

NALCOR ENERGY - BULL ARM FABRICATION INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2015
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		2,136	1,862
Short-term investments		905	905
Receivables		1	6
Prepayments		33	21
Total current assets		3,075	2,794
Non-current assets			
Investment property	3	1,011	1,017
Total assets		4,086	3,811
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		351	555
Deferred revenue		1,792	1,558
Total current liabilities		2,143	2,113
Non-current liabilities			
Employee benefits liability		51	43
Derivative liabilities		1,149	424
Total liabilities		3,343	2,580
Shareholder's equity			
Reserves		(1,091)	(366)
Retained earnings		1,834	1,597
Total shareholder's equity		743	1,231
Total liabilities and shareholder's equity		4,086	3,811

Commitments and contingencies (Note 10)

See accompanying notes

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended 2015	2014	Nine months ended 2015	2014
Revenue		5,202	4,361	15,140	13,187
Operating costs	5	299	339	824	672
Depreciation	3	11	11	33	37
Net finance (income) expense	6	(4)	(6)	(9)	(20)
Other (income) expense	7	674	292	1,479	275
Profit for the period		4,222	3,725	12,813	12,223
Other comprehensive loss for the period		(21)	-	(725)	-
Total comprehensive income for the period		4,201	3,725	12,088	12,223

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Share Capital	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2015	-	(425)	59	1,597	1,231
Profit for the period	-	-	-	12,813	12,813
Change in fair value of cash flow hedge	-	(725)	-	-	(725)
Total comprehensive (loss) income for the period	-	(725)	-	12,813	12,088
Dividends paid	-	-	-	(12,576)	(12,576)
Balance at September 30, 2015	-	(1,150)	59	1,834	743
Balance at January 1, 2014	-	-	69	629	698
Profit for the period	-	-	-	12,223	12,223
Total comprehensive income for the period	-	-	-	12,223	12,223
Dividends paid	-	-	-	(12,141)	(12,141)
Balance at September 30, 2014	-	-	69	711	780

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Cash provided from (used in)					
Operating activities					
Profit for the period		4,222	3,725	12,813	12,223
Adjusted for items not involving a cash flow:					
Depreciation	3	11	11	33	37
Employee benefits	4	3	3	8	6
Unrealized gain (loss) on derivative instruments		-	230	-	(42)
		4,236	3,969	12,854	12,224
Changes in non-cash working capital balances	11	87	97	23	(77)
Net cash provided from operating activities		4,323	4,066	12,877	12,147
Investing activities					
Additions to investment property	3	(22)	-	(27)	-
(Increase) decrease in short-term investments		(2)	11	-	6
Net cash (used in) provided from investing activities		(24)	11	(27)	6
Financing activity					
Dividends paid to Nalcor Energy		(4,178)	(8,185)	(12,576)	(12,141)
Net cash used in financing activity		(4,178)	(8,185)	(12,576)	(12,141)
Net increase (decrease) in cash and cash equivalents		121	(4,108)	274	12
Cash and cash equivalents, beginning of period		2,015	5,837	1,862	1,717
Cash and cash equivalents, end of period		2,136	1,729	2,136	1,729

Supplementary cash flow information (Note 11)

See accompanying notes

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

1. DESCRIPTION OF BUSINESS

Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province). Bull Arm Fabrication is a 100% owned subsidiary of Nalcor Energy (Nalcor). 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.

Revenue and profit for 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 is currently used for the construction of a gravity based structure to be used in the Hebron oil field for a lease period of 2011 to 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting and have been prepared using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2014.

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 financial liabilities at fair value through profit or loss (FVTPL) and available-for-sale (AFS) 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.

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

3. INVESTMENT PROPERTY

<i>(thousands of Canadian dollars)</i>	Topside Module Hall Door	Visitor Center	Buildings	Other	Total
Cost					
Balance at January 1, 2014	1,123	659	89	101	1,972
Additions	-	-	-	2	2
Disposals	-	-	-	(3)	(3)
Balance at December 31, 2014	1,123	659	89	100	1,971
Additions	-	-	-	27	27
Balance at September 30, 2015	1,123	659	89	127	1,998
Depreciation					
Balance at January 1, 2014	785	33	32	59	909
Depreciation	16	16	5	11	48
Disposals	-	-	-	(3)	(3)
Balance at December 31, 2014	801	49	37	67	954
Depreciation	12	12	3	6	33
Balance at September 30, 2015	813	61	40	73	987
Carrying value					
Balance at January 1, 2014	338	626	57	42	1,063
Balance at December 31, 2014	322	610	52	33	1,017
Balance at September 30, 2015	310	598	49	54	1,011

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 \$17,600 (2014 - \$9,300) 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 2015 and 2014. An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2014. 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	
	2015	2014	2015	2014
Component of benefit cost				
Current service cost	2	3	6	5
Interest cost	1	-	2	1
Total benefit expense for the period	3	3	8	6

NALCOR ENERGY - BULL ARM FABRICATION INC.
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5. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Salaries and benefits expense	206	206	558	446
Maintenance and materials	-	3	18	12
Professional services	37	59	85	69
Cost recoveries	31	25	79	67
Other operating costs	25	46	84	78
	299	339	824	672

6. NET FINANCE (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Finance income				
Interest on temporary investments	(2)	(3)	(6)	(9)
Other interest income	(3)	(5)	(8)	(16)
	(5)	(8)	(14)	(25)
Finance expense				
Bank fees	1	2	5	5
	1	2	5	5
Net finance (income) expense	(4)	(6)	(9)	(20)

7. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Change in fair value of forward contracts	-	230	-	(42)
Foreign exchange loss	674	62	1,479	317
Other (income) expense	674	292	1,479	275

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

8.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2015 and December 31, 2014 are based on relevant market prices and information available at the time. 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 Bull Arm Fabrication might receive or incur in actual market transactions.

As a significant number of Bull Arm Fabrication's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Bull Arm Fabrication as a whole.

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 has 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).

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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. For assets and liabilities that are recognized at fair value on a recurring basis, Bull Arm Fabrication determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurement during the period ended September 30, 2015 and the year ended December 31, 2014.

As at September 30, 2015 and December 31, 2014, Bull Arm Fabrication did not have any level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	2,136	2,136	1,862	1,862
Short-term investments	1	905	905	905	905
Receivables	1	1	1	6	6
Financial liabilities					
Trade and other payables	1	351	351	555	555
Derivative liabilities	2	1,149	1,149	424	424

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

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

- (a) For the period ended September 30, 2015, Bull Arm Fabrication was charged \$39,100 (2014 - \$31,200) by Hydro for engineering, technical, management and administrative services received.
- (b) As at September 30, 2015, Bull Arm Fabrication has a payable to Nalcor of \$65,500 (2014 - \$24,600) related to intercompany operating costs.
- (c) As at September 30, 2015, Bull Arm Fabrication has a payable to Hydro of \$9,700 (2014 - \$11,700) related to intercompany operating costs.

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

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. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Receivables	(1)	(2)	5	(1)
Prepayments	(25)	(24)	(12)	(11)
Trade and other payables	(1)	51	(204)	(141)
Deferred revenue	114	72	234	76
Changes in non-cash working capital balances	87	97	23	(77)
Interest received	3	16	15	27
Interest paid	1	2	5	5

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with presentation adopted during the current reporting period. Specifically, foreign exchange gains and losses, previously reported in net finance (income) expense, have been presented with other (income) expense.