the Medicare Act is reflected assuming (i) the Medical Plan will continue to provide prescription drug benefits to SGA Participants that are at least actuarially equivalent to the Medicare Act and (ii) the Medical Plan will continue to receive the federal subsidy.

SourceGas' liability (the unfunded status) for the Medical Plan represents the difference between the accumulated postretirement benefit obligation and the market value of other post retirement assets. This difference is made up of the unamortized actuarial gain or loss that arises during the period but is not recognized as a component of net periodic benefit cost and would typically be recognized as a component of AOCI. SourceGas' regulated utility subsidiaries recover postretirement costs in rates; therefore, the Company has reported the unamortized actuarial gain or loss in regulatory liabilities or regulatory assets, respectively (see Note 3).

Actuarial Assumptions

SourceGas determines periodic pension and postretirement benefit costs using certain actuarial assumptions and methods. These assumptions include demographic and economic assumptions. In determining the discount rate, which is used to determine the actuarial present value of plan benefits, SourceGas considers the yields of high-quality fixed-income investments with maturities corresponding to the timing of expected benefit payments. The Company's assumptions about the long-term rate of return on plan assets are based on historical and projected rates of return for current and planned asset classes in the investment portfolio. Assumed projected rates of return for each asset class were selected after analyzing historical experience and future expectations of the returns. The overall expected rate of return for the portfolio was developed based on the target allocation for each asset class. In determining the rate of increase in healthcare costs, the Company considers historical and projected healthcare costs and also the effects of plan provisions that enable SourceGas to limit increases in the net cost of benefits to the general inflation rate by adjusting participant contributions, deductibles and copayments.

The measurement dates used to determine pension and other postretirement benefit measurements for the Retirement Plan and Medical Plan are December 31, 2014. The actuarial assumptions used to compute the net periodic pension cost and postretirement benefit cost are based upon information available as of the beginning of the year. Changes in these assumptions may impact future benefit costs and obligations.

The following actuarial assumptions were used to determine the benefit obligations and the net periodic benefit cost for the year ended December 31, 2014:

	Retirement Plan 2014	Medical Plan 2014
Actuarial assumptions:		
Benefit obligation:		
Discount rate	3.8%	3.8%
Rate of compensation increase	3.0%	N/A
Net periodic benefit cost:		
Discount rate	4.7%	4.7%
Rate of compensation increase	3.0%	N/A
Expected long-term rate of return on plan assets	8.0%	5.0%
Healthcare cost trend rate:		
SG Participants	N/A	3.0%
SGA Participants	N/A	5.0%

Benefit Obligation and Funded Status

The following is a reconciliation of the changes in the benefit obligation and fair value and a statement of the funded status of the Retirement Plan and Medical Plan (in thousands):

	Retirement Plan December 31, 2014	Medical Plan December 31, 2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 61,591	$ 13,445
Service cost	3,127	152
Interest cost	2,849	641
Contributions by retirees	—	402
Benefits paid / payable	(3,241)	(1,022)
Actuarial loss	7,738	1,795
Federal subsidy received / receivable	—	—
Benefit obligation at end of year	72,064	15,413
Change in plan assets:		
Fair value of plan assets at beginning of year	53,013	3,011
Actual return on plan assets	2,637	198
Contributions by employer	3,900	778
Contributions by retirees	—	401
Benefits paid / payable	(3,241)	(1,022)
Federal subsidy received / receivable	—	—
Other expenses	—	(59)
Fair value of plan assets at end of year	56,309	3,307
Unfunded status at end of year	$ (15,755)	$ (12,106)

Amounts recognized in the consolidated balance sheets consist of the following:				
Other current liabilities	$	—	$	(555)
Other liabilities		(15,755)		(11,551)
Total liabilities	$	(15,755)	$	(12,106)
Accumulated benefit obligation ("ABO") (1)	$	66,205		N/A
Amounts recognized in regulatory assets consist of the following:				
Net actuarial loss	$	(14,248)	$	(4,397)

(1) ABO differs from the projected benefit obligation in that the ABO excludes the effect of salary and wage increases.

Net Periodic Benefit Cost

The components of net periodic benefit cost for the Retirement Plan and Medical Plan are as follows (in thousands):

	Retirement Plan Year ended December 31, 2014		Medical Plan Year ended December 31, 2014	
Service cost	$	3,127	$	152
Interest cost		2,849		641
Expected return on plan assets		(4,262)		(153)
Amortization of loss		—		342
Net periodic benefit cost	$	1,714	$	982

SourceGas estimates that a total of $1.2 million will be amortized from regulatory assets into net periodic benefit cost during 2015 for the Retirement Plan and the Medical Plan.

Expected Contributions and Benefit Payments

SourceGas expects to contribute $3.9 million to the Retirement Plan and $0.9 million to the Medical Plan in 2015.

Retirement Plan benefits for all participants and Medical Plan benefits for SGA Participants are distributed from the related trusts. For SG Participants, the Company pays benefits under the Medical Plan directly to participants and receives related contributions directly from participants. Estimated future benefit payments, net of estimated contributions from participants, excluding the effect of applicable Medicare Act federal subsidy receipts and gross amount of federal subsidy receipts are as follows (in thousands):

	Retirement Plan		Medical Plan		Federal Subsidy Receipts	
Year ending December 31:						
2015	$	2,194	$	829	$	(23)
2016		2,476		911		(27)
2017		3,424		988		(29)
2018		4,108		1,155		(33)
2019		4,618		1,327		(43)
2020 – 2024		29,031		7,389		(330)

Investment Valuation

The Retirement Plan and Medical Plan assets are valued under the current fair value framework. See Note 7 for further discussion regarding the definition and levels of the fair value hierarchy established by authoritative guidance.

Below is a listing of the market value of the major categories of plan assets held as of December 31, 2014, as well as the associated level within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety (in thousands):

Asset category	December 31, 2014 Retirement Plan	December 31, 2014 Medical Plan

Level 1			
Cash and cash equivalents		$ 724	$ 193
Equity securities			
U.S. small cap value	(1)	3,342	—
U.S. small cap blend	(1)	—	113
U.S. mid cap blend		—	172
U.S. mid cap growth	(1)	3,489	—
U.S. large cap value	(1)	8,994	—
U.S. large cap blend		—	498
U.S. large cap growth	(1)	8,998	—
International companies	(2)	8,955	172
Fixed-income securities			
Intermediate-term bond	(3)	8,787	—
High-yield bond	(4)	2,683	—
Short-term bond	(5)	7,617	—
Inflation-protected bond	(5)	2,720	—
Real estate	(6)	—	81
Total Level 1		56,309	1,229
Level 2			
Intermediate-term bond	(7)	—	1,969
High-yield bond	(8)	—	109
Total Level 2		—	2,078
Total Assets		$ 56,309	$ 3,307

(1) Includes funds that invest primarily in U.S. common stocks
(2) Includes funds that invest primarily in foreign equity securities
(3) Includes funds that invest in a blend of U.S. government securities, mortgage-backed securities, U.S. corporate bonds,and foreign bonds
(4) Includes funds that invest primarily U.S. corporate bonds
(5) Includes funds that invest only in U.S. government securities
(6) Includes funds that invest only in real estate investment trusts
(7) Includes funds that invest primarily in state and municipal bonds
(8) Includes funds that invest only in international bonds

The Retirement Plan funds have been determined to be Level 1 investments within the fair value hierarchy and are valued on the basis of available market quotations in active markets. The Medical Plan fixed-income securities have been determined to be Level 2 investments within the fair value hierarchy and are valued on significant other observable outputs other than quoted market prices. The remaining Medical Plan funds have been determined to be Level 1 investments.

7. Derivatives and Fair Value Measurement

Derivatives

In managing its natural gas supply portfolios, the Company has historically entered into physical fixed- and variable-priced contracts, which qualify as derivatives. Additionally, the Company purchased over-the-counter financial natural gas swap contracts and options to mitigate risks associated with changes in the market price. Gas contracts that have firm commitments to purchase a fixed amount of gas in the future at market price, qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business and are exempt from fair value reporting. The Company's natural gas purchases with volumetric swing in their contracts do not qualify for the normal purchases and normal sales exception. These purchase deals and swap contracts are recorded at fair value.

Pursuant to regulatory deferral accounting treatment for rate-regulated entities, the costs associated with gains and losses from the use of financial and physical derivative instruments are included in the Company's purchased gas adjustment mechanisms. The changes in fair value and the settled amounts of these derivative instruments do not have a direct effect on earnings or other comprehensive income.

The Company has designated a certain number of its commodity derivative instruments as cash flow hedges. The effective portion of the unrealized gains and losses arising from the use of the cash flow hedges is deferred in AOCI and will be recognized in operating results when the forecasted transaction affects earnings. Hedge ineffectiveness, to the extent incurred, is currently recognized in the Company's operating results.

In December 2014, SourceGas purchased over-the-counter gasoline swaps to help stabilize operating costs associated with forecasted purchases of gasoline fuels used to power vehicles and equipment used in the course of business. At December 31, 2014, the Company held 42,000 gallons per month, or 504,000 gallons, of NYMEX gasoline swaps at an average price of $1.80 per gallon. These contracts extend through December 2015 and are not designated as cash flow hedges. SourceGas recognizes unrealized gains and losses related to these derivative instruments in the operating results; they are not recorded as a component of deferred gas costs.

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Notes to Consolidated Financial Statements
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The commodity options and swaps are utilized to effectively fix the price on a portion of the Company's natural gas supply portfolios. These financial derivatives are purchased in anticipation of the forecasted purchases of natural gas, during time frames ranging from January 2015 through March 2017. Under these contracts, the Company pays the counterparty at a fixed rate and receives a floating rate per Million Metric British Thermal Units ("Mmbtu") of natural gas. Volumes below exclude contracts that qualify for normal purchase and normal sales. As of December 31, 2014, the Company had net long natural gas contracts outstanding in the following quantities:

Mmbtu (in thousands)	December 31, 2014
Hedge designation:	
Cash flow hedges	1,282
Not designated as hedges	13,347
Total hedges	14,629
Hedge position:	
Short position	(5,077)
Long position	19,706
Net long position	14,629

Interest Rate Swaps

In April 2013, SourceGas LLC entered into forward starting interest rate swaps with an aggregate notional amount of $150.0 million as a means of fixing the interest on the $150.0 million term loan. Under these swaps, SourceGas LLC pays a weighted average fixed rate of 0.39 percent. These swaps receive a variable one-month LIBOR rate on the notional principal amounts over a two year, seven month term ending in February 2016. These swaps were designated as cash flow hedges upon inception.

In April 2013, SourceGas Holdings entered into a forward starting interest rate swap as a means of fixing the interest on an additional $50.0 million relating to the anticipated refinancing of the activity on the $150.0 million term loan. Under this swap, SourceGas Holdings paid a fixed rate of 0.60 percent and received a floating interest rate equal to one-month LIBOR rate on the notional principal amounts over a three year, eight month term ending in February 2017. This swap early settled on July 18, 2014 for a gain of approximately $0.3 million.

SourceGas Holdings LLC
Notes to Consolidated Financial Statements
Year Ended December 31, 2014

The fair value and balance sheet classification of the Company's derivative instruments are as follows (in thousands):

	Balance Sheet Location	December 31, 2014
Designated as cash flow hedges:		
Asset derivative instruments:		
Current commodity contracts	Other current assets	$ 207
Current interest rate swaps	Other current assets	89
Noncurrent commodity contracts	Other assets	60
Noncurrent interest rate swaps	Other assets	49
Liability derivative instruments:		
Current commodity contracts	Derivative instruments	(1,719)
Current interest rate swaps	Derivative instruments	(4,362)
Noncurrent commodity contracts	Derivative instruments	(289)
Noncurrent interest rate swaps	Derivative instruments	(2,742)
Total		(8,707)
Not designated as hedges:		
Asset derivative instruments:		
Current commodity contracts	Other current assets	2,013
Noncurrent commodity contracts	Other assets	320
Liability derivative instruments:		
Current commodity contracts	Derivative instruments	(7,132)
Noncurrent commodity contracts	Derivative instruments	(620)
Total		(5,419)
Total derivative instruments on balance sheet		$ (14,126)

The changes in fair value and income statement location of the Company's derivative instruments are as follows (in thousands):

	Year ended December 31, 2014
Designated as cash flow hedges:	
Natural gas sales:	
Net realized loss reclassified from AOCI	$ (95)
Ineffectiveness gain	26
Purchases and other costs of sales:	
Net realized gain reclassified from AOCI	1,213
Ineffectiveness loss	(45)
Interest expense:	
Ineffectiveness loss	(41)
Net realized loss reclassified from AOCI	(4,624)
Not designated as hedges:	
Natural gas sales:	
Net realized gain	3
Net unrealized gain	26
Purchases and other costs of sales:	
Net realized loss	(1,303)
Net unrealized loss	(3,292)
Operation and maintenance:	
Net unrealized loss	(76)
Total impact of derivative instruments on earnings	$ (8,208)

In accordance with *ASC 220 Comprehensive Income*, presentation of the Company's derivative instruments included in AOCI is as follows, net of tax where applicable (in thousands):

	Interest Rate Swaps	Commodity Derivatives	AOCI
Balance, December 31, 2013	**$ (9,662)**	**$ 86**	**$ (9,576)**
Decrease in fair value, net of tax	(2,258)	(395)	(2,653)
Recognition of losses (gains) in earnings due to settlements, net of tax	4,624	(676)	3,948
Recognition of losses in earnings due to amortization	128	—	128
Balance, December 31, 2014	**$ (7,168)**	**$ (985)**	**$ (8,153)**

The Company expects to reclassify $0.9 million of deferred losses, net of tax, to purchases and other costs of sales relating to commodity derivative instruments and $4.3 million of deferred losses to interest expense during the year ended December 31, 2015, as forecasted transactions occur. If it becomes probable that a forecasted transaction will not occur, then the Company will discontinue the use of hedge accounting and recognize the unrealized gains or losses that were previously recorded in AOCI in net income.

