

NALCOR ENERGY - OIL AND GAS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

DIRECTORS

KEN MARSHALL
President – Atlantic Region
Rogers Communications

EDMUND MARTIN
President and Chief Executive Officer

JUSTIN LADHA
Vice President
KMK Capital Inc.

GERALD SHORTALL
Chartered Accountant and Corporate Director

GILBERT DALTON
Corporate Director

OFFICERS

KEN MARSHALL
Chairperson

EDMUND MARTIN
President and Chief Executive Officer

DERRICK STURGE
Vice President, Finance and Chief Financial Officer

JIM KEATING
Vice President

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

SCOTT PELLEY
Corporate Treasurer

PETER HICKMAN
Assistant Corporate Secretary

ROBERT HULL
General Manager, Finance

HEAD AND CORPORATE OFFICE

P.O. Box 12800
Hydro Place, 500 Columbus Drive
St. John's, NL
Canada A1B 0C9

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF FINANCIAL POSITION
(Unaudited)

<i>As at (thousands of Canadian dollars)</i>	Notes	March 31 2015	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		1,738	12,505
Trade and other receivables		27,717	22,863
Prepayments		2,842	1,750
Derivative assets	11	8,548	9,019
Total current assets		40,845	46,137
Property, plant and equipment	3	791,124	742,230
Intangible assets	4	15,183	12,945
Total assets		847,152	801,312
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		35,167	28,999
Current portion of deferred revenue	5	1,510	1,176
Current portion of decommissioning liabilities	6	1,100	1,100
Total current liabilities		37,777	31,275
Non-current liabilities			
Deferred revenue	5	2,771	3,066
Decommissioning liabilities	6	14,195	14,094
Long-term payables		6,934	6,876
Employee benefits liability		863	867
Total liabilities		62,540	56,178
Shareholder's equity			
Share capital		110,000	110,000
Shareholder contributions	8	555,212	518,012
Reserves		8,077	7,310
Retained earnings		111,323	109,812
Total shareholder's equity		784,612	745,134
Total liabilities and shareholder's equity		847,152	801,312

Commitments and contingencies (Note 13)

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2015	2014
Petroleum and natural gas sales		7,558	27,389
Royalty expense		(476)	(4,074)
Other revenue		2,418	773
Revenue, net		9,500	24,088
Operating costs	9	(2,381)	(2,108)
Production costs		(3,137)	(3,653)
Depreciation and depletion	3	(3,678)	(7,617)
Exploration and evaluation expense		(185)	-
Net finance income and expense	10	262	190
Other income and expense		1,130	591
Profit for the period		1,511	11,491
Other comprehensive income for the period		767	-
Total comprehensive income for the period		2,278	11,491

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

<i>(thousands of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2015		110,000	518,012	7,781	(471)	109,812	745,134
Profit for the period		-	-	-	-	1,511	1,511
Other comprehensive income							
Net change in fair value of cash flow hedge		-	-	767	-	-	767
Total comprehensive income for the period		-	-	767	-	1,511	2,278
Capital contributions	8	-	37,200	-	-	-	37,200
Balance at March 31, 2015		110,000	555,212	8,548	(471)	111,323	784,612
Balance at January 1, 2014		110,000	305,509	-	(339)	72,733	487,903
Profit for the period		-	-	-	-	11,491	11,491
Total comprehensive income for the period		-	-	-	-	11,491	11,491
Capital contributions		-	26,700	-	-	-	26,700
Balance at March 31, 2014		110,000	332,209	-	(339)	84,224	526,094

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CASH FLOWS
(Unaudited)

