

**NALCOR ENERGY – BULL ARM FABRICATION INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)**

DIRECTORS

KEN MARSHALL
President, Atlantic Region
Rogers Cable

ALLAN HAWKINS*
Mayor
Grand Falls-Windsor

EDMUND J. MARTIN
President and Chief Executive Officer

GERALD SHORTALL
Chartered Accountant
Corporate Director

MIKE MULROONEY
Production Coordinator
Suncor Energy, East Coast Offshore

OFFICERS

KEN MARSHALL
Acting Chairperson

EDMUND J. MARTIN
President and Chief Executive Officer

DERRICK F. STURGE
Vice President, Finance and Chief Financial Officer

CHRIS KIELEY
Vice President

NANCY HART
General Manager

WAYNE D. CHAMBERLAIN
General Counsel and Corporate Secretary

SCOTT PELLEY
Corporate Treasurer

ROBERT HULL
General Manager, Finance

PETER A. HICKMAN
Assistant Corporate Secretary

HEAD AND CORPORATE OFFICE

P.O. Box 12800
Columbus Drive
St. John's, NL
A1B 0C9

*Resigned October 16, 2014

NALCOR ENERGY – BULL ARM FABRICATION INC.
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian Dollars)</i>	Notes	September 30 2014	December 31 2013
ASSETS			
Current assets			
Cash and cash equivalents		1,729	1,717
Short-term investments		902	908
Receivables		2	1
Prepayments		30	19
Total current assets		2,663	2,645
Investment property	3	1,026	1,063
Total assets		3,689	3,708
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		1,144	1,285
Deferred revenue		1,505	1,429
Total current liabilities		2,649	2,714
Employee future benefits	4	30	24
Derivative liabilities		230	272
Total liabilities		2,909	3,010
Shareholder's equity			
Reserves		69	69
Retained earnings		711	629
Total shareholder's equity		780	698
Total liabilities and shareholder's equity		3,689	3,708

Commitments and contingencies (Note 9)

See accompanying notes

NALCOR ENERGY – BULL ARM FABRICATION INC.
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		2014	2013	2014	2013
Revenue		4,361	4,207	13,187	12,370
Operating costs	5	(339)	(263)	(672)	(686)
Depreciation and amortization	3	(11)	(13)	(37)	(39)
Net finance (expense) income	6	(55)	(30)	(297)	124
Other income and expense		(231)	175	42	(92)
Total profit and comprehensive income for the period		3,725	4,076	12,223	11,677

See accompanying notes

NALCOR ENERGY – BULL ARM FABRICATION INC.
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Issued Capital	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2014	-	69	629	698
Profit for the period	-	-	12,223	12,223
Profit and comprehensive income for the period	-	-	12,223	12,223
Dividends paid	-	-	(12,141)	(12,141)
Balance at September 30, 2014	-	69	711	780
Balance at January 1, 2013	-	59	12,000	12,059
Profit for the period	-	-	11,677	11,677
Profit and comprehensive income for the period	-	-	11,677	11,677
Dividends paid	-	-	(22,930)	(22,930)
Balance at September 30, 2013	-	59	747	806

See accompanying notes

NALCOR ENERGY – BULL ARM FABRICATION INC.
STATEMENT OF CASH FLOWS
(Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>		2014	2013	2014	2013
Cash provided by (used in)					
Operating activities					
Profit for the year		3,725	4,076	12,223	11,677
Adjusted for items not involving a cash flow:					
Depreciation and amortization		11	13	37	39
Unrealized losses (gains) on derivative instruments		230	(175)	(42)	129
Employee benefits		3	3	6	8
		3,969	3,917	12,224	11,853
Changes in non-cash working capital balances	7	97	(52)	(77)	1,100
Net cash from operating activities		4,066	3,865	12,147	12,953
Financing activities					
Dividends paid to Nalcor Energy		(8,185)	(5,699)	(12,141)	(22,930)
Net cash used in financing activities		(8,185)	(5,699)	(12,141)	(22,930)
Investing activities					
Additions to investment property		-	-	-	(2)
Decrease (increase) in short-term investments		11	(2)	6	10,043
Net cash used in investing activities		11	(2)	6	10,041
Net (decrease) increase in cash and cash equivalents		(4,108)	(1,836)	12	64
Cash and cash equivalents at beginning of period		5,837	3,446	1,717	1,546
Cash and cash equivalents at end of period		1,729	1,610	1,729	1,610

Supplementary cash flow information (Note 7)

See accompanying notes

NALCOR ENERGY – BULL ARM FABRICATION INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. NATURE AND DESCRIPTION OF THE COMPANY

Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province). Bull Arm Fabrication operates on a site leased from the Province for a term of 30 years for a nominal amount of \$1 per annum, which expires March 2022. Bull Arm Fabrication is Atlantic Canada’s largest industrial fabrication site and has a fully integrated infrastructure to support large scale fabrication and assembly. Its facilities include onshore fabrication halls and shops, a dry dock and a deep water site. Bull Arm Fabrication’s head office is located in St. John’s, Newfoundland and Labrador.

Earnings of Bull Arm Fabrication are generated primarily through lease arrangements for use of Bull Arm Fabrication’s assets and facilities. In September 2011, Bull Arm Fabrication signed a lease agreement with a third party for use of the Bull Arm Fabrication site and facilities. The site will be used for the construction of a gravity based structure to be used in the Hebron oil field and covers the lease period of 2011 to 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliant and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

These condensed interim financial statements do not include all of the disclosures normally found in Bull Arm Fabrication’s Annual Audited Financial Statements and should be read in conjunction with the Annual Audited Financial Statements.