Fair Value Measurements

SourceGas reports certain assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The following table sets forth by level within the fair value hierarchy SourceGas' derivative assets and liabilities that were measured at fair value on a recurring basis as of December 31, 2014 (in thousands):

December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				

Commodity derivative instruments	$	—	$	2,600	$	—	$	2,600
Interest rate swaps		—		138		—		138
Liabilities:								
Commodity derivative instruments		—		(9,760)		—		(9,760)
Interest rate swaps		—		(7,104)		—		(7,104)
Net derivative liability	$	—	$	(14,126)	$	—	$	(14,126)

In accordance with fair value accounting, the Company includes nonperformance risk in calculating fair value adjustments. This includes a credit risk adjustment based on the credit spreads of the counterparties when SourceGas is in an unrealized gain position, or on SourceGas' own credit spread when it is in an unrealized loss position. The inputs in the Company's valuation techniques on the financial derivatives include natural gas futures, credit default swap spreads and interest rates. These are also known as significant other observable, or Level 2, inputs. The Company has not used any Level 3 inputs in fair value valuations and there were no transfers between Level 1 or 2 during the year ended December 31, 2014.

Certain of SourceGas' master agreements for derivative instruments contain a reference to the Company's Senior Notes rating as determined by one or more of the major credit rating agencies. The current rating determines the available amount of unsecured credit. Any counterparty exposure in excess of a negotiated line of unsecured credit may result in the requirement for the Company to post collateral. The Company did not post collateral as of December 31, 2014. Should a change in the Senior Notes rating trigger a change in available unsecured credit, SourceGas may be required to post additional collateral to cover counterparty exposure. No additional collateral was posted at December 31, 2014.

The following table presents the fair value of the derivative instruments that are in a liability position, along with the Company's exposure to collateral calls if the credit risk contingent features were triggered (in thousands):

	December 31, 2014			
		Fair Value		Potential Collateral Call
Interest rate swaps	$	(3,538)	$	3,644
Commodity derivatives		(3,922)		4,084
	$	(7,460)	$	7,728

The fair value of the liability may differ from the potential collateral call amount due to the consideration of credit risk in its fair value measurements.

8. Income Taxes

SourceGas' income tax expense consisted of the following (in thousands):

		Year ended December 31, 2014
Current:		
Federal	$	(4,034)
State and local		(598)
Total current		(4,632)
Deferred:		
Federal		6,309
State and local		1,264
Total deferred		7,573
Total income tax expense	$	2,941

A reconciliation of the expense for income taxes to the expense that would result from applying the federal corporate income tax rate of 35 percent ("expected" rate) to SourceGas' pretax income is as follows (in thousands):

		Year ended December 31, 2014
Computed "expected" tax expense	$	13,231
Increase (decrease) in income taxes resulting from:		
Limited liability company income not subject to tax		(10,066)
State and local income taxes (net of federal benefit)		411
Other		(635)
Total expense for income taxes	$	2,941

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below in total (in thousands):

Total	December 31, 2014
Deferred short-term tax assets (liabilities):	
Net operating loss carryforwards	$ 2,431
Derivative financial instruments	1,204
Gas costs and inventory	(127)
Employee expenses	532
AOCI - hedging	645
Bad debt reserve	388
Other	3,875
Total deferred short-term tax assets	8,948
Valuation allowance	—
Net deferred short-term tax assets	8,948
Deferred long-term tax assets (liabilities):	
Net operating loss carryforwards	652
Pension and other postretirement benefits	748
Contributions in aid of construction	6,956
Capital loss carryforward	83
Property, plant and equipment	(48,544)
Deferred investment tax credit - ITC	(49)
Trademarks and trade names	(160)
Other	(3,615)
Total deferred long-term tax liabilities	(43,929)
Valuation allowance	(83)
Net deferred long-term tax liabilities	(44,012)
Net deferred tax liabilities	$ (35,064)

When assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. SourceGas considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods) and projected taxable income and tax planning strategies in making this assessment. In order to fully realize a deferred tax asset, the Company would need to generate future taxable income of a certain nature, ordinary or capital, before expiration of the respective deferred tax assets.

As of December 31, 2014, SourceGas has an estimated federal net operating loss carryforward of $6.9 million. IRS rules allow a two-year net operating loss carryback and a twenty-year net operating loss carryforward. The Company currently anticipates foregoing the federal net operating loss carryback and utilizing the carryforward in full in 2015. SourceGas' estimated state net operating

loss carryforwards total $10.1 million. The Company anticipates also foregoing the state net operating loss carryback where allowed. SourceGas expects to use the state net operating loss carryforward within the allowable carryforward period. These carryforwards may be used to offset future state taxable income. In addition to the Company's state net operating loss carryforward, the Company's capital loss carryforward is $0.2 million. A valuation allowance of $0.2 million is recorded in connection with this capital loss carryforward as the Company does not foresee capital gains to absorb this capital loss.

SourceGas is subject to U.S. federal income tax as well as state income tax filing obligations in a number of jurisdictions. The statute of limitations remains open for years 2011 forward and for years 2008 to the extent of net operating loss utilization in 2011, and 2009 to the extent of net operating loss utilization in 2011 and 2012. In 2014 SourceGas, Inc. completed an IRS examination of tax year 2011 with no material adjustments that were not proposed by the taxpayer.

In September 2013, the IRS and U.S. Treasury Department released final regulations on the deduction and capitalization of expenditures related to tangible property. In January 2014, the IRS issued *Revenue Procedure 2014-16*, which provided the procedural guidance with respect to compliance with these regulations. The regulations and related guidance do not completely address the tax treatment for natural gas pipeline network assets. However, the estimated impact of these regulations in the 2014 tax provision is a favorable adjustment of $26.7 million which includes a cumulative accounting method change adjustment of $20.2 million.

Based on the projections of future taxable income over the periods for which the deferred tax assets may be utilized, the Company believes that it is more likely than not it will realize the benefits of its deferred tax assets, net of valuation allowances, at December 31, 2014. The Company has a capital loss carryforward that expires in 2017, which is reported as a deferred tax asset with a full valuation allowance. A capital loss carryforward in the amount of $6.8 million expired on December 31, 2014. The deferred tax asset and related valuation allowance were removed from the balance sheet with no impact on tax expense.

In accordance with *ASC 740 Income Taxes*, during the fourth quarter of 2012, the Company recognized a reserve for uncertain tax positions related to pension, vacation and other post retirement deductions that were related to liabilities assumed by the Company as part of the acquisition of SGA on

July 1, 2008. In 2014, the Company released $2.4 million of a $3.6 million reserve as a result of completion of IRS audits of tax years 2008 and 2011. The reserve for uncertain tax benefits amounted to $1.2 million for the year ended December 31, 2014. Accrued interest related to the reserve is included in interest payable.

9. Related Party Transactions

Agreements have been executed with the owners of the Company to provide certain administrative and operating services. These agreements require SourceGas to pay service fees totaling $1.0 million per year and reimburse out-of-pocket expenses. Fees incurred under these agreements totaled $1.0 million for the year ended December 31, 2014.

There were no amounts payable to these related parties for the year ended December 31, 2014.

10. Subsequent Events

SourceGas has evaluated events subsequent to December 31, 2014 through March 26, 2015, which is the issuance date of these consolidated financial statements, in order to determine the impacts, if any, of these events on the Company’s consolidated financial statements. Except as discussed in Notes 2, 3 and 4, there are no material subsequent events to report.

Exhibit 99.2

SOURCEGAS HOLDINGS LLC

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(UNAUDITED)

SOURCEGAS HOLDINGS LLC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	(In thousands) September 30, 2015	(In thousands) December 31, 2014
ASSETS		
Current assets:		
Cash	$ 2,021	$ 3,806
Trade accounts receivable (less allowance for doubtful accounts of $1,333 and $2,122, respectively)	38,282	103,062
Gas in underground storage	11,075	15,686
Regulatory assets	10,216	16,885
Inventories	8,714	6,423
Deferred income taxes, net	3,627	8,948
Prepayments	5,496	4,321
Other current assets	6,492	6,196
Total current assets	85,923	165,327
Property, plant and equipment, net	942,230	840,189
Goodwill	384,229	384,229
Regulatory assets	30,348	28,639
Other assets	4,079	4,435
Total assets	$ 1,446,809	$ 1,422,819
LIABILITIES AND EQUITY		
Current liabilities:		
Trade accounts payable	$ 37,713	$ 68,959
Interest accrued	5,056	6,221
Taxes accrued	2,850	4,745
Regulatory liabilities	17,783	5,010
Derivative instruments	9,441	13,213
Customer deposits	12,330	12,372
Deferred revenue	7,577	5,780
Other	23,208	23,026
Total current liabilities	115,958	139,326
Derivative instruments	1,446	3,651
Deferred income taxes, net	40,151	44,012
Other liabilities	39,168	39,656
Long-term debt, net	873,746	858,869
Total liabilities	1,070,469	1,085,514
Equity:		
Members' capital	382,876	345,458
Accumulated other comprehensive loss	(6,536)	(8,153)
Total equity	376,340	337,305
Total liabilities and equity	$ 1,446,809	$ 1,422,819

See accompanying notes to consolidated financial statements.

SOURCEGAS HOLDINGS LLC
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	(In thousands) Nine Months Ended September 30, 2015	(In thousands) Nine Months Ended September 30, 2014
Operating revenues:		

Regulated natural gas sales	$ 205,575	$ 199,948
Regulated transportation and storage	70,079	63,824
Other regulated operating revenues	4,337	4,307
Unregulated revenues	53,710	69,077
Total operating revenues	333,701	337,156
Operating costs and expenses:		
Purchases and other costs of sales	150,725	171,602
Operation and maintenance	50,961	53,587
General and administrative	38,608	38,743
Depreciation and amortization	34,594	30,597
Taxes, other than income taxes	6,242	5,720
Total operating costs and expenses	281,130	300,249
Operating income	52,571	36,907
Other income (expense):		
Interest income	226	257
Interest expense and other financing costs	(25,599)	(23,634)
Other, net	1,570	622
Total other income (expense), net	(23,803)	(22,755)
Income before income taxes	28,768	14,152
Income tax (provision) benefit	(6,548)	845
Net income	$ 22,220	$ 14,997

See accompanying notes to consolidated financial statements.

SOURCEGAS HOLDINGS LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	(In thousands)	
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	$ 22,220	$ 14,997
Other comprehensive income (loss), before income taxes:		
Derivative instruments designated as cash flow hedges:		
Unrealized (losses) gains on commodity derivatives, net of tax of $541 and $(287), respectively	(827)	439
Reclassification of net realized losses (gains) on commodity derivatives into purchases and other costs of sales, net of tax of $(637) and $615, respectively	973	(940)
Reclassification of net realized (gains) losses on commodity derivatives into natural gas sales, net of tax of $80 and $(41), respectively	(122)	62
Unrealized losses on interest rate swaps	(1,931)	(1,440)
Reclassification of net realized losses on interest rate swaps into net income	3,524	3,437
Other comprehensive income	1,617	1,558
Comprehensive income	$ 23,837	$ 16,555

See accompanying notes to consolidated financial statements.

SOURCEGAS HOLDINGS LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	(In thousands)	
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Operating activities:		
Net income	$ 22,220	$ 14,997

Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	34,594	30,597
Deferred income taxes, net	2,890	(1,469)
Unrealized derivative (gains) losses	(2,527)	1,621
Other adjustments	2,845	2,827
Changes in operating assets and liabilities:		
Trade accounts receivable	63,225	58,881
Deposits	—	190
Gas in underground storage	5,139	(5,632)
Regulatory assets and liabilities	19,144	(19,873)
Other assets	(2,567)	(4,411)
Trade accounts payable	(30,148)	(30,305)
Accrued expenses and other liabilities	(6,027)	(706)
Cash provided by operating activities	108,788	46,717
Investing activities:		
Capital expenditures	(138,014)	(82,768)
Customer list acquisition	(2,340)	—
Other, net	(187)	5,063
Cash used in investing activities	(140,541)	(77,705)
Financing activities:		
Net (payments) borrowings on revolving credit facility	(115,200)	8,800
Payment of debt issuance costs	(32)	(747)
Proceeds from long-term debt	275,000	95,000
Proceeds from additional borrowings on term loan	45,000	—
Payments on term loans	(190,000)	(50,000)
Contributions from members	32,000	—
Distributions to members	(16,800)	(25,600)
Cash provided by financing activities	29,968	27,453
Net decrease in cash	(1,785)	(3,535)
Cash at beginning of period	3,806	5,117
Cash at end of period	$ 2,021	$ 1,582
Supplemental cash flow information:		
Cash paid for interest	$ 26,613	$ 24,096
Cash paid for income taxes	$ 5,139	$ 572
Capital expenditures included in trade accounts payable	$ 8,024	$ 7,840

See accompanying notes to consolidated financial statements.