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	Three months ended	
		2015	2014
Cash provided from (used in)			
Operating activities			
Profit for the period		1,511	11,491
Adjusted for items not involving a cash flow:			
Depreciation and depletion	3	3,678	7,617
Accretion	10	159	152
Settlement of decommissioning liabilities		-	(31)
Employee benefits		(4)	25
Unrealized loss (gain) on derivatives		1,238	(805)
Other		-	195
		6,582	18,644
Changes in non-cash working capital balances	14	8,133	6,331
Net cash provided from operating activities		14,715	24,975
Investing activities			
Additions to property, plant and equipment	3	(52,572)	(52,224)
Additions to intangible assets	4	(2,238)	(255)
Change in non-cash working capital balances	14	(7,872)	(9,761)
Net cash used in investing activities		(62,682)	(62,240)
Financing activities			
Increase in contributed capital	8	37,200	26,700
Net cash provided from financing activities		37,200	26,700
Net decrease in cash and cash equivalents		(10,767)	(10,565)
Cash and cash equivalents, beginning of period		12,505	6,294
Cash and cash equivalents, end of period		1,738	(4,271)

Supplementary cash flow information (Note 14)

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS

Nalcor Energy - Oil and Gas Inc. (Oil and Gas or the Company) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province). Oil and Gas has a broad mandate to engage in the upstream and downstream sectors of the oil and gas industry including exploration, development, production, transportation and processing. Oil and Gas' head office is located in St. John's, Newfoundland and Labrador. Oil and Gas is a 100% owned subsidiary of Nalcor Energy (Nalcor). Substantially all of Oil and Gas' activities are conducted jointly with others and, accordingly, these statements reflect only Oil and Gas' proportionate interest in such activities.

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 the Company's annual audited financial statements and should be read in conjunction with the annual audited financial statements. Interim results will fluctuate due to the seasonal nature of operations within Oil and Gas.

These condensed interim financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVTPL) 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 - OIL AND GAS INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

<i>(thousands of Canadian dollars)</i>	White Rose	Hibernia Southern Extension	Hebron	Other	Total
Cost					
Balance at January 1, 2014	172,568	122,683	298,583	2,406	596,240
Additions	25,595	58,553	153,014	371	237,533
Disposals	-	-	-	(12)	(12)
Decommissioning liability addition and revisions	(2,278)	2,063	5,719	-	5,504
Balance at December 31, 2014	195,885	183,299	457,316	2,765	839,265
Additions	4,305	17,403	30,341	523	52,572
Balance at March 31, 2015	200,190	200,702	487,657	3,288	891,837
Accumulated depreciation and depletion					
Balance at January 1, 2014	(69,469)	(3,869)	-	(1,218)	(74,556)
Depreciation and depletion	(20,873)	(1,213)	-	(404)	(22,490)
Disposals	-	-	-	11	11
Balance at December 31, 2014	(90,342)	(5,082)	-	(1,611)	(97,035)
Depreciation and depletion	(3,318)	(294)	-	(66)	(3,678)
Balance at March 31, 2015	(93,660)	(5,376)	-	(1,677)	(100,713)
Carrying value					
Balance at January 1, 2014	103,099	118,814	298,583	1,188	521,684
Balance at December 31, 2014	105,543	178,217	457,316	1,154	742,230
Balance at March 31, 2015	106,530	195,326	487,657	1,611	791,124

4. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	March 31 2015	December 31 2014
Balance, beginning of period	12,945	-
Additions	2,238	12,945
Balance, end of period	15,183	12,945

5. DEFERRED REVENUE

<i>(thousands of Canadian dollars)</i>	OGDP	PEEP	Other	Total
Balance, beginning of period	2,461	1,212	569	4,242
Additions	465	-	104	569
Amortization	(185)	-	(345)	(530)
Balance, end of period	2,741	1,212	328	4,281
Less: current portion of deferred revenue	(729)	(453)	(328)	(1,510)
	2,012	759	-	2,771

Oil and Gas has received funding from the Province for oil and gas exploration initiatives. Funding related to studies and programs are amortized to income directly against the related expenditures as the costs are incurred.

