

NALCOR ENERGY - BULL ARM FABRICATION INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2016
(Unaudited)

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

<i>As at (thousands of Canadian dollars)</i>	Notes	September 30	December 31
		2016	2015
ASSETS			
Current assets			
Cash and cash equivalents		2,085	203
Short-term investments		905	907
Trade and other receivables		2	5
Prepayments		34	23
Derivative assets	11	142	-
Total current assets		3,168	1,138
Non-current assets			
Investment property	3	1,005	997
Total assets		4,173	2,135
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		398	228
Deferred revenue	4	1,762	-
Total current liabilities		2,160	228
Non-current liabilities			
Employee future benefits		58	50
Derivative liabilities	11	-	1,147
Total liabilities		2,218	1,425
Shareholder's equity			
Reserves		204	(1,085)
Retained earnings		1,751	1,795
Total equity		1,955	710
Total liabilities and equity		4,173	2,135

Commitments and contingencies (Note 13)

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		Nine months ended	
		2016	2015	2016	2015
Revenue		5,251	5,202	16,000	15,140
Operating costs	8	229	299	879	824
Depreciation	3	11	11	34	33
Net finance (income) expense	9	(3)	(4)	(9)	(9)
Other (income) expense	10	(128)	674	174	1,479
Profit for the period		5,142	4,222	14,922	12,813
Other comprehensive income for the period					
<i>Total items that may or have been reclassified to profit or loss</i>					
Net fair value (loss) gain on cash flow hedges		(406)	654	1,463	780
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss	10	104	(675)	(174)	(1,505)
Other comprehensive (loss) income for the period		(302)	(21)	1,289	(725)
Total comprehensive income for the period		4,840	4,201	16,211	12,088

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Notes	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2016		(1,147)	62	1,795	710
Profit for the period		-	-	14,922	14,922
Other comprehensive income					
Net change in fair value of cash flow hedges	6	1,463	-	-	1,463
Net change in the fair value of financial instruments reclassified to profit or loss	6	(174)	-	-	(174)
Total comprehensive income for the period		1,289	-	14,922	16,211
Dividends paid	7	-	-	(14,966)	(14,966)
Balance at September 30, 2016		142	62	1,751	1,955
Balance at January 1, 2015		(425)	59	1,597	1,231
Profit for the period		-	-	12,813	12,813
Other comprehensive income					
Net change in fair value of cash flow hedges	6	780	-	-	780
Net change in the fair value of financial instruments reclassified to profit or loss	6	(1,505)	-	-	(1,505)
Total comprehensive (loss) income for the period		(725)	-	12,813	12,088
Dividends paid	7	-	-	(12,576)	(12,576)
Balance at September 30, 2015		(1,150)	59	1,834	743

See accompanying notes

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	
		2016	2015	2016	2015
Cash provided from (used in)					
Operating activities					
Profit for the period		5,142	4,222	14,922	12,813
Adjusted for items not involving a cash flow:					
Depreciation	3	11	11	34	33
Employee benefits	5	3	3	8	8
		5,156	4,236	14,964	12,854
Changes in non-cash working capital balances	14	33	87	1,924	23
Net cash provided from operating activities		5,189	4,323	16,888	12,877
Investing activities					
Additions to investment property	3	(42)	(22)	(42)	(27)
(Increase) decrease in short-term investments		(3)	(2)	2	-
Net cash used in investing activities		(45)	(24)	(40)	(27)
Financing activity					
Dividends paid to Nalcor Energy	7	(5,116)	(4,178)	(14,966)	(12,576)
Net cash used in financing activity		(5,116)	(4,178)	(14,966)	(12,576)
Net increase in cash and cash equivalents		28	121	1,882	274
Cash and cash equivalents, beginning of period		2,057	2,015	203	1,862
Cash and cash equivalents, end of period		2,085	2,136	2,085	2,136
Interest received		3	3	16	15
Interest paid		1	1	4	5

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 at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

Revenue and profit 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 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 2018.

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 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, 2015.

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 instruments at fair value through profit or loss which have been measured at fair value. The condensed interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The condensed interim financial statements were approved by Bull Arm Fabrication's Board of Directors on November 10, 2016.

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, 2015	1,123	659	89	100	1,971
Additions	-	-	-	24	24
Balance at December 31, 2015	1,123	659	89	124	1,995
Additions	-	-	-	42	42
Balance at September 30, 2016	1,123	659	89	166	2,037
Depreciation					
Balance at January 1, 2015	801	49	37	67	954
Depreciation	16	16	4	8	44
Balance at December 31, 2015	817	65	41	75	998
Depreciation	12	12	3	7	34
Balance at September 30, 2016	829	77	44	82	1,032
Carrying value					
Balance at January 1, 2015	322	610	52	33	1,017
Balance at December 31, 2015	306	594	48	49	997
Balance at September 30, 2016	294	582	45	84	1,005

As at September 30, 2016, the fair value measurement of the investment property is categorized as a Level 3 valuation. The fair value of the investment property at September 30, 2016 is estimated to be \$25.5 million (December 31, 2015 - \$33.8 million). Due to the nature of the property and lack of comparable market data, the fair value of Bull Arm Fabrication's investment property is determined using the present value of future cash flows. Bull Arm Fabrication's estimates are based on cash flows estimated to occur between 2016 and 2031, discounted at a rate of 12.0%.