SourceGas Holdings LLC
Notes to Consolidated Financial Statements
Nine months ended September 30, 2015
(Unaudited)

1. Organization and Business

These unaudited consolidated financial statements include the accounts of SourceGas Holdings LLC (“SourceGas Holdings”) and its subsidiaries, all of which are wholly owned. All significant intercompany transactions are eliminated in consolidation. As used herein, the terms “the Company” and “SourceGas” refer to SourceGas Holdings and its consolidated subsidiaries, collectively.

The accompanying unaudited consolidated financial statements and related notes are prepared in accordance with accounting standards generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial reporting and do not include all of the annual financial statement disclosures as required by GAAP. These consolidated financial statements should therefore be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014. In the opinion of management, the unaudited consolidated financial statements include all material adjustments, including normal recurring accruals, which management considers necessary for a fair presentation. A significant portion of SourceGas’ business is of a seasonal nature; therefore, the Company’s interim operating results and cash flows are not necessarily indicative of the amounts that will be reported for a full year.

SourceGas is a natural gas utility company providing distribution, transportation, storage, and sales to a diverse mix of customers in the Rocky Mountains and Midwest United States. The Company operates primarily through four subsidiaries: SourceGas Distribution LLC (“SGD”), SourceGas Arkansas Inc. (“SGA”), Rocky Mountain Natural Gas LLC (“RMNG”) and SourceGas Energy Services Co. (“SGES”). The Company’s primary business is the operation of regulated local natural gas distribution companies in Arkansas, Colorado, Nebraska and Wyoming. The Company is also engaged in the regulated transportation of natural gas for third parties through its intrastate pipeline systems. In addition to its regulated activities, SourceGas provides unbundled natural gas sales in Nebraska and Wyoming and sells, installs and services appliances and equipment.

2. Significant Accounting Policies

SourceGas' accounting policies are described in Note 2 to the Company's annual consolidated financial statements for the year ended December 31, 2014. There were no significant changes in our accounting policies during the nine months ended September 30, 2015.

Revenue Recognition

Regulated retail natural gas distribution revenues, derived primarily from the sale and transportation of natural gas, are recognized when gas is delivered to and received by the customer. SourceGas bills customers of its regulated retail natural gas distribution businesses on a monthly billing cycle basis; however, the billing cycle periods for certain classes of customers do not necessarily coincide with accounting periods used for financial reporting purposes. Revenue from unregulated natural gas marketing operations is recognized when gas is delivered to the customer. The Company estimates and accrues revenue applicable to gas delivered to customers, but not yet billed. Estimated unbilled revenue was $12.6 million and $58.6 million at September 30, 2015 and December 31, 2014, respectively.

New Accounting Standards

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires the presentation of debt issuance costs in the balance sheet as a direct deduction from the associated debt liability. In August 2015, ASU 2015-15, *Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* was issued to address the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. The new requirements are effective beginning January 1, 2016. Early adoption is permitted, and the new guidance will be applied on a retrospective basis. SourceGas does not plan to adopt this standard early and does not expect this standard to materially impact the financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires entities to recognize revenue depicting the transfer of goods or services to customers at amounts expected to be entitled to in exchange for those goods or services. The standard provides a five-step approach to revenue recognition: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; (5) recognize revenue when (or as) each performance obligation is satisfied. The new requirements are effective for nonpublic companies beginning January 1, 2019, per ASU 2015-14, *Deferral of Revenue Standard ASU 2014-09*. Adoption under the effective dates of ASU 2015-09 is permitted. SourceGas is currently assessing the impact of this standard on its financial statements and disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires an entity to measure inventory, other than inventory accounted for under last-in, first-out method or retail inventory method, at the lower of cost or net realizable value. ASU 2015-11 is effective for annual periods beginning after December 15, 2016 on a prospective basis. SourceGas does not plan to adopt this standard early and does not expect this standard to materially impact the financial statements and disclosures.

In July 2015, the FASB issued ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Part I. Fully Benefit-Responsive Investment Contract; Part II. Plan Investment Disclosures; Part III. Measurement Date Practical Expedient" ("ASU 2015-12"). ASU 2015-12 Part II simplifies the disclosure of plan assets by removing the requirement to disaggregate the fair value of assets disclosed by general type. ASU 2015-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. SourceGas does not plan to adopt this standard early and does not expect this standard to materially impact the financial statements and disclosures.

3. Rates and Regulatory Matters

Regulatory Assets and Liabilities

The following regulatory assets and liabilities are reflected in the consolidated balance sheets (in thousands):

	September 30, 2015	December 31, 2014
Regulatory Assets:		
Purchased gas costs	$ 10,381	$ 21,876
Pension plan	19,051	14,248
Postretirement medical plan	4,397	4,397
Recoverable Demand Side Management expenses	2,772	—
Rate regulation and application costs	617	877

Unrealized losses on derivative instruments		1,328		2,591
Other		2,018		1,535
Total regulatory assets		40,564		45,524
Less amount included in current assets		(10,216)		(16,885)
Regulatory assets, non-current	$	30,348	$	28,639

Regulatory Liabilities:				
Purchased gas costs	$	11,987	$	1,457
Recoverable Demand Side Management expenses		4,092		2,273
Unrealized gains on derivative instruments		729		820
Other		1,242		1,262
Total regulatory liabilities		18,050		5,812
Less amount included in current liabilities		(17,783)		(5,010)
Regulatory liabilities, non-current	$	267	$	802

SourceGas defers purchased gas costs that otherwise would be charged to expense in accordance with gas cost adjustment mechanisms set forth in filings approved by the public utility commissions. The Company is permitted to recover such costs through rates charged to customers. The Company records an asset when purchased gas costs cumulatively exceed related billings and records a liability when billings cumulatively exceed related costs.

The following table presents the purchased gas costs by state in an under (over) collected gas position:

		September 30, 2015		December 31, 2014
Arkansas	$	(7,595)	$	4,673
Colorado		(4,216)		3,253
Nebraska		376		(1,457)
Wyoming		(63)		900
Total purchased gas cost, net (1)	$	(11,498)	$	7,369

(1) Excludes the Litigation Settlement Special Rate Surcharge with RMNG discussed below

At September 30, 2015 and December 31, 2014, purchased gas costs in regulatory assets include $9.9 million and $13.1 million, respectively, in unrecovered gas costs related to the Litigated Settlement Special Rate Surcharge approved by the Colorado Public Utilities Commission ("CPUC"). RMNG is authorized to recover these amounts from customers through rate surcharges before November 1, 2017. Other purchased gas costs included in regulatory assets and regulatory liabilities are being recovered or refunded in rates, or are deferred pending regulatory review and approval. Generally, the applicable gas cost adjustment mechanisms provide for recovery or refund of deferred purchased gas costs over a 12-month period following the approval of a filing with the state public utility commissions with respect to such costs.

At September 30, 2015 and December 31, 2014, regulatory assets also include (1) unamortized costs incurred in connection with various regulatory applications that the Company is permitted to amortize and recover in its rates, (2) unrealized gains and losses on derivative instruments that are used to mitigate the volatility in purchased gas costs for regulated utility customers, (3) uncollectible customer accounts that the Company is permitted to recover in its rates and (4) energy efficiency programs that customers can take advantage of and the Company is permitted to recover through a separate surcharge on customer bills SourceGas also has recorded regulatory assets for actuarial losses that have not yet been recognized in periodic benefit cost for the Company's pension and other postretirement benefit plans. These amounts recorded as regulatory assets at September 30, 2015 and December 31, 2014 are not earning a rate of return.

Rate Filings and Other Matters

SourceGas Arkansas Inc.

On August 1, 2013, SGA filed an "Act 310" Surcharge with the Arkansas Public Service Commission ("APSC"). The purpose of the surcharge is to recover expenditures that SGA has reasonably incurred as a direct result of legislative or regulatory requirements relating to the protection of the public health, safety or the environment. The surcharge, which was projected to recover annual expenses of approximately $1.4 million through revenues, became effective upon filing. On January 14, 2014, an Administrative Law Judge issued an order approving SGA's Act 310 Surcharge. That order became the final order of the APSC on February 13, 2014. Between August 1, 2013 and early July 2014, when SGA stopped billing its customers under its Act 310 Surcharge (see below), SGA recovered approximately $1.6 million under that surcharge.

On September 9, 2013, SGA made a general rate case filing with the APSC, seeking approval of revised rates, which would increase annual revenues by approximately $18.7 million. After filing all of their testimony, the parties to the rate case reached a settlement agreement which increased SGA's annual revenues by approximately $13.8 million, reflecting a 9.30% return on equity. On July 7, 2014, the APSC approved that settlement agreement and the Company began billing its customers and recognizing revenues on that date. The increased rates provided SGA with, among other things, recovery of expenditures, which it had been recovering under its Act 310 Surcharge. Therefore, SGA stopped billing customers under that surcharge when the rates went into effect.

On March 11, 2014, SGA filed an application with the APSC seeking approval of a special rate contract between SGA and Big River Steel LLC, for natural gas transportation service at Big River Steel's planned mini mill in Osceola, Arkansas. On April 17, 2014, SGA filed an application with the APSC for approval to construct the pipeline needed to serve Big River Steel's mini mill. On June 20, 2014 and June 27, 2014, the APSC approved SGA's special rate contract and the construction of the pipeline, respectively. Under the special rate contract, Big River Steel is obligated to pay SGA a minimum amount for natural gas transportation service each year for a minimum of 20 years. Also under that contract, Big River Steel paid SGA a $5.0 million construction deposit, which SGA will refund to Big River Steel when SGA first delivers natural gas to Big River Steel's mini mill. Currently, SGA is on course to complete the pipeline in November, 2015, and Big River Steel is expected to begin operations at the mini mill in March, 2016.

On April 1, 2015 SGA made a general rate case filing with the Arkansas Public Service Commission ("APSC"), seeking approval of revised rates, which would increase annual revenues by approximately $12.6 million. In the rate case filing, SGA is also seeking approval of a new Infrastructure Program Rider ("IP Rider"), which would provide recovery to SGA for the costs it incurs in replacing bare steel mains, and certain other mains, as well as the costs of relocating meters susceptible to being struck by a motor vehicle. SGA is currently recovering those costs through two different riders, its Main Replacement Program Rider ("MRP Rider") and its At-Risk Meter Relocation Program Rider ("ARMRP Rider"). The proposed IP Rider would, in effect, combine the current MRP Rider and ARMRP Rider, and would also eliminate the regulatory lag in the recovery of costs present in those two riders. In its rate case filing, SGA also proposed to offer new services to its transportation customers, who purchase their natural gas from suppliers other than SGA, but pay SGA to deliver the natural gas to those customers.

The parties are currently in the process of exchanging filed testimony and an evidentiary hearing is scheduled for December 8, 2015. The APSC has until February 1, 2016 to issue its final order regarding SGA's rate case filing.

On July 16, 2015, SGA filed with the APSC an application seeking approval of SGA's purchase of the Stockton Storage Field ("Stockton"), located in Franklin County, Arkansas, from SWN Production (Arkansas), LLC, as well as a rider that would allow the Company to recover the costs of and earn a return on the purchase until the storage field can be included in SGA's rate base in the Company's next general rate case. Upon regulatory approval, the acquisition of the assets of Stockton was completed on October 21, 2015 for $25.0 million. The purchase of Stockton allows SGA to reduce the increasingly costly upstream capacity it currently holds on two interstate pipelines, resulting in a reduction of gas costs to SGA's ratepayers. SGA's ownership of the storage field also increases the Company's capacity to offer its proposed Market Center Services ("MCS") that are

currently under consideration in SGA's rate case. Should the MCS be approved, then under the settlement agreement approved by the APSC in the Stockton docket, SGA ratepayers will receive 60.0% of net MCS revenues for the first five years following the acquisition of Stockton and 50.0% thereafter.

On July 12, 2015, Black Hills Utility Holdings, Inc. ("Black Hills") entered into an agreement to purchase SourceGas Holdings and its subsidiaries from its current owners. This acquisition constitutes a change in control for the SourceGas subsidiaries and approvals from the respective state commissions are needed to close the transaction.

On August 10, 2015, SGA, along with Black Hills, filed with the APSC an application requesting approval of the transaction. On October 1, 2015, the APSC set a procedural schedule for the docket. Direct testimony from APSC Staff and the Arkansas Attorney General's Office is due on November 10, 2015. Subsequent rounds of testimony are due between December 2, 2015 and December 23, 2015. An evidentiary hearing is scheduled for January 7, 2016. In its scheduling order, the APSC stated that it will endeavor to enter its order on the application by February 29, 2016.

SourceGas Distribution LLC

On September 9, 2013, SGD filed an application with the Wyoming Public Service Commission ("WPSC") to construct major facilities consisting of a new compressor station ("Chokecherry"), natural gas transmission pipeline and other facilities that will interconnect SGD's facilities with adjacent interstate pipelines. SGD is also seeking authority to implement new unbundled storage services, market center services and a revenue sharing mechanism. At its hearing on March 27, 2014, the WPSC approved the major elements of SGD's application with revisions to the revenue sharing agreement and on August 14, 2014 issued its written order reflecting such approval.