NALCOR ENERGY - OIL AND GAS INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

6. DECOMMISSIONING LIABILITIES

Oil and Gas decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities for the periods ended March 31, 2015 and December 31, 2014 is as follows:

	March 31	December 31
<i>(thousands of Canadian dollars)</i>	2015	2014
Decommissioning liabilities, beginning of period	15,194	9,140
Liabilities incurred	-	5,914
Accretion	101	386
Settlements	-	(31)
Revisions	-	(215)
Decommissioning liabilities, end of period	15,295	15,194
Less: current portion of decommissioning liabilities	(1,100)	(1,100)
	14,195	14,094

7. EMPLOYEE FUTURE BENEFITS

7.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of \$53,000 (2014 - \$41,000) are expensed as incurred.

7.2 Other Benefits

Oil and Gas provides group life insurance and health care benefits on a cost shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2015, cash payments to beneficiaries for its unfunded other employee future benefits plans were \$35,000 (2014 - nil). 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.

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2015	2014
Component of benefit cost		
Current service cost	21	16
Interest cost	10	9
Total benefit expense for the period	31	25

8. SHAREHOLDERS' EQUITY

Shareholder Contributions

	March 31	December 31
<i>(thousands of Canadian dollars)</i>	2015	2014
Total shareholder contributions	555,212	518,012

During 2015, Nalcor made contributions to Oil and Gas totaling \$37.2 million (December 31, 2014 - \$212.5 million). These contributions were used to fund Oil and Gas' investment activities and ongoing operations.

NALCOR ENERGY - OIL AND GAS INC.
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

9. OPERATING COSTS

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Salaries and benefits expense	1,165	1,015
Professional services	648	637
Other operating costs	568	456
	2,381	2,108

10. NET FINANCE INCOME AND EXPENSE

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Three months ended	
	2015	2014
Finance income		
Foreign exchange gain	352	285
Other interest income	16	9
	368	294
Finance expense		
Accretion expense	(159)	(152)
Other finance expense	(5)	(7)
	(164)	(159)
Interest capitalized during construction	58	55
	(106)	(104)
Net finance income and expense	262	190

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

11.1 Fair Value

The estimated fair values of financial instruments as at March 31, 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 Oil and Gas might receive or incur in actual market transactions.

As a significant number of Oil and Gas'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 Oil and Gas 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).

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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, the Company 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 for the period ended March 31, 2015 and the year ended December 31, 2014.

As of March 31, 2015 and December 31, 2014, the Company did not have any level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		March 31, 2015		December 31, 2014	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	1,738	1,738	12,505	12,505
Trade and other receivables	1	27,717	27,717	22,863	22,863
Derivative assets	2	8,548	8,548	9,019	9,019
Financial liabilities					
Trade and other payables	1	35,167	35,167	28,999	28,999
Long-term payables	2	6,934	6,727	6,876	6,628

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

11.2 Risk Management

Commodity Exposure

On March 17, 2015, Oil and Gas entered into a series of eight commodity price swaps with a notional value of \$4.5 million USD to mitigate commodity price exposure. These contracts provide Oil and Gas with an average fixed price of \$59.25 USD per barrel on an additional 75,410 barrels of production for the remainder of 2015 and the first quarter of 2016. At March 31, 2015, the change in fair value of \$1.2 million was recorded in other income and expense.

12. RELATED PARTY TRANSACTIONS

Oil and Gas 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 Oil and Gas transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Oil and Gas
Newfoundland and Labrador Hydro	Wholly owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor

13. COMMITMENTS AND CONTINGENCIES

Oil and Gas has received claims with respect to miscellaneous matters. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Oil and Gas' 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 Oil and Gas.

NALCOR ENERGY - OIL AND GAS INC.**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

14. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	2015	2014
Trade and other receivables	(4,854)	(509)
Prepayments	(1,092)	(3,941)
Trade and other payables	6,168	568
Deferred revenue	39	452
Changes in non-cash working capital balances	261	(3,430)
Related to:		
Operating activities	8,133	6,331
Investing activities	(7,872)	(9,761)
	261	(3,430)
Interest received	16	9
Interest paid	5	7