

NALCOR ENERGY – OIL AND GAS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

DIRECTORS

EDMUND J. MARTIN
President and Chief Executive Officer

JUSTIN LADHA
Vice President
KMK Capital Inc.

KEN MARSHALL
President – Atlantic Region
Rogers Cable

GERALD SHORTALL
Chartered Accountant and Corporate Director

GILBERT DALTON
Corporate Director

OFFICERS

KEN MARSHALL
Acting Chairperson

EDMUND J. 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

ROBERT HULL
General Manager, Finance

PETER HICKMAN
Assistant Corporate Secretary

HEAD OFFICE

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NALCOR ENERGY – OIL AND GAS 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		4,888	6,294
Trade and other receivables		8,332	19,047
Prepayments		4,768	1,498
Derivative assets		986	-
Total current assets		18,974	26,839
Property, plant and equipment	3	680,949	521,684
Exploration and evaluation assets		8,538	-
Total assets		708,461	548,523
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		50,172	39,222
Current portion of deferred revenue	4	1,489	2,379
Current portion of decommissioning liabilities	5	1,100	936
Derivative liabilities		-	807
Total current liabilities		52,761	43,344
Decommissioning liabilities	5	8,476	8,204
Deferred revenue	4	2,280	1,785
Long-term payable		6,819	6,652
Employee benefits liability	6	710	635
Total liabilities		71,046	60,620
Shareholder's equity			
Issued capital		110,000	110,000
Shareholder contributions	7	426,812	305,509
Reserves		(339)	(339)
Retained earnings		100,942	72,733
Total shareholder's equity		637,415	487,903
Total liabilities and shareholder's equity		708,461	548,523

Commitments and contingencies (Note 12)

See accompanying notes

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

	Notes	Three Months Ended		Nine Months Ended	
		2014	2013	2014	2013
<i>For the period ended September 30 (thousands of Canadian dollars)</i>					
Petroleum and natural gas sales		13,066	17,840	64,987	55,202
Royalty expense		(2,032)	(1,049)	(9,342)	(2,467)
Other revenue		3,657	1,979	6,434	2,008
Revenue, net		14,691	18,770	62,079	54,743
Operating costs	8	(2,793)	(3,752)	(8,110)	(6,996)
Production costs		(2,664)	(2,075)	(8,581)	(6,214)
Depreciation and depletion	3	(4,510)	(4,014)	(18,638)	(18,030)
Exploration and evaluation		-	(2,130)	-	(2,774)
Net finance income and expense	9	424	(116)	12	(26)
Other income and expense		1,765	(825)	1,447	(12)
Total comprehensive income for the period		6,913	5,858	28,209	20,691

See accompanying notes

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

<i>(thousands of Canadian dollars)</i>	Notes	Issued Capital	Shareholder Contributions	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2014		110,000	305,509	(339)	72,733	487,903
Profit for the period		-	-	-	28,209	28,209
Profit and comprehensive income for the period		-	-	-	28,209	28,209
Capital contributions	7	-	121,303	-	-	121,303
Balance at September 30, 2014		110,000	426,812	(339)	100,942	637,415
Balance at January 1, 2013		110,000	155,645	(435)	46,509	311,719
Profit for the period		-	-	-	20,691	20,691
Profit and comprehensive income for the period		-	-	-	20,691	20,691
Capital contributions		-	97,464	-	-	97,464
Balance at September 30, 2013		110,000	253,109	(435)	67,200	429,874

See accompanying notes

NALCOR ENERGY – OIL AND GAS 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	
		2014	2013	2014	2013
Cash provided by (used in)					
Operating activities					
Profit for the period		6,913	5,858	28,209	20,691
Adjusted for items not involving a cash flow:					
Depreciation and depletion		4,510	4,014	18,638	18,030
Accretion		152	122	457	366
Net increase in decommissioning liabilities		(18)	-	146	-
Loss on disposal of property, plant and equipment		1	-	1	-
Employee benefits		25	27	75	81
Unrealized (gain) loss on derivatives		(1,832)	942	(1,793)	418
		9,751	10,963	45,733	39,586
Changes in non-cash working capital balances	13	43,235	17,730	28,342	2,420
Net cash from operating activities		52,986	28,693	74,075	42,006
Financing activities					
Contributed capital		33,500	40,800	121,303	97,464
Net cash from financing activities		33,500	40,800	121,303	97,464
Investing activities					
Additions to property, plant and equipment		(65,005)	(58,732)	(177,904)	(123,057)
Additions to exploration and evaluation assets		(8,538)	-	(8,538)	-
Changes in non-cash working capital balances	13	(16,687)	(13,599)	(10,342)	(9,724)
Net cash used in investing activities		(90,230)	(72,331)	(196,784)	(132,781)
Net (decrease) increase in cash and cash equivalents		(3,744)	(2,838)	(1,406)	6,689
Cash and cash equivalents (bank indebtedness) at beginning of period		8,632	6,487	6,294	(3,040)
Cash and cash equivalents at end of period		4,888	3,649	4,888	3,649

Supplementary cash flow information (Note 13)

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. 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.

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

2.1 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.

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 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.

2.2 Change in Estimate

Effective January 1, 2014, Nalcor obtained new information impacting its treatment of exploration and evaluation expenditures. Management believes this new information supports capitalization of exploration and evaluation expenditures associated with investments in seismic research. Nalcor has applied this new information prospectively.