SGD periodically files with the Nebraska Public Service Commission ("NPSC") seeking approval of an infrastructure system replacement cost recovery charge ("ISR Charge"). The purpose of the ISR Charge is to recover capital expenditures that SGD has incurred as a result of legislative or regulatory requirements relating to the protection of the public health, safety or the environment and is in addition to SGD's currently effective base rates. On June 25, 2013, the NPSC approved, and SGD implemented an ISR Charge, which generated annual revenues of $0.7 million effective July 1, 2013. On May 1, 2014, SGD filed an application with the NPSC seeking approval of a second ISR Charge. A hearing on the stipulation between SGD and the Public Advocate was held on July 30, 2014. The NPSC approved the SGD's second ISR Charge which was implemented September 1, 2014, and it is designed to generate annual revenues of $0.5 million.

On May 1, 2014, SGD filed an application with the NPSC seeking approval to put into effect a System Safety and Integrity Rider ("SSIR") and initial SSIR charges designed to collect $1.5 million of revenue requirement for SSIR projects completed in 2014. The NPSC granted SGD's SSIR application with certain conditions.

On November 10, 2014, SGD filed an application with the NPSC seeking approval to put into effect a 2015 SSIR to collect $1.4 million of revenue requirement for SSIR projects that will be completed in 2015. The NPSC approved the application but reduced the amount to be recovered to $1.3 million.

On October 1, 2015, SGD filed an application with the NPSC seeking approval to put into effect a 2016 SSIR to collect $3.8 million of revenue requirement for SSIR projects that will be completed in 2016.

On April 26, 2015, SGD filed an application with the CPUC requesting approval to implement a Choice Gas Program in Colorado for its North Eastern and Western Slope customers, effective June 1, 2016. Choice Gas is the unbundling of natural gas service by allowing competitive commodity supply options. The delivery of natural gas by SGD will still be regulated by the CPUC. If approved by the CPUC, customers will have the opportunity to choose a natural gas supplier and pricing option that best suits their needs. On July 17, 2015, SGD filed an Unopposed Motion to Vacate Hearing and Procedural Schedule, Waive Statutory Time limits, Hold Proceeding in Abeyance and Waive Response Time (Motion to Vacate) to hold the proceeding in abeyance for six months so SGD can determine how the Black Hills acquisition impacts the Choice Gas filing. The CPUC has granted this motion.

Due to the agreement entered on July 12, 2015 by Black Hills and SourceGas Holdings, on August 10, 2015, SGD, RMNG and Black Hills, filed with the other three state commissions Joint Applications, exhibits and attachments and supporting testimony, requesting from them a final order on or before February 1, 2016.

Rocky Mountain Natural Gas LLC

On March 31, 2014, RMNG filed an advice letter proposing an SSIR rate designed to collect $1.8 million of revenue requirement for SSIR projects to be completed in 2014. The rate went into effect on June 1, 2014, on an interim basis, subject to refund. On September 17, 2014, a settlement was reached and the CPUC approved most of the SSIR projects for inclusion in the SSIR rate. RMNG issued a refund of $0.5 million to ratepayers on December 16, 2014. On October 31, 2014, RMNG filed an advice letter proposing an SSIR rate to collect $0.4 million of revenue requirement for SSIR projects that will be completed in 2015. This SSIR rate went into effect on January 1, 2015.

Various other matters affecting SourceGas' regulated utility operations are subject to proceedings before the state public utility regulatory commissions in Arkansas, Colorado, Nebraska and Wyoming, as well as the Federal Energy Regulatory Commission.

4. Contingencies

Litigation

Currently there is a dispute between SGD and WBI Midstream (formerly known as Bitter Creek Pipelines LLC) regarding a Gas Gathering Agreement between the parties for the Bowdoin field in Montana. SGD purchases gas in the Bowdoin field from Noble Energy pursuant to a Gas Purchase Contract known as the P-802 Contract. Under the terms of the P-802 Contract, SGD is required to purchase all natural gas produced pursuant to specified pressures. Through its investigations, SGD learned that Noble Energy and WBI Midstream employed a variety of schemes to over-deliver natural gas to SGD under the P-802 and Gas Gathering Agreement. In September 2009, SGD initiated arbitration against WBI Midstream pursuant to the Gas Gathering Agreement for breach of contract. On October 14, 2010 the arbitration panel concluded that WBI Midstream had breached the Agreement. The arbitrators awarded SGD damages in the amount of approximately $26.5 million,

plus attorney's fees of approximately $0.5 million. WBI Midstream filed a Motion to Vacate the Arbitration Award which was denied. WBI Midstream appealed this decision and the Colorado Court of Appeals reversed the trial court's order and remanded the matter for trial. SGD's Petition for Certiorari was denied. This matter is pending rehearing before the Yuma County District Court. On January 19, 2015, SGD submitted a written offer to Noble Energy to terminate the P-802 contract. Negotiations continue between the parties. If Noble Energy agrees to terminate the P-802 contract, then WBI Midstream and SGD will terminate the Gas Gathering Agreement. SGD and WBI Midstream have agreed to extend the stay in the litigation case until November 29, 2015.

SourceGas is involved in other litigation and claims arising from the day-to-day operations of the Company's business. SourceGas believes that the ultimate resolution of those matters will not have a material adverse impact on the Company's business, consolidated balance sheets, cash flows or results of operations.

Environmental Matters

SourceGas is subject to federal, state and local laws and regulations governing environmental quality. RMNG is in the process of upgrading facilities at its Wolf Creek Storage Field. Soil and water sampling was requested by the United States Forest Service ("USFS") and the Bureau of Land Management ("BLM") in response to discolored soil found onsite. Small levels of contaminants were found in the immediate area around three of the well pads sampled. RMNG remediated the contamination; however, subsequent samplings requested by the USFS and BLM demonstrated low levels of contamination which were remediated in the summer of 2015. RMNG continues monitoring efforts and will be meeting with USFS and BLM in the fall of 2015 to reassess the need for additional monitoring. SourceGas accrues liabilities related to these efforts when it is reasonable to estimate the amount, or range of amounts, of probable costs related to these efforts. Management does not believe that it is reasonably possible that there will be a material change in the Company's estimated liability in the near term and does not currently anticipate the disposition of any known efforts to have a material effect on the Company's financial position, results of operations or cash flows.

5. Debt

Long-term debt consisted of the following (in thousands):

	Year Due	Interest	September 30, 2015 Weighted average Interest Rate	September 30, 2015 Outstanding	December 31, 2014 Weighted average Interest Rate	December 31, 2014 Outstanding
Senior Notes, unsecured	2017	Fixed	5.90%	$ 325,000	5.90%	$ 325,000
Senior Secured Notes	2019	Fixed	3.98%	95,000	3.98%	95,000
Term loan, secured by substantially all assets of SourceGas Holdings LLC	2018	Variable(1)	1.96%	150,000	1.92%	150,000
Term loan, unsecured	2016	Variable(1)	N/A	—	1.41%	150,000
Term loan, unsecured	2017	Variable(1)	1.09%	280,000	N/A	—
Revolving credit agreement, unsecured	2017	Variable(1)	1.45%	23,900	1.42%	139,100
Total				873,900		859,100
Less: Unamortized original issue discount on Senior Notes				(154)		(231)
Current maturities				—		—
Long-term debt, net				$ 873,746		$ 858,869

(1) Variable rate based on one-, two-, three-, or six-month LIBOR

On June 30, 2014, SourceGas Holdings borrowed additional funds on its existing $200.0 million term loan in the amount of $20.0 million. The borrowings under this term loan bear interest at a variable rate based on one, two, three, or six-month LIBOR plus a margin dependent upon the Senior Notes' rating. Upon closing the applicable margin was 1.75 percent. SourceGas Holdings received proceeds totaling $20.0 million from the majority of its existing lenders. All proceeds were used to pay down a portion of the revolving credit agreement held at SourceGas LLC.

On September 29, 2014, SourceGas Holdings issued the 3.98% Senior Secured Notes (the "Notes") with an aggregate principal amount of $95.0 million due in September 2019. The Notes are secured by substantially all assets of SourceGas Holdings. The interest payments are payable bi-annually, beginning March 29, 2015. SourceGas Holdings used $70.0 million of the proceeds to pay down the $220.0 million term loan at SourceGas Holdings and the remainder paid down the revolving credit agreement held at SourceGas LLC.

On January 15, 2015, SourceGas LLC entered into a term loan with an aggregate principal amount of $275.0 million due July 2016, which bears interest at a variable rate based on one, two, three, or six-month LIBOR plus a margin dependent upon the Senior Notes' rating. Upon closing, the applicable margin rate was 0.75%. The interest payments are payable monthly, beginning February 17, 2015. Initial proceeds were used to pay down the $150.0 million term loan and the remainder was used to pay down a portion of the revolving credit agreement, both held at SourceGas LLC.

On September 18, 2015, SourceGas LLC amended and restated the $275.0 million term loan which had a balance of $235.0 million prior to the amendment. The amended and restated agreement increased the aggregate principal amount to $280.0 million and the applicable margin rate to 0.88%, and extended the maturity date to June 30, 2017. The interest payments are payable monthly, beginning October 1, 2015. The proceeds were used to pay down a portion of the revolving credit agreement.

On September 18, 2015, SourceGas LLC amended the $175.0 million revolving credit agreement. The amended agreement decreased the borrowing capacity to $100.0 million and has extended the maturity date to June 30, 2017.

The Notes, term loans and revolving credit agreement contain certain covenants, including financial covenants that require SourceGas to maintain ratios of indebtedness to total capitalization below specified levels and an interest coverage ratio above a specified level. At September 30, 2015 and December 31, 2014, the Company was in compliance with these ratios.

The Senior Notes are not actively traded in the public markets, therefore; the fair value of the Company's Senior Notes is estimated using the mid-price yield of other companies' outstanding debt issuances that actively trade in public markets. These companies have credit ratings, terms and remaining maturities similar to SourceGas' Senior Notes. These valuations are based on Level 2 inputs as defined in the fair value hierarchy.

The following table provides an estimate of the fair value of the Company's long-term debt using market prices in effect on the valuation date (in thousands):

	September 30, 2015	December 31, 2014
Carrying amount	$ 873,746	$ 858,869
Estimated fair value	891,546	884,869

6. Pension and Other Postretirement Benefits

SourceGas LLC sponsors a defined benefit pension plan ("Retirement Plan") and a postretirement medical plan ("Medical Plan"). These plans are described in Note 6 to the Company's annual consolidated financial statements for the year ended December 31, 2014.

During the nine months ended September 30, 2015, SourceGas contributed $2.9 million and $0.9 million to the Company's Retirement Plan and Medical Plan, respectively. During 2015, SourceGas expects to contribute a total of $3.9 million and $0.9 million to the Retirement Plan and Medical Plan, respectively.

7. Property, Plant and Equipment

The following table sets forth the major classification of the Company's property, plant and equipment and related accumulated depreciation (in thousands):

	September 30, 2015	December 31, 2014
Natural gas distribution	$ 804,581	$ 721,797
Natural gas transmission	326,059	288,686
Other property, plant and equipment in service	314,237	353,543
Construction work in progress	103,664	57,218
Total property, plant and equipment	1,548,541	1,421,244
Less: accumulated depreciation and amortization	(606,311)	(581,055)
Property, plant and equipment, net	$ 942,230	$ 840,189

8. Derivatives and Fair Value Measurement

Derivatives

In managing its natural gas supply portfolios, the Company has historically entered into physical fixed- and variable-priced contracts, which qualify as derivatives. Additionally, the Company purchased over-the-counter financial natural gas swap contracts and options to mitigate risks associated with changes in the market price. Gas contracts that have firm commitments to purchase a fixed amount of gas in the future at market price, qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business and are exempt from fair value reporting. The Company's natural gas purchases with volumetric swing in their contracts do not qualify for the normal purchases and normal sales exception. These purchase deals and the swaps are recorded at fair value.

Pursuant to regulatory deferral accounting treatment for rate-regulated entities, the costs associated with gains and losses from the use of financial and physical derivative instruments are included in the Company's purchased gas adjustment mechanisms. The changes in fair value and the settled amounts of these derivative instruments do not have a direct effect on earnings or other comprehensive income.

The Company has designated a certain number of its commodity derivative instruments as cash flow hedges. The effective portion of the unrealized gains and losses arising from the use of the cash flow hedges is deferred in Accumulated Other Comprehensive Income ("AOCI") and will be recognized in our operating results when the forecasted transaction affects earnings. Hedge ineffectiveness, to the extent incurred, is currently recognized in the Company's operating results.

In December 2014, SourceGas purchased over-the-counter (RBOB) gasoline swaps to help stabilize operating costs associated with forecasted purchases of gasoline fuels used to power vehicles and equipment used in the course of business. At September 30, 2015 and December 31, 2014, the Company held 42,000 gallons per month, or 168,000 and 504,000 total gallons, respectively of

NYMEX gasoline swaps at an average price of $1.80 per gallon. These contracts extend through December 2015 and are not designated as cash flow hedges. SourceGas recognizes unrealized gains and losses related to these derivative instruments in the operating results; they are not recorded as a component of deferred gas costs.