These condensed interim financial statements have been prepared on a historical cost basis, except for held for trading and available for sale financial assets which have been measured at fair value. The condensed interim financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted.

3. INVESTMENT PROPERTY

<i>(thousands of Canadian dollars)</i>	Topside Module Hall Door	Visitor Center	Buildings	Other	Total
Cost					
Balance at January 1, 2013	1,123	659	89	95	1,966
Additions	-	-	-	6	6
Balance at December 31, 2013	1,123	659	89	101	1,972
Balance at September 30, 2014	1,123	659	89	101	1,972
Accumulated depreciation and impairment					
Balance at January 1, 2013	(769)	(17)	(27)	(43)	(856)
Depreciation	(16)	(16)	(5)	(16)	(53)
Balance at December 31, 2013	(785)	(33)	(32)	(59)	(909)
Depreciation	(12)	(12)	(3)	(10)	(37)
Balance at September 30, 2014	(797)	(45)	(35)	(69)	(946)
Carrying value					
Balance at January 1, 2013	354	642	62	52	1,110
Balance at December 31, 2013	338	626	57	42	1,063
Balance at September 30, 2014	326	614	54	32	1,026

NALCOR ENERGY – BULL ARM FABRICATION INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

4. EMPLOYEE BENEFITS LIABILITY

4.1 Pension Plan

Employees participate in the Province’s Public Service Pension Plan, a multi-employer defined benefit plan. The employer’s contributions of \$9,300 (2013 - \$10,400) are expensed as incurred.

4.2 Other Benefits

Additionally, Bull Arm Fabrication provides group life insurance and healthcare benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. There were no cash payments to beneficiaries for its unfunded other employee benefits in 2014 and 2013. An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2013. The next actuarial valuation will be performed at December 31, 2015.

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Component of benefit cost				
Current service cost	3	3	5	7
Interest cost	-	-	1	1
Total benefit expense for the period	3	3	6	8

5. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Salaries and benefits expense	206	183	446	473
Maintenance and materials	3	3	12	7
Other operating costs	130	77	214	206
	339	263	672	686

6. NET FINANCE (EXPENSE) INCOME

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Finance income				
Interest on short-term investments	3	3	9	44
Other interest income	5	7	16	16
Foreign exchange gain	76	-	104	65
	84	10	129	125
Finance costs				
Foreign exchange loss	(137)	(40)	(421)	-
Other	(2)	-	(5)	(1)
	(139)	(40)	(426)	(1)
Net finance (expense) income	(55)	(30)	(297)	124

NALCOR ENERGY – BULL ARM FABRICATION INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

7. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three Months Ended		Nine Months Ended	
	2014	2013	2014	2013
Trade and other receivables	(2)	2	(1)	(17)
Prepayments	(24)	(22)	(11)	(10)
Trade and other payables	51	1	(141)	147
Deferred revenue	72	(33)	76	980
Changes in non-cash working capital balances	97	(52)	(77)	1,100
Interest received	16	19	27	87
Interest paid	2	2	5	6

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

8.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2014 and December 31, 2013 are based on relevant market prices and information available at the time when the information exists. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that the Company might receive or incur in actual market transactions.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy includes the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(thousands of Canadian dollars)</i>		September 30, 2014		December 31, 2013	
Financial assets					
Cash and cash equivalents	1	1,729	1,729	1,717	1,717
Short-term investments	1	902	902	908	908
Receivables	1	2	2	1	1
Financial liabilities					
Trade and other payables	1	1,144	1,144	1,285	1,285
Derivative liabilities	2	230	230	272	272

The fair value of cash and cash equivalents, short-term investments, receivables and trade and other payables approximates their carrying values due to their short-term maturity.

NALCOR ENERGY – BULL ARM FABRICATION INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd.)

8.2 Financial Risk Management

Foreign Currency Exposure

In January 2014, Bull Arm Fabrication entered into a total of 11 forward contracts with a notional value of US \$11.7 million to mitigate USD/CAD currency exposure on a portion of its USD denominated lease revenues. These contracts provide Bull Arm Fabrication with an average fixed exchange rate of \$1.09 CAD per USD. Combined with the hedges in place as of December 31, 2013, 94% of the expected USD lease revenue for 2014 is hedged, at a weighted average fixed exchange rate of \$1.07 CAD per USD.

9. RELATED PARTY TRANSACTIONS

Bull Arm Fabrication enters into various transactions with its parent and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Bull Arm Fabrication transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Bull Arm Fabrication
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor

In its normal course of operations Bull Arm Fabrication receives engineering, technical, management and administrative services from Nalcor and Hydro.

10. COMMITMENTS AND CONTINGENCIES

Bull Arm Fabrication is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Bull Arm Fabrication's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect the financial position of Bull Arm Fabrication.

11. SUBSEQUENT EVENT

On November 3, 2014, Nalcor Energy received authorization from the Province to remove the \$836,308 distribution payable to the province that was recorded as a liability in Bull Arm when Nalcor purchased the shares of Bull Arm from the Province. This amount was not recognized by the Province as an amount receivable at the time of share purchase, nor is it currently recognized by the Province as an amount receivable.