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, 2013	136,513	80,134	187,066	1,897	405,610
Additions	33,428	42,474	111,517	509	187,928
Decommissioning liability additions and revisions	2,627	75	-	-	2,702
Balance at December 31, 2013	172,568	122,683	298,583	2,406	596,240
Additions	19,801	42,887	114,898	318	177,904
Disposals	-	-	-	(12)	(12)
Balance at September 30, 2014	192,369	165,570	413,481	2,712	774,132
Accumulated depreciation and depletion					
Balance at January 1, 2013	(45,542)	(3,079)	-	(843)	(49,464)
Depreciation and depletion	(23,927)	(790)	-	(375)	(25,092)
Balance at December 31, 2013	(69,469)	(3,869)	-	(1,218)	(74,556)
Depreciation and depletion	(17,250)	(1,092)	-	(296)	(18,638)
Disposals	-	-	-	11	11
Balance at September 30, 2014	(86,719)	(4,961)	-	(1,503)	(93,183)
Carrying value					
Balance at January 1, 2013	90,971	77,055	187,066	1,054	356,146
Balance at December 31, 2013	103,099	118,814	298,583	1,188	521,684
Balance at September 30, 2014	105,650	160,609	413,481	1,209	680,949

4. DEFERRED REVENUE

<i>(thousands of Canadian dollars)</i>	OGDP	PEEP	Total
Balance at December 31, 2013	2,570	1,594	4,164
Additions	495	-	495
Amortization	(602)	(288)	(890)
Balance at September 30, 2014	2,463	1,306	3,769
Less: current portion	(1,327)	(162)	(1,489)
Long-term balance at September 30, 2014	1,136	1,144	2,280

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)

5. 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 September 30, 2014 and December 31, 2013 is as follows:

<i>(thousands of Canadian dollars)</i>	September 30 2014	December 31 2013
Decommissioning liabilities at beginning of period	9,140	6,332
Accretion	290	270
Settlements	(31)	(164)
Revisions	177	2,702
	9,576	9,140
Less: current portion of decommissioning liabilities	(1,100)	(936)
Decommissioning liabilities at end of period	8,476	8,204

6. EMPLOYEE BENEFITS LIABILITY

6.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefits plan. The employer's contributions of \$133,300 (2013 - \$117,600) are expensed as incurred.

6.2 Other Benefits

Additionally, Oil and Gas 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. For the nine months ended September 30, 2014, there were no cash payments to beneficiaries for its unfunded other employee benefits plans (2013 – nil). 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	16	20	49	60
Interest cost	9	7	26	21
Benefit expense	25	27	75	81

7. SHAREHOLDER'S EQUITY

7.1 Shareholder Contributions

<i>(thousands of Canadian dollars)</i>	September 30 2014	December 31 2013
Total shareholder contributions	426,812	305,509

During 2014, Nalcor made contributions to Oil and Gas totaling \$121.3 million (December 31, 2013 - \$149.9 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)

8. OPERATING COSTS

	Three Months Ended		Nine Months Ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2014	2013	2014	2013
Salaries and benefits expense	972	873	2,851	2,543
Professional services	1,207	475	2,597	1,121
Other operating costs	614	2,404	2,662	3,332
	2,793	3,752	8,110	6,996

9. NET FINANCE INCOME (EXPENSE)

	Three Months Ended		Nine Months Ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2014	2013	2014	2013
Finance income				
Gain on foreign exchange	531	(63)	312	192
Other interest income	11	20	37	33
	542	(43)	349	225
Finance costs				
Accretion expense	(152)	(122)	(457)	(366)
Other finance costs	(23)	(5)	(48)	(48)
	(175)	(127)	(505)	(414)
Interest capitalized during construction	57	54	168	163
	(118)	(73)	(337)	(251)
Net finance income (expense)	424	(116)	12	(26)

10. FINANCIAL INSTRUMENTS

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. 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' 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 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.

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

10. FINANCIAL INSTRUMENTS (cont'd.)

Fair Value (cont'd.)

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2014		December 31, 2013	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Cash and cash equivalents	1	4,888	4,888	6,294	6,294
Trade and other receivables	1	8,332	8,332	19,047	19,047
Derivative assets	2	986	986	-	-
Financial liabilities					
Trade and other payables	1	50,172	50,172	39,222	39,222
Derivative liabilities	2	-	-	807	807
Long-term payable	2	6,819	6,697	6,652	6,632

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

11. 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 Energy (Nalcor)	100% shareholder of Oil and Gas
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor

12. 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)

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended		Nine Months Ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2014	2013	2014	2013
Trade and other receivables	8,479	(1,172)	10,715	2,544
Prepayments	(2,903)	204	(3,270)	276
Trade and other payables	21,348	7,078	10,950	(9,617)
Deferred revenue	(376)	(1,979)	(395)	(507)
Changes in non-cash working capital balances	26,548	4,131	18,000	(7,304)
Related to:				
Operating activities	43,235	17,730	28,342	2,420
Investing activities	(16,687)	(13,599)	(10,342)	(9,724)
	26,548	4,131	18,000	(7,304)
Interest received	11	19	37	32
Interest paid	21	6	47	48

14. SUBSEQUENT EVENT

On October 31, 2014, Oil and Gas entered into a series of fixed price swaps with a Canadian Schedule 1 bank to mitigate commodity price exposure in 2015. These contracts, which have a notional value of \$22.6 million USD, provide for an average fixed price of \$87.44 USD on 26% of budgeted 2015 production.