The commodity options and swaps are utilized to effectively fix the price on a portion of the Company's natural gas supply portfolios. These financial derivatives are purchased in anticipation of the forecasted purchases of natural gas, during time frames ranging from October 2015 through August 2017.

Under these contracts, the Company pays the counterparty at a fixed rate and receives a floating rate per Million Metric British Thermal Units ("Mmbtu") of natural gas. Volumes below exclude contracts that qualify for normal purchase and normal sales. As of September 30, 2015 and December 31, 2014, the Company had net long natural gas contracts outstanding in the following quantities:

Mmbtu (in thousands)	September 30, 2015	December 31, 2014
Hedge designation:		
Cash flow hedges	2,854	1,282
Not designated as hedges	18,264	13,347
Total hedges	21,118	14,629
Hedge position:		
Short position	(3,614)	(5,077)
Long position	24,732	19,706
Net long position	21,118	14,629

Interest Rate Swaps

SourceGas utilizes interest rate swaps to reduce the Company's exposure to changes in market interest rates, which affect interest payments on the Company's outstanding variable interest rate debt. SourceGas enters into these transactions only with counterparties whose debt securities are rated investment grade by the major rating agencies, and the Company actively monitors the counterparties' credit ratings. SourceGas believes the risk of default by these counterparties is remote.

In November 2011, SourceGas entered into four interest rate swaps as a means of fixing the interest rate on the then anticipated refinancing of the $150.0 million term loan. Under these interest rate swaps, SourceGas pays a fixed rate of 2.73%, 3.05%, 3.01% and 3.11% on notional principal amounts of $40.0 million, $40.0 million, $40.0 million and $30.0 million, respectively. These swaps receive a variable one-month LIBOR rate on the notional principal amounts over a four year, nine month term ending in February 2017. These swaps were designated as cash flow hedges upon inception.

In April 2013, SourceGas LLC entered into forward starting interest rate swaps with an aggregate notional amount of $150.0 million as a means of fixing the interest on the $150.0 million term loan. Under these swaps, SourceGas LLC pays a weighted average fixed rate of 0.39 percent. These swaps receive a variable one-month LIBOR rate on the notional principal amounts over a two year, seven

month term ending in February 2016. These swaps were designated as cash flow hedges upon inception.

In April 2013, SourceGas Holdings entered into a forward starting interest rate swap as a means of fixing the interest on an additional $50.0 million relating to the anticipated refinancing of the activity on the $150.0 million term loan. Under this swap, SourceGas Holdings paid a fixed rate of 0.60% and received a floating interest rate equal to one-month LIBOR rate on the notional principal amounts over a three year, eight month term ending in February 2017. This swap early settled on July 18, 2014 for a gain of approximately $0.3 million.

The fair value and balance sheet classification of the Company's derivative instruments are as follows (in thousands):

	Balance Sheet Location	September 30, 2015	December 31, 2014
Designated as cash flow hedges:			
Asset derivative instruments:			
Current commodity contracts	Other current assets	$ 182	$ 207
Noncurrent commodity contracts	Other assets	21	60
Current interest rate swaps	Other current assets	—	89
Noncurrent interest rate swaps	Other assets	—	49
Liability derivative instruments:			
Current commodity contracts	Derivative instruments	(1,625)	(1,719)
Current interest rate swaps	Derivative instruments	(4,151)	(4,362)
Noncurrent commodity contracts	Derivative instruments	(133)	(289)
Noncurrent interest rate swaps	Derivative instruments	(1,245)	(2,742)
Total		(6,951)	(8,707)
Not designated as hedges:			
Asset derivative instruments:			
Current commodity contracts	Other current assets	1,918	2,013
Noncurrent commodity contracts	Other assets	125	320
Liability derivative instruments:			
Current commodity contracts	Derivative instruments	(3,665)	(7,132)
Noncurrent commodity contracts	Derivative instruments	(68)	(620)
Total		(1,690)	(5,419)
Total derivative instruments on balance sheet		$ (8,641)	$ (14,126)

The changes in fair value and income statement location of the Company's derivative instruments are as follows (in thousands):

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Designated as cash flow hedges:		
Natural gas sales:		
Ineffectiveness loss	$ —	$ 26
Net realized gain (loss) reclassified from AOCI	202	(102)
Purchases and other costs of sales:		
Ineffectiveness gain (loss)	1	(85)
Net realized (loss) gain reclassified from AOCI	(1,610)	1,555
Interest expense:		
Ineffectiveness loss	(3)	(23)
Net realized loss reclassified from AOCI	(3,524)	(3,437)
Not designated as hedges:		
Natural gas sales:		
Net realized loss	(51)	(12)
Net unrealized gain	24	35
Purchases and other costs of sales:		
Net realized loss	(3,465)	(245)
Net unrealized gain (loss)	2,475	(1,574)
Operation and maintenance:		
Net realized loss	(15)	—
Net unrealized gain	30	—
Total impact of derivative instruments on earnings	$ (5,936)	$ (3,862)

In accordance with FASB Accounting Standards Codification ("ASC") 220 *Comprehensive Income*, presentation of the Company's derivative instruments included in AOCI is as follows, net of tax where applicable (in thousands):

	Interest Rate Swaps	Commodity Derivatives	AOCI
Balance, December 31, 2014	**$ (7,168)**	**$ (985)**	**$ (8,153)**
Decrease in fair value, net of tax	(1,931)	(827)	(2,758)
Recognition of losses in earnings due to settlements, net of tax	3,428	851	4,279
Recognition of losses in earnings due to amortization	96	—	96
Balance, September 30, 2015	**$ (5,575)**	**$ (961)**	**$ (6,536)**

The Company expects to reclassify $0.9 million of deferred loss, net of tax, to purchases and other costs of sales relating to commodity derivative instruments and $4.2 million of deferred losses to interest expense for the twelve months ended September 30, 2016, as forecasted transactions occur. If it becomes probable that a forecasted transaction will not occur, then the Company will discontinue the use of hedge accounting and recognize the unrealized gains or losses that were previously recorded in AOCI in net income.

Fair Value Measurements

SourceGas reports certain assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The following table sets forth by level within the fair value hierarchy SourceGas' derivative assets and liabilities that were measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 (in thousands):

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
September 30, 2015				
Assets:				
Commodity derivative instruments	$ —	$ 2,246	$ —	$ 2,246
Interest rate swaps	—	—	—	—
Liabilities:				
Commodity derivative instruments	—	(5,491)	—	(5,491)
Interest rate swaps	—	(5,396)	—	(5,396)
Net derivative liability	$ —	$ (8,641)	$ —	$ (8,641)
December 31, 2014				
Assets:				
Commodity derivative instruments	$ —	$ 2,600	$ —	$ 2,600
Interest rate swaps	—	138		138
Liabilities:				
Commodity derivative instruments	—	(9,760)	—	(9,760)
Interest rate swaps	—	(7,104)	—	(7,104)
Net derivative liability	$ —	$ (14,126)	$ —	$ (14,126)

In accordance with fair value accounting, the Company includes nonperformance risk in calculating fair value adjustments. This includes a credit risk adjustment based on the credit spreads of the counterparties when SourceGas is in an unrealized gain position, or on SourceGas' own credit spread when it is in an unrealized loss position. The inputs in the Company's valuation techniques on the financial derivatives include natural gas futures, credit default swap spreads and interest rates. These are also known as significant other observable, or Level 2, inputs. The Company has not used any Level 3 inputs in fair value valuations and there were no transfers between Level 1 or 2 as of September 30, 2015 and December 31, 2014.

Certain of SourceGas' master agreements for derivative instruments contain a reference to the Company's Senior Notes rating as determined by one or more of the major credit rating agencies. The current rating determines the available amount of unsecured credit. Any counterparty exposure in excess of a negotiated line of unsecured credit may result in the requirement for the Company to post collateral. Should a change in the Senior Notes rating trigger a change in available unsecured credit, SourceGas may be required to post additional collateral to cover counterparty exposure. No collateral was posted during period ended September 30, 2015 and December 31, 2014.

The following table presents the fair value of the derivative instruments that are in a liability position, along with the Company's exposure to collateral calls if the credit risk contingent features were triggered (in thousands):

	September 30, 2015	
	Fair Value	Potential Collateral Call
Interest rate swaps	$ (2,773)	$ 2,811
Commodity derivatives	(1,472)	1,516
	$ (4,245)	$ 4,327

The fair value of the liability may differ from the potential collateral call amount due to our consideration of credit risk in its fair value measurements.

9. Income Taxes

A reconciliation of the expense for income taxes to the expense that would result from applying the federal corporate income tax rate of 35% to SourceGas' pretax income is as follows (in thousands):

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Computed "expected" tax expense	$ 10,069	$ 4,953
Increase (decrease) in income taxes resulting from:		
Limited liability company income not subject to tax	(4,514)	(3,936)
State and local income taxes	724	132
Other	269	(1,994)
Total expense for income taxes	$ 6,548	$ (845)

10. Subsequent Events

SourceGas has evaluated events subsequent to September 30, 2015 through November 13, 2015, which represents the date the unaudited consolidated financial statements were available to be issued.

In October 2015, the Company borrowed an additional $40 million against the revolving credit agreement to fund the Stockton Storage purchase referenced in Note 3 ($25.0 million) and normal operating capital expenditures ($15.0 million).

Except as discussed in Notes 3 and 4, there are no subsequent events that would require recognition or disclosure in the unaudited consolidated financial statements.

BLACK HILLS CORPORATION
PRO FORMA FINANCIAL INFORMATION
(UNAUDITED)

The following Unaudited Pro Forma Combined Condensed Financial Statements (“pro forma financial statements”) give effect to the pending acquisition by Black Hills Corporation (“Black Hills”) of SourceGas Holdings LLC (“SourceGas”) and the corresponding common stock offering and Corporate Units offering reflected in the preliminary prospectus supplements filed with the Securities and Exchange Commission by Black Hills on November 16, 2015. The pro forma financial statements have been prepared for illustrative purposes only. The pro forma information is not necessarily indicative of what the combined company’s consolidated financial position or results of operations actually would have been had the acquisition been completed as of the dates indicated. In addition, the unaudited pro forma combined condensed financial information does not purport to project the future financial position or operating results of the combined company. The pro forma adjustments are based on the information available at the time of the preparation of these pro forma financial statements.

The pro forma financial information should be read in conjunction with the following historical consolidated financial statements and accompanying notes of Black Hills and SourceGas, referenced below. The pro forma financial statements of Black Hills Corporation have been derived from:

- the audited consolidated statement of income of Black Hills Corporation for the year ended December 31, 2014 included in Black Hills Corporation’s Form 10-K/A for the fiscal year then ended;

- the consolidated financial statements of Black Hills Corporation as of and for the nine months ended September 30, 2015 (unaudited) included in Black Hills Corporation’s Form 10-Q for the quarterly period ended September 30, 2015;

- the audited consolidated statement of income of SourceGas for the year ended December 31, 2014; and

- the consolidated financial statements of SourceGas as of and for the nine months ended September 30, 2015 (unaudited).

Black Hills’ acquisition of SourceGas will be accounted for in accordance with the acquisition method of accounting and the regulations of the Securities and Exchange Commission. The Unaudited Pro Forma Combined Condensed Statements of Income (“pro forma statements of income”) for the year ended December 31, 2014 and the nine months ended September 30, 2015 give effect to the SourceGas acquisition and related financing as if they were completed on January 1, 2014 (the first day of the most recently completed fiscal year). The Unaudited Pro Forma Combined Condensed Balance Sheet (“pro forma balance sheet”) was prepared as if the SourceGas acquisition and related financing were completed on September 30, 2015 (the latest interim balance sheet date). The unaudited pro forma statements of income and balance sheet are based on certain assumptions, described in the accompanying notes, which management believes are reasonable. These unaudited pro forma financial statements should be read in conjunction with the accompanying Notes to Unaudited Combined Condensed Pro Forma Financial Statements.

The historical consolidated financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are:

- directly attributable to the SourceGas acquisition and related financing;

- factually supportable; and

- with respect to the pro forma statements of income, expected to have a continuing impact on the combined results of Black Hills and SourceGas.

The pro forma financial statements do not reflect any cost savings (or associated costs to achieve such savings) from operating efficiencies or restructuring that could result from the SourceGas acquisition. Further, the pro forma financial statements do not reflect the effect of any regulatory actions that may impact Black Hills’ financial results when the SourceGas acquisition is completed. The pro forma statements of income reflect adjustments to remove the effect of transaction costs associated with the SourceGas acquisition that have been incurred by Black Hills and are included in its historical financial statements.

The pro forma financial statements have been presented for illustrative purposes only and are not necessarily indicative of results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or the future consolidated results of operations or financial position of the combined company. Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in connection with the pro forma financial statements. The pro forma financial statements have been prepared in advance of the close of the SourceGas acquisition and the related financing transactions; the final amounts recorded upon the closings of the acquisition and the related financing transactions may differ materially from the information presented. These estimates are subject to market conditions and may materially change pending further review of the assets acquired and liabilities assumed and additional information available at the time of closing.

Black Hills’ management believes that its assumptions provide a reasonable basis for presenting all of the significant effects of the SourceGas acquisition and related financing transactions and that the pro forma adjustments give appropriate effect to those assumptions that are applied in the pro forma financial statements. Certain amounts in SourceGas’ historical balance sheet as of September 30, 2015, have been reclassified to conform to Black Hills’ presentation in these pro forma financial statements. These reclassifications are presented within the Presentation Reclass column in the pro forma balance sheet as of September 30, 2015.