4. DEFERRED REVENUE

Deferred revenue consists of prepaid rent received from Bull Arm Fabrication's lessee. As at September 30, 2016, there was \$1.8 million in prepaid rent (December 31, 2015 - \$nil).

5. EMPLOYEE FUTURE BENEFITS

5.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the period ended September 30, 2016 of \$21,500 (2015 - \$17,600) were expensed as incurred.

5.2 Other Benefits

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 2016 and 2015. An actuarial valuation was performed as at December 31, 2015, with an extrapolation to December 31, 2016.

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

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Component of benefit cost				
Current service cost	2	2	6	6
Interest cost	1	1	2	2
Total benefit expense for the period	3	3	8	8

6. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of, and changes in, accumulated other comprehensive income (loss) are as follows:

Items that will not be reclassified to profit or loss:

<i>(thousands of Canadian dollars)</i>	2016	2015
Employee future benefits		
Balance at January 1	62	59
Net actuarial (gains) losses on defined benefit plans	-	-
Balance at September 30	62	59

Items that may or have been reclassified to profit or loss:

<i>(thousands of Canadian dollars)</i>	2016	2015
Cash flow hedges		
Balance at January 1	(1,147)	(425)
Fair value gains during the period	1,463	780
Reclassification adjustments for amounts recognized in profit or loss	(174)	(1,505)
Balance at September 30	142	(1,150)

7. SHAREHOLDER'S EQUITY

Dividends Paid

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Declared and paid during the period	5,116	4,178	14,966	12,576

8. OPERATING COSTS

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Salaries and benefits expense	170	206	614	558
Maintenance and materials	3	-	21	18
Professional services	13	37	80	85
Cost recoveries	26	31	97	79
Other operating costs	17	25	67	84
	229	299	879	824

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

9. NET FINANCE (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Finance income				
Interest on temporary investments	(2)	(2)	(6)	(6)
Bank interest	(2)	(3)	(7)	(8)
	(4)	(5)	(13)	(14)
Finance expense				
Bank fees	1	1	4	5
	1	1	4	5
Net finance (income) expense	(3)	(4)	(9)	(9)

10. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Settlement of foreign exchange forward contracts	(104)	675	174	1,505
Realized foreign exchange (gain) loss	(20)	111	(56)	261
Unrealized foreign exchange (gain) loss	(4)	(112)	56	(287)
Other (income) expense	(128)	674	174	1,479

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

11.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2016 and December 31, 2015 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).

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, 2016 and the year ended December 31, 2015.

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

As at September 30, 2016 and December 31, 2015, Bull Arm Fabrication did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2016		December 31, 2015	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Derivative assets	2	142	142	-	-
Financial liabilities					
Derivative liabilities	2	-	-	1,147	1,147

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

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

11.2 Risk Management

Bull Arm Fabrication is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board-approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Bull Arm Fabrication's expected future cash flows.

Market Risk

In the course of carrying out its operating, financing and investing activities, Bull Arm Fabrication is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Bull Arm Fabrication has significant exposure include those relating to prevailing interest rates and foreign exchange rates, notably US Dollars (USD) / Canadian Dollars (CAD). These exposures are addressed as part of the Financial Risk Management Strategy.

Foreign Currency

Bull Arm Fabrication's primary exposure to foreign exchange risk arises from its USD denominated rental revenue. Exposures to USD denominated rental revenue are addressed in accordance with the Board approved Financial Risk Management Policy, and mitigation tactics include the use of forward rate agreements.

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

The components of change impacting the carrying value of derivative assets and liabilities for the periods ended September 30, 2016 and 2015 are as follows:

<i>(thousands of Canadian dollars)</i>	Level II
Balance at January 1, 2016	(1,147)
Purchases	-
Transfers	-
	(1,147)
Changes in other comprehensive income	
Mark-to-market	1,463
Settlements realized in profit (loss)	(174)
Total	1,289
Balance at September 30, 2016	142
Balance at January 1, 2015	(425)
Purchases	-
Transfers	-
	(425)
Changes in other comprehensive income	
Mark-to-market	780
Settlements realized in profit (loss)	(1,505)
Total	(725)
Balance at September 30, 2015	(1,150)

As at September 30, 2016, Bull Arm Fabrication has 5 remaining foreign exchange forward contracts, with a notional value of \$6.7 million USD and an average rate of \$1.33 CAD per USD. As these contracts have all been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income. During 2016, \$0.2 million in losses have been included in other (income) expense related to the forward contracts and \$1.3 million in unrealized gains remains in other comprehensive income.

As at September 30, 2016, the fair value of the derivative assets as presented on the Statement of Financial Position was \$0.1 million. As at December 31, 2015, the fair value of the derivative liabilities was \$1.1 million.

12. 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

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

13. COMMITMENTS AND CONTINGENCIES

- (a) 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.

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

(b) On August 31, 2016, a one-year extension, commencing March 7, 2017, was signed between Bull Arm Fabrication and the site's current tenant. The remaining minimum lease payments associated with the lease arrangement of Bull Arm Fabrication's assets and facilities over the next five years will be as follows:

<i>(millions of Canadian dollars)</i>	2016	2017	2018	2019	2020	Thereafter
Minimum lease payments	5.3	21.2	3.3	-	-	-

14. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Trade and other receivables	3	(1)	3	5
Prepayments	(25)	(25)	(11)	(12)
Trade and other payables	(2)	(1)	170	(204)
Deferred revenue	57	114	1,762	234
Changes in non-cash working capital balances	33	87	1,924	23