BLACK HILLS CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME (LOSS)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(in thousands, except per share amounts)	Black Hills Corporation Historical	SourceGas Historical	Pro Forma Adjustments Relating to the SourceGas Acquisition	Pro Forma Adjustments Relating to Financings and Equity Offerings	Note	Combined Pro Forma
Revenue	$ 986,346	$ 333,701	$ —	$ —		$ 1,320,047
Operating expenses:						
Utilities -						
Fuel, purchased power and cost of natural gas sold	350,778	150,725	—	—		501,503
Operations and maintenance	205,630	89,569	(1,867)	—	5 (A)	293,332
Non-regulated energy operations and maintenance	67,744	—	—	—		67,744
Depreciation, depletion and amortization	116,821	34,594	—	—		151,415
Taxes - property, production and severance	33,988	6,242	—	—		40,230
Impairment of long-lived assets	178,395	—	—	—		178,395
Other operating expenses	3,392	—	—	—		3,392
Total operating expenses	956,748	281,130	(1,867)	—		1,236,011
Operating income (loss)	29,598	52,571	1,867	—		84,036
Other income (expense):						
Interest charges -						
Interest expense incurred (including amortization of debt issuance costs, premiums and discounts and realized settlements on interest rate swaps)	(61,833)	(25,599)	—	(42,399)	5 (B)	(129,831)
Allowance for funds used during construction - borrowed	843	—	—	—		843
Capitalized interest	1,037	—	—	—		1,037
Interest income	1,163	226	—	—		1,389
Allowance for funds used during construction - equity	563	—	—	—		563
Other income (expense), net	1,568	1,570	—	—		3,138
Total other income (expense), net	(56,659)	(23,803)	—	(42,399)		(122,861)
Income (loss) before earnings (loss) of unconsolidated subsidiaries and income taxes	(27,061)	28,768	1,867	(42,399)		(38,825)
Equity in earnings (loss) of unconsolidated subsidiaries	(344)	—	—	—		(344)
Impairment of equity investments	(5,170)	—	—	—		(5,170)
Income tax benefit (expense)	14,640	(6,548)	(5,492)	15,688	5 (C)	18,288
Net income (loss) available for common stock	$ (17,935)	$ 22,220	$ (3,625)	$ (26,711)		$ (26,051)
Earnings (loss) per share of common stock:						
Earnings (loss) per share, Basic	$ (0.40)					$ (0.52)
Earnings (loss) per share, Diluted	$ (0.40)					$ (0.52)
Weighted average common shares outstanding:						
Basic	44,598			5,500	3, 6	50,098
Diluted	44,598			5,500	3, 6	50,098

The accompanying Notes to Unaudited Combined Condensed Pro Forma Financial Statements are an integral part of these Combined Condensed Pro Forma Financial Statements.

BLACK HILLS CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands, except per share amounts)	Black Hills Corporation Historical	SourceGas Historical	Pro Forma Adjustments Relating to the SourceGas Acquisition	Pro Forma Adjustments Relating to Financings and Equity Offerings	Note	Combined Pro Forma
Revenue	$ 1,393,570	$ 492,128	$ —	$ —		$ 1,885,698
Operating expenses:						
Utilities -						
Fuel, purchased power and cost of natural gas sold	581,782	252,940	—	—		834,722
Operations and maintenance	270,954	121,938	—	—		392,892
Non-regulated energy operations and maintenance	88,141	—	—	—		88,141
Depreciation, depletion and amortization	144,745	41,003	—	—		185,748
Taxes - property, production and severance	43,580	7,694	—	—		51,274

Other operating expenses	500	—	—	—		500
Total operating expenses	1,129,702	423,575	—	—		1,553,277
Operating income (loss)	263,868	68,553	—	—		332,421
Other income (expense):						
Interest charges -						
Interest expense incurred (including amortization of debt issuance costs, premiums and discounts and realized settlements on interest rate swaps)	(73,017)	(32,511)	—	(41,202)	5 (B)	(146,730)
Allowance for funds used during construction - borrowed	1,075	—	—	—		1,075
Capitalized interest	982	—	—	—		982
Interest income	1,925	386	—	—		2,311
Allowance for funds used during construction - equity	994	—	—	—		994
Other income (expense), net	1,688	1,375	—	—		3,063
Total other income (expense), net	(66,353)	(30,750)	—	(41,202)		(138,305)
Income (loss) before earnings (loss) of unconsolidated subsidiaries and income taxes	197,515	37,803	—	(41,202)		194,116
Equity in earnings (loss) of unconsolidated subsidiaries	(1)	—	—	—		(1)
Income tax benefit (expense)	(66,625)	(2,941)	(10,068)	15,245	5 (C)	(64,389)
Net income (loss) available for common stock	$ 130,889	$ 34,862	$ (10,068)	$ (25,957)		$ 129,726
Earnings (loss) per share of common stock:						
Earnings (loss) per share, Basic	$ 2.95					$ 2.60
Earnings (loss) per share, Diluted	$ 2.93					$ 2.59
Weighted average common shares outstanding:						
Basic	44,394			5,500	3, 6	49,894
Diluted	44,598			5,500	3, 6	50,098

The accompanying Notes to Unaudited Combined Condensed Pro Forma Financial Statements are an integral part of these Combined Condensed Pro Forma Financial Statements.

BLACK HILLS CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
AS OF SEPTEMBER 30, 2015

(in thousands)	Black Hills Corporation Historical	SourceGas Historical	Presentation Reclass	Pro Forma Adjustments Relating to the SourceGas Acquisition	Pro Forma Adjustments Relating to Financings and Equity Offerings	Note	Combined Pro Forma
ASSETS							
Current assets:							
Cash and cash equivalents	$ 38,841	$ 2,021	$ —	$ (956,254)	$ 1,155,000	5 (E) (F)	$ 239,608
Restricted cash and equivalents	2,462	—	—	—	—		2,462
Accounts receivable, net	115,502	38,282	—	—	—		153,784
Materials, supplies and fuel	90,349	8,714	11,076	—	—		110,139
Gas in underground storage	—	11,075	(11,075)	—	—		—
Derivative assets, current	—	—	2,100	—	—		2,100
Income tax receivable, net	—	—	—	—	—		—
Deferred income tax assets, net, current	47,783	3,627	—	3,489	—	5 (H)	54,899
Regulatory assets, current	51,962	10,216	—	—	—		62,178
Prepayments	—	5,496	(5,496)	—	—		—
Other current assets	55,383	6,492	3,395	—	3,400	5 (G)	68,670
Total current assets	402,282	85,923	—	(952,765)	1,158,400		693,840
Investments	12,148	—	—	—	—		12,148
Property, plant and equipment	4,882,420	1,548,541	—	—	—		6,430,961
Less: accumulated depreciation and depletion	(1,617,723)	(606,311)	—	—	—		(2,224,034)
Total property, plant and equipment, net	3,264,697	942,230	—	—	—		4,206,927
Other assets:							
Goodwill	359,527	384,229	—	594,336	—	4, 5 (D)	1,338,092
Intangible assets, net	3,440	—	—	—	—		3,440
Regulatory assets, non-current	182,337	30,348	—	—	—		212,685
Derivative assets, non-current	—	—	146	—	—		146
Deferred income taxes, non-current	—	—	—	—	—		—
Other assets, non-current	22,131	4,079	(146)	—	—		26,064
Total other assets, non-current	567,435	418,656	—	594,336	—		1,580,427
TOTAL ASSETS	$ 4,246,562	$ 1,446,809	$ —	$ (358,429)	$ 1,158,400		$ 6,493,342

BLACK HILLS CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
AS OF SEPTEMBER 30, 2015

(in thousands, except per share amounts)	Black Hills Corporation Historical	SourceGas Historical	Presentation Reclass	Pro Forma Adjustments Relating to the SourceGas Acquisition	Pro Forma Adjustments Relating to Financings and Equity Offerings	Note	Combined Pro Forma
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current liabilities:							
Accounts payable	$ 91,633	$ 37,713	$ —	$ —	$ —		$ 129,346
Interest accrued	—	5,056	(5,056)	—	—		—
Accrued liabilities	229,957	—	48,171	—	10,400	5 (J)	288,528
Income taxes accrued	308	2,850	—	—	—		3,158
Derivative liabilities, current	3,312	9,441	—	—	—		12,753
Deferred income taxes, current	—	—	—	—	—		—
Customer deposits	—	12,330	(12,330)	—	—		—
Deferred revenue	—	7,577	(7,577)	—	—		—
Regulatory liabilities, current	5,647	17,783	—	—	—		23,430
Notes payable	117,900	—	—	—	682,967	5 (F)	800,867
Current maturities of long-term debt	—	—	—	—	—		—
Other	—	23,208	(23,208)	—	—		—
Total current liabilities	448,757	115,958	—	—	693,367		1,258,082
Long-term debt, net of current maturities	1,567,797	873,746	—	—	260,000	5 (F)	2,701,543
Deferred credits and other liabilities:							
Deferred income tax liabilities, net, non-current	494,834	40,151	—	7,911	—	5 (H)	542,896
Derivative liabilities, non-current	722	1,446	—	—	—		2,168
Regulatory liabilities, non-current	152,164	—	267	—	—		152,431
Benefit plan liabilities	158,614	—	31,194	—	—		189,808
Other deferred credits and other liabilities	136,462	39,168	(31,461)	10,000	17,415	5 (J)	171,584
Total deferred credits and other liabilities	942,796	80,765	—	17,911	17,415		1,058,887
Stockholders' equity:							
Common stock equity —							
Common stock $1 par value; 100,000,000 shares authorized; issued 50,391,626	44,892	—	—	—	5,500	5 (I)	50,392
Members capital	—	382,876	(382,876)	—	—		—
Additional paid-in capital	753,856	—	194,881	(194,881)	197,118	5 (I) (J)	950,974
Retained earnings	504,864	—	187,995	(187,995)	(15,000)	5 (I)	489,864
Treasury stock, at cost — 35,855	(1,789)	—	—	—	—		(1,789)
Accumulated other comprehensive income (loss)	(14,611)	(6,536)	—	6,536	—		(14,611)
Total stockholders' equity	1,287,212	376,340	—	(376,340)	187,618		1,474,830
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,246,562	$ 1,446,809	$ —	$ (358,429)	$ 1,158,400		$ 6,493,342

The accompanying Notes to Unaudited Combined Condensed Pro Forma Financial Statements are an integral part of these Combined Condensed Pro Forma Financial Statements.

BLACK HILLS CORPORATION
NOTES TO UNAUDITED COMBINED CONDENSED PRO FORMA FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND THE YEAR ENDED DECEMBER 31, 2014

(1) DESCRIPTION OF THE SOURCEGAS ACQUISITION

On July 12, 2015, Black Hills Utility Holdings, Inc. entered in a definitive agreement to acquire SourceGas Holdings LLC and its subsidiaries from investment funds managed by Alinda Capital Partners and GE Energy Financial Services, a unit of General Electric Co. (NYSE:GE), for approximately $1.89 billion, which includes $200 million of projected capital expenditures through closing and the assumption of approximately $720 million in debt projected at closing. The effective purchase price is estimated to be $1.74 billion after taking into account approximately $150 million net present value of tax benefits consisting primarily of acquired NOLs and a step up of the assets including additional amortizable goodwill resulting from the transaction. The purchase price is subject to customary post-closing adjustments for cash, capital expenditures, indebtedness and working capital. This purchase price adjustment is to be determined and agreed to after closing, subject to a review period. Accordingly, no purchase price adjustment has been reflected in these pro forma financial statements; except that the assumed purchase price in these pro forma financial statements reflects actual capital expenditures of $140 million through September 30, 2015 and actual indebtedness of $874 million as of September 30, 2015.

In connection with entering into the definitive agreement to acquire SourceGas, Black Hills entered into a Bridge Term Loan Agreement with Credit Suisse as the Administrative Agent and 10 additional banks, collectively, for commitments totaling $1.17 billion. Black Hills may draw up to $1.17 billion on this loan to fund the acquisition and related expenses. In the event Black Hills funds under the Bridge Term Loan Agreement, in certain circumstances, we are required to pay down those borrowings with funds received from the proceeds of equity and debt offerings and asset sales.

SourceGas primarily operates four regulated natural gas utilities serving approximately 425,000 customers in Arkansas, Colorado, Nebraska and Wyoming, and a 512 mile regulated intrastate natural gas transmission pipeline in Colorado. Following completion of the transaction, SourceGas will be a wholly-owned subsidiary of Black Hills Utility Holdings, Inc.

The agreement for the acquisition of SourceGas is subject to various provisions including representations, warranties, and covenants with respect to Arkansas, Colorado, Nebraska and Wyoming utility businesses that are subject to customary conditions and limitations. Completion of the transaction is also subject to regulatory approvals from the public utility commissions in Arkansas, Colorado, Nebraska, and Wyoming. The acquisition was also subject to notification, clearance and reporting requirements under the Hart-Scott-Rodino Act, which waiting period expired on August 18, 2015. On August 10, 2015, we filed joint applications with the public utility commissions in Arkansas, Colorado, Nebraska, and Wyoming, requesting a March 1, 2016 approval date in all four filings. The discovery process with all four state commissions is ongoing and the acquisition is expected to close during the first half of 2016.

(2) BASIS OF PRESENTATION OF THE COMBINED CONDENSED PRO FORMA FINANCIAL STATEMENTS

Black Hills Corporation Historical represents Black Hills Corporation's historical audited consolidated statement of income derived from the audited financial statements included in the Black Hills' Annual Report on Form 10-K/A for the year ended December 31, 2014 and the condensed consolidated statement of income and balance sheet derived from the unaudited financial statements included in Black Hills' Quarterly Report on Form 10-Q, for the period ended and as of September 30, 2015.

SourceGas Historical represents SourceGas Holdings LLC's historical audited consolidated statement of income for the year ended December 31, 2014 and the unaudited consolidated statement of income and balance sheet for the nine months ended and as of September 30, 2015. Certain reclassifications have been made to SourceGas' historical presentation in order to conform to Black Hills Corporation's historical presentation, as presented within the column titled "Presentation Reclass" in the pro forma balance sheet.

The unaudited pro forma combined condensed statements of income and balance sheet have been prepared to reflect the acquisition of SourceGas and the related financing. The unaudited pro forma combined condensed statements of income combine the Black Hills Corporation and SourceGas historical consolidated income statements for the nine months ended September 30, 2015 and the year ended December 31, 2014, giving effect to the acquisition and related financing as if they had occurred on January 1, 2014. The unaudited pro forma combined condensed balance sheet as of September 30, 2015 gives effect to the acquisition and financing as if they had occurred on that date. The historical financial information has been adjusted in the unaudited pro forma financial statements to give effect to pro forma events that are:

- directly attributable to the SourceGas acquisition and related financing;
- factually supportable; and
- with respect to the statements of income, expected to have a continuing impact on the combined results of Black Hills Corporation and SourceGas.

The unaudited pro forma financial statements are presented for illustration only and do not reflect any cost savings (or associated costs to achieve such savings) from operating efficiencies or restructuring that could result from the SourceGas acquisition. Further, the pro forma financial statements do not reflect the effect of any regulatory actions that may impact the Black Hills financial statements when the SourceGas acquisition is completed. The pro forma statements of income reflect adjustments to remove the effect of transaction costs associated with the SourceGas acquisition that have been incurred by Black Hills and are included in its historical financial statements.

(3) FINANCING THE ACQUISITION

For purposes of the pro forma financial information, Black Hills Corporation has assumed the SourceGas Acquisition financing will consist of the following:

- an assumed $450 million aggregate principal amount on the Bridge Term Loan with all-in interest rates of 9.69% (annualized) and 6.18% for the nine months ended September 30, 2015 and for the year ended December 31, 2014, respectively (see Note 5);
- an assumed $233 million aggregate principal amount of short-term borrowings on the Revolving Credit Facility at interest rates of 1.40% and 1.36% for the nine months ended September 30, 2015 and for the year ended December 31, 2014, respectively (see Note 5);
- an assumed $260 million issuance of remarketable junior subordinated notes (RSN) with purchase contracts issued by Black Hills to purchase shares of common stock (Corporate Units), as reflected in the preliminary prospectus supplement filed by Black Hills Corporation on November 16, 2015 (see Note 5); and
- an assumed $246 million issuance of approximately 5.5 million shares of Black Hills Corporation's common stock (equity offering) at a share price of $44.66 (which was the closing price of Black Hills Corporation's common stock on the New York Stock Exchange on November 12, 2015).

Black Hills Corporation intends to issue approximately $450 million of long-term debt to finance the acquisition of SourceGas. Black Hills does not intend to draw under the Bridge Term Loan; however, because Black Hills does not have a firmly committed agreement in place related to the expected long-term debt issuance, these pro forma financial statements reflect borrowing under the Bridge Term Loan rather than the expected long-term financing. Assumed fees related to the Bridge Term Loan have been reflected in the pro forma financial information for the periods presented as deferred financing costs being amortized over 24 months.

Each Corporate Unit initially consists of a contract to purchase Black Hills Corporation common stock in the future and a 1/20 or 5% undivided beneficial ownership interest in $1,000 principal amount of Black Hills Corporation's RSNs due 2028. The Corporate Units will be accounted for as two instruments, the stock purchase contracts and the RSNs. The stock purchase contracts will be classified as equity and the RSNs will be classified as long-term debt in Black Hills Corporation's financial statements. The stock purchase contracts obligate the holders to purchase shares of Black Hills Corporation's common stock at a future settlement date of approximately three years from the issuance date. The RSNs are pledged as collateral to secure the purchase of common stock under the stock purchase contracts. Black Hills Corporation has assumed it will make semi-annual

payments on the RSNs and quarterly contract adjustment payments on the stock purchase contracts at the rates of 3.25% and 4%, respectively. The present value of the contract adjustment payments will be initially recorded in shareholders' equity, with an offsetting credit to liabilities. This liability is accreted over the life of the purchase contract by interest charges to the income statement based on a constant rate calculation. Subsequent contract adjustment payments reduce this liability.

The final structure and terms of the SourceGas acquisition financing will be subject to market conditions and may change materially from the assumptions described above. Changes in the assumptions described above would result in changes to various components of the unaudited pro forma combined condensed balance sheet, including cash and cash equivalents, long-term debt and additional paid-in capital, and various components of the unaudited pro forma combined condensed statements of income including interest expense, earnings per share and weighted-average shares outstanding. Depending upon the nature of the changes, the impact on the pro forma financial information could be material.

- Each 1/8% increase (decrease) in the respective interest rates assumed above would result in an increase (decrease) in pro forma interest expense of approximately $0.9 million for the nine months ended September 30, 2015, and approximately $1.2 million for the year ended December 31, 2014 and would decrease (increase) pro forma earnings per share (basic and diluted) by less than $0.02 per share for the nine months ended September 30, 2015 and for the year ended December 31, 2014 (assuming the assumed principal and stated amounts and the pro forma weighted-average shares outstanding do not change from those assumed as described herein);

- Each $25 million increase (decrease) in the principal amount of the borrowings on the bridge term loan would increase (decrease) pro forma interest expense by approximately $1.8 million for the nine months ended September 30, 2015 and approximately $1.4 million for the year ended December 31, 2014, and would decrease (increase) pro forma earnings per share (basic and diluted) by approximately $0.02 per share for the nine months ended September 30, 2015 and for the year ended December 31, 2014 (assuming the stated interest rates on the bridge term loan and the pro forma weighted-average shares outstanding do not change from those assumed as described herein);

- Each $25 million increase (decrease) in the gross proceeds from the issuance of the Corporate Units (including as a result of the underwriters fully exercising their option to purchase additional Corporate Units, which is limited to a maximum of 0.8 million additional Corporate Units) would increase (decrease) pro forma interest expense by approximately $0.7 million for the nine months ended September 30, 2015, and approximately $1.0 million for the year ended December 31, 2014, and would decrease (increase) pro forma earnings per share (basic and diluted) by approximately $0.01 per share for the nine months ended September 30, 2015 and for the year ended December 31, 2014 (assuming the rates on the Corporate Units and the pro forma weighted-average shares outstanding do not change from those assumed as described herein);

- Each $25 million increase (decrease) in the principal amount of the borrowings on the Revolving Credit Facility would increase (decrease) pro forma interest expense by approximately $0.3 million for the nine months ended September 30, 2015, and approximately $0.3 million for the year ended December 31, 2014, and would decrease (increase) pro forma earnings per share (basic and diluted) by less than $0.01 per share for the nine months ended September 30, 2015 and for the year ended December 31, 2014 (assuming the stated interest rates on the revolving credit facility and the pro forma weighted-average shares outstanding do not change from those assumed as described herein);

- Each $25 million increase (decrease) in the gross proceeds from the issuance of the common stock (including as a result of the underwriters fully exercising their option to purchase additional shares of common stock, which is limited to a maximum of 0.8 million additional shares) would increase (decrease) pro forma weighted average shares outstanding by approximately 0.6 million shares and would decrease (increase) pro forma earnings per share (basic and diluted) by approximately $0.01 per share for the nine months ended September 30, 2015 and approximately $0.03 per share for the year ended December 31, 2014 (assuming the offering price per share of common stock does not change from that assumed as described herein);

- Each $1.00 per share increase (decrease) in the assumed offering price of the common stock of $44.66 per share would, in the aggregate, decrease (increase) pro forma weighted-average shares outstanding by approximately 0.1 million shares, and would increase (decrease) pro forma earnings per share (basic and diluted) by less than $0.01 for the nine months ended September 30, 2015 and for the year ended December 31, 2014 (assuming the aggregate dollar amount of common stock issued does not change from that assumed as described herein).

(4) PRO FORMA ALLOCATION OF PURCHASE PRICE

The consideration paid by Black Hills for SourceGas' identifiable assets acquired and liabilities assumed for the purpose of preparing the pro forma financial information was determined by Black Hills' management's estimate of the approximate enterprise value of SourceGas; such determination is subject to change upon closing, which may be material.

The historical book value of the assets acquired and liabilities assumed approximates fair value given the regulatory environment under which SourceGas operates, with the exception of asset retirement obligations and pension obligations which are subject to valuation adjustments that have not been made at this time, a long-term gas purchase obligation held at SourceGas' non-regulated subsidiary that has been adjusted to approximate fair value within these pro forma financial statements, and adjustments associated with income taxes which are reflected within these pro forma financial statements.

The fair values are estimated as of September 30, 2015, and do not reflect the effect of any anticipated future activity. The estimated purchase price is allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair values with the excess of the purchase price over the fair value recorded as goodwill. The following table shows the pro forma allocation of the consideration paid for SourceGas' identifiable assets acquired and liabilities assumed, and the pro forma goodwill generated from the acquisition.

(in thousands)				September 30, 2015
Estimated Purchase Price			$	1,830,000
Less: Long-term debt assumed				(873,746)
Estimated Consideration Paid			$	956,254
Fair value of assets acquired:				
Cash	$	2,021		
Accounts receivable, net		38,282		
Materials, supplies and fuel		19,789		
Derivative assets, current		2,100		
Deferred income tax assets, net, current		7,116		
Regulatory assets, current		10,216		

Other current assets	9,887	
Property, plant & equipment, net	942,230	
Regulatory assets, non-current	30,348	
Derivative assets, non-current	146	
Other assets, non-current	3,934	
Total Assets	$ 1,066,069	
Fair Value of liabilities assumed:		
Accounts payable	$ 37,713	
Accrued liabilities	48,171	
Income taxes accrued	2,850	
Derivative liabilities, current	9,441	
Regulatory liabilities, current	17,783	
Long-term debt, net of current maturities	873,746	
Deferred income tax liabilities, net, non-current	48,062	
Derivative liabilities, non-current	1,446	
Regulatory liabilities, non-current	267	
Benefit plan liabilities	31,194	
Other deferred credits and other liabilities	17,707	
Total liabilities	$ 1,088,380	
Net assets (liabilities) acquired		$ (22,311)
Preliminary pro forma goodwill generated from the acquisition		$ 978,565

The SourceGas acquisition enhances Black Hills' utilities, providing greater operating scale, driving more efficient delivery of services and benefiting customers. Goodwill generated from the acquisition reflects the benefits of increased operating scale and organic growth opportunities.

The actual calculation of goodwill will be determined after closing based on facts in existence at that time and may be materially different than the estimates provided herein.

(5) PRO FORMA ADJUSTMENTS

The pro forma adjustments included in the Unaudited Pro Forma Combined Condensed Statements of Income (Loss) and the Unaudited Pro Forma Combined Condensed Balance Sheet are as follows:

(A) Operations and maintenance - reflects pro forma adjustment to remove SourceGas acquisition transaction costs incurred by Black Hills Corporation for the nine months ended September 30, 2015. There were no such transaction costs incurred for the year ended December 31, 2014.

(B) Interest expense - reflects pro forma adjustments assuming an increase in Black Hills' debt resulting from a $450 million assumed draw on the Bridge Term Loan agreement, $260 million of Corporate Units and assumed borrowings under our Revolving Credit Facility as shown in the tables below. The tables below also include the amortization of the deferred financing costs which is included in interest expense in each period.

Borrowings under the Bridge Term Loan incur interest at a rate of LIBOR plus a spread reflective of Black Hills' BBB/Baa1 senior unsecured credit rating from S&P and Moody's, respectively. A duration fee is also incurred by applying 50 basis points to the total amount drawn, increasing quarterly by 25 basis points. Assumed deferred financing costs of approximately $6.9 million are being amortized over an assumed 24 month term beginning January 1, 2014; these pro forma financial statements assume the initial 12 month term of the bridge facility is extended for an additional 12 months.

Interest expense on the Corporate Units is comprised of an assumed interest rate of 3.25% on the RSNs and accretion of the associated contract adjustment payment liability on the purchase contracts that are a component of the Corporate Units over the estimated contract life of three years (See Note 3). As of September 30, 2015, the approximate present value of contract adjustment payment liability is $27.8 million.

Interest expense on our Revolving Credit Facility is at LIBOR plus a margin of 112.5 basis points reflective of our current corporate credit rating.

The combined effective interest rate for the Bridge Term Loan, including the duration fee over the assumed 24 months of the bridge term, the Revolving Credit Facility and the Corporate Units is approximately 6.00% for the nine months ended September 30, 2015 and 4.37% for the year ended December 31, 2014, and is based on the following pricing assumptions shown in the tables below:

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

ASSUMED BRIDGE TERM LOAN

Assumed principal borrowed (in thousands)	# of Days	End Date	LIBOR Rates	Rate (BBB/Baa1)	Duration Fee	Commitment Fee	Interest Expense + Duration Fees (in thousands, except rates)
$ 450,000	90	3/31/2015	0.255600%	2.125%	1.500%	0.1750%	$ 9,625
$ 450,000	90	6/30/2015	0.270750%	2.375%	1.750%	0.1750%	$ 11,048

$ 450,000	90	9/30/2015	0.283200%	2.625%	2.000%	0.1750%	$	12,469
						Pro forma Interest Expense on Bridge Term Loan	$	33,142
						Less Actual Interest Expense recorded through September 30, 2015 (1)		(1,592)
						Adjust Deferred Financing Cost Amortization through September 30, 2015 (1)		1,144
						Total Pro forma Interest Expense on Bridge Term Loan	$	32,694
						All in Interest Rate on Bridge Term Loan (annualized)		9.69%

ASSUMED CORPORATE UNITS

		(in thousands, except rates)
Assumed Principal on the RSNs	$	260,000
Assumed Interest Rate		3.25%
Pro forma Interest Expense on the RSNs	$	6,338
Accretion of Contract Adjustment Payment Liability on the Purchase Contracts that are a Component of the Corporate Units		921
Total Pro forma Interest Expense on Corporate Units	$	7,259

REVOLVING CREDIT FACILITY

		(in thousands, except rates)
Assumed Incremental Revolving Credit Facility borrowings	$	232,967
Interest Rate		1.40%
Pro Forma Interest Expense on Revolving Credit Facility	$	2,446
Pro Forma Adjustment Total Interest Expense	$	42,399
Pro Forma Combined Effective Interest Rate (annualized)		6.00%

(1) Black Hills historical income statement for the nine months ended September 30, 2015, includes actual costs associated with the bridge term loan including approximately $1.6 million of interest expense and approximately $1.4 million of deferred financing costs amortization. The pro forma income statements assume borrowings on the bridge term loan as of January 1, 2014. To reflect the appropriate pro forma interest and amortization expense on the pro forma income statements, these adjustments are necessary to appropriately account for what is already recorded in the historical Black Hills income statement.

FOR THE YEAR ENDED DECEMBER 31, 2014

ASSUMED BRIDGE TERM LOAN

Assumed principal borrowed (in thousands)	# of Days	End Date	LIBOR Rates	Rate (BBB/Baa1)	Duration Fee	Commitment Fee		Interest Expense + Duration Fees (in thousands, except rates)
$ 450,000	90	3/31/2014	0.246100%	1.125%	0.500%	0.1750%	$	3,989
$ 450,000	90	6/30/2014	0.230600%	1.375%	0.750%	0.1750%		5,378
$ 450,000	90	9/30/2014	0.230700%	1.625%	1.000%	0.1750%		6,785
$ 450,000	90	12/31/2014	0.235100%	1.875%	1.250%	0.1750%		8,196
						Pro forma Interest Expense on Bridge Term Loan	$	24,348
						Amortization of Deferred Financing Costs		3,450
						Total Pro forma Interest Expense on Bridge Term Loan	$	27,798
						All in Interest Rate on Bridge Term Loan		6.18%

ASSUMED CORPORATE UNITS

		(in thousands, except rates)
Assumed Principal on the RSNs	$	260,000
Assumed Interest Rate		3.25%
Pro forma Interest Expense on RSNs	$	8,450
Accretion of Contract Adjustment Payment Liability on the Purchase Contracts that are a Component of the Corporate Units		1,786
Total Pro forma Interest Expense on Corporate Units	$	10,236

REVOLVING CREDIT FACILITY

		(in thousands, except rates)
Assumed Incremental Revolving Credit Facility borrowings	$	232,967
Interest Rate		1.36%
Pro Forma Interest Expense on Revolving Credit Facility	$	3,168

Pro Forma Adjustment Total Interest Expense	$	41,202
Pro Forma Combined Effective Interest Rate		4.37%

The term of the bridge term loan is 12 months; however, to calculate interest expense for the nine months ended September 30, 2015, we assumed a 12 month extension of the Bridge Term Loan, and we assumed continuation of an increase in the duration fees 25 basis points per quarter. Actual borrowings under the Bridge Term Loan are short-term in nature and would mature in September 2016. As such these borrowings are shown as current in the accompanying pro forma balance sheet, and we have not adjusted the pro forma financial statements for any assumed long-term financing of these borrowings. See also Note 3. It is likely that lower interest rates currently associated with expected long-term financing will be materially different than interest rates on assumed borrowings under the bridge facility as presented.

(C) Income tax expense - reflects the pro forma tax effect of the other pro forma adjustments based on an estimated statutory tax rate of 37%.

Additional pro forma adjustments reflect the impact of income tax expense recognized on the SourceGas historical financial statements as SourceGas has subsidiaries that are not subject to income taxes at the entity level. Using an estimated statutory tax rate of 37%, additional pro forma income tax expense was $4.8 million for the nine months ended September 30, 2015, and $10.1 million for the year ended December 31, 2014.

(D) Goodwill - the pro forma adjustment of $594 million reflects the elimination of SourceGas' $384 million of goodwill and $979 million of goodwill generated from the acquisition. As further described in Footnote 4, goodwill generated from the acquisition of $979 million is calculated as the difference between the estimated purchase price and the estimated fair value of the identifiable SourceGas assets acquired and liabilities assumed.

(E) Reflects the net change to cash from the acquisition (in thousands):

Estimated Purchase Price	$	(1,830,000)
Adjusted by:		
Assumption of debt		873,746
Net change to cash	$	(956,254)

(F) Reflects the effects of the assumed bridge financing, assumed incremental borrowings on our Revolving Credit Facility, issuance of Corporate Units and issuance of common stock on the assumptions described in Note 3. Due to the 12 month term of the bridge loan, the assumed borrowings are presented as short-term debt (in thousands, except par value and per share amounts).

Proceeds from assumed bridge financing (1)	$	450,000
Proceeds from assumed borrowings on our revolving credit facility		232,967
Pro forma adjustment to Notes payable	$	682,967
Proceeds from assumed issuance of Corporate Units (2)	$	260,000
Assumed equity issuance:		
Common Stock — $1 par, 5,500 shares @ $44.66 (3)	$	5,500
Additional Paid in Capital		240,130
Proceeds from common stock issuance	$	245,630
Less: Equity issuance costs, including underwriter's fees, and other fees associated with the acquisition	$	(33,597)
Total pro forma proceeds from debt and equity	$	1,155,000

(1) As discussed in Footnote 3 and in pro forma adjustment "B" above, we intend to issue approximately $450 million in long-term debt, and we have no intention of borrowing under the existing bridge facility. At the date these pro forma financial statements were prepared we did not have firmly committed agreements in place for long-term borrowings; therefore, they are presented as short term borrowings under the bridge facility on the accompanying Unaudited Combined Condensed Balance Sheet.

(2) See Note 3.

(3) Assumes issuance of 5.5 million shares of common stock at a price per share equal to $44.66 (which was the closing price of Black Hills Corporation's common stock on the New York Stock Exchange on November 12, 2015), resulting in the estimated proceeds of $246 million before deducting estimated underwriter discounts, commissions and estimated offering expenses (excluding any shares that may be issued upon exercise of the underwriters' option to purchase additional shares).

(G) Other assets - reflects pro forma adjustments to record deferred financing costs as of September 30, 2015, as if the transaction occurred on that date. Black Hills' September 30, 2015 balance sheet includes $3.6 million of deferred financing costs related to the bridge. The adjustment reflects an assumed additional $2.2 million of deferred bridge financing fees and $1.2 million of deferred financing costs on our Corporate Units.

(H) The deferred taxes associated with the acquisition will be accounted for under the guidance prescribed in ASC 740. A SourceGas subsidiary, which is an LLC taxed as a partnership, has no deferred income taxes recorded on its balance sheet. When Black Hills acquires SourceGas, appropriate deferred income taxes will be recorded on the opening balance sheet and estimates are reflected in these pro forma financial statements, including adjustments related to a step up in tax basis. The following table summarizes the pro forma adjustments to deferred taxes (in thousands):

		September 30, 2015
Deferred income tax assets, net, current	$	3,489
Deferred income tax liabilities, net, non-current	$	7,911

(I) Reflects the pro forma adjustments to Stockholders' Equity to eliminate the SourceGas equity balances.

The table below reflects the pro forma adjustments to Stockholder's Equity as of September 30, 2015:

(in thousands)		Pro Forma Adjustments Relating to Bridge Financing and Equity Offering
Assumed Common Stock issued (Note F)	$	5,500
Assumed Additional Paid in Capital	$	240,130
Present value of contract adjustment payments (Note J)		(27,815)
Equity issuances costs		(15,197)
Pro forma adjustment to Additional Paid in Capital	$	197,118
Retained Earnings (1)	$	(15,000)
Total Pro forma adjustment to Stockholder's Equity	$	187,618

(1) This pro forma adjustment to Retained Earnings reflects an assumed one-time, non-recurring expense associated with the acquisition which is expected to be included in Black Hills' expenses in the twelve months following the acquisition. This adjustment does not reflect any tax impacts that may be applicable. This expense is not included in the pro forma combined condensed income statements for the nine months ended September 30, 2015, or for the year ended December 31, 2014.

(J) Other deferred credits reflect a pro forma adjustment of $10 million to estimate the approximate fair value of a long-term gas supply obligation held by SourceGas' non-regulated subsidiary.

Also included is the $17.4 million non-current portion of $27.8 million present value of quarterly contract adjustment payments of the Corporate Units as of September 30, 2015 (See Note 3). The present value assumes a 4% rate over the assumed three year term of the contracts. The current portion of the quarterly contract adjustment payments of $10.4 million is included with accrued liabilities.

(6) EARNINGS PER SHARE

The pro forma earnings per share calculation for Black Hills in the pro forma income statements for the nine months ended September 30, 2015 and for the year ended December 31, 2014 reflect the assumed 5.5 million of common shares as if they were issued and outstanding on January 1, 2014.

BLACK HILLS CORPORATION
NON-GAAP MEASURES FROM THE UNAUDITED COMBINED CONDENSED PRO FORMA FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND THE YEAR ENDED DECEMBER 31, 2014

In addition to presenting pro forma information in conformity with Generally Accepted Accounting Principles (GAAP), Black Hills is providing non-GAAP financial information in the form of Earnings before Interest Taxes Depreciation and Amortization (EBITDA) and EBITDA, as adjusted. Black Hills' management believes EBITDA (non-GAAP) and EBITDA, as adjusted (non-GAAP) are important supplemental measures of operating performance which, when considered with measures calculated in accordance with GAAP, give a more complete understanding of operating results.

A reconciliation of pro forma EBITDA and pro forma EBITDA, as adjusted, to pro forma Net Income (Loss) determined in accordance with GAAP is provided below (minor differences may result due to rounding):

PRO FORMA COMBINED EBITDA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(in millions)

	Black Hills Historical	SourceGas Historical	Pro Forma Adjustments Relating to the SourceGas Acquisition	Pro Forma Adjustments Relating to Financings and Equity Offerings	Note	Combined Pro Forma
Net income (loss) (GAAP)	$ (17.9)	$ 22.2	$ (3.6)	$ (26.7)		$ (26.1)

	Black Hills Historical	SourceGas Historical	Pro Forma Adjustments Relating to the SourceGas Acquisition	Pro Forma Adjustments Relating to Financings and Equity Offerings	Note	Combined Pro Forma
Interest expense, net	58.8	25.4	—	42.4	5(B)	126.6
Provision (benefit) for income taxes	(14.6)	6.5	5.5	(15.7)	5(C)	(18.3)
Depreciation and amortization	116.8	34.6	—	—		151.4
Impairment of long-lived assets	178.4	—	—	—		178.4
EBITDA (non-GAAP)	$ 321.5	$ 88.7	$ 1.9	$ —		$ 412.0
Adjustment:						
Impairment of equity investments	5.2	—	—	—		5.2
EBITDA, as adjusted (non-GAAP)	$ 326.6	$ 88.7	$ 1.9	$ —		$ 417.2

PRO FORMA COMBINED EBITDA
FOR THE YEAR ENDED DECEMBER 31, 2014
(in millions)

	Black Hills Historical	SourceGas Historical	Pro Forma Adjustments Relating to the SourceGas Acquisition	Pro Forma Adjustments Relating to Financings and Equity Offerings	Note	Combined Pro Forma
Net income (loss) (GAAP)	$ 130.9	$ 34.9	$ (10.1)	$ (26.0)		$ 129.7
Interest expense, net	69.0	32.1	—	41.2	5(B)	142.4
Provision (benefit) for income taxes	66.6	2.9	10.1	(15.2)	5(C)	64.4
Depreciation and amortization	144.7	41.0	—	—		185.7
Impairment of long-lived assets	—	—	—	—		—
EBITDA (non-GAAP)	$ 411.3	$ 110.9	$ —	$ —		$ 522.2
Adjustment:						
Impairment of equity investments	—	—	—	—		—
EBITDA, as adjusted (non-GAAP)	$ 411.3	$ 110.9	$ —	$ —		$ 522.2