

NALCOR ENERGY - OIL AND GAS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2015
(Unaudited)

NALCOR ENERGY - OIL AND GAS 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		14,049	12,505
Trade and other receivables		15,284	22,863
Prepayments		1,243	1,750
Derivative assets		6,638	9,019
Total current assets		37,214	46,137
Property, plant and equipment	3	896,227	742,230
Intangible assets	4	34,873	12,945
Other long-term assets		539	-
Total assets		968,853	801,312
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade and other payables		50,340	28,999
Current portion of deferred revenue	5	1,720	1,176
Current portion of decommissioning liabilities	6	200	1,100
Total current liabilities		52,260	31,275
Non-current liabilities			
Deferred revenue	5	2,044	3,066
Decommissioning liabilities	6	15,490	14,094
Long-term payable		-	6,876
Employee benefits liability		926	867
Total liabilities		70,720	56,178
Shareholder's equity			
Share capital		110,000	110,000
Shareholder contributions	8	666,412	518,012
Reserves		6,167	7,310
Retained earnings		115,554	109,812
Total shareholder's equity		898,133	745,134
Total liabilities and shareholder's equity		968,853	801,312

Commitments and contingencies (Note 14)

See accompanying notes

NALCOR ENERGY - OIL AND GAS 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	
		2015	2014	2015	2014
Petroleum and natural gas sales		6,479	13,066	20,636	64,987
Royalty expense		(85)	(2,032)	(965)	(9,342)
Other revenue		3,601	3,657	9,896	6,434
Revenue, net		9,995	14,691	29,567	62,079
Operating costs	9	2,533	2,899	7,580	7,220
Production costs		3,960	2,777	10,162	8,890
Amortization, depreciation and depletion	3,4	3,988	4,510	11,153	18,638
Exploration and evaluation expense		326	375	912	889
Net finance (income) expense	10	172	107	513	300
Other (income) expense	11	(2,915)	(2,296)	(6,495)	(1,759)
Profit for the period		1,931	6,319	5,742	27,901
Other comprehensive income (loss) for the period		2,595	-	(1,143)	-
Total comprehensive income for the period		4,526	6,319	4,599	27,901

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		-	-	-	-	5,742	5,742
Other comprehensive income							
Net change in fair value of cash flow hedge		-	-	(1,143)	-	-	(1,143)
Total comprehensive (loss) income for the period		-	-	(1,143)	-	5,742	4,599
Shareholder contributions	8	-	148,400	-	-	-	148,400
Balance at September 30, 2015		110,000	666,412	6,638	(471)	115,554	898,133
Balance at January 1, 2014		110,000	305,509	-	(339)	72,733	487,903
Profit for the period		-	-	-	-	27,901	27,901
Total comprehensive income for the period		-	-	-	-	27,901	27,901
Shareholder contributions		-	121,303	-	-	-	121,303
Balance at September 30, 2014		110,000	426,812	-	(339)	100,634	637,107

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	
		2015	2014	2015	2014
Cash provided from (used in)					
Operating activities					
Profit for the period		1,931	6,319	5,742	27,901
Adjusted for items not involving a cash flow:					
Amortization, depreciation and depletion	3, 4	3,988	4,510	11,153	18,638
Accretion	10	229	152	685	457
Settlement of decommissioning liabilities	6	(15)	-	(15)	(31)
Employee benefits	7	32	25	59	75
Loss on disposal of property, plant and equipment		-	1	-	1
Unrealized (gain) loss on derivatives		-	(1,832)	1,238	(1,793)
Other		-	(18)	-	177
		6,165	9,157	18,862	45,425
Changes in non-cash working capital balances	15	2,271	43,235	554	28,342
Net cash provided from operating activities		8,436	52,392	19,416	73,767
Investing activities					
Additions to property, plant and equipment	3	(56,755)	(64,893)	(163,688)	(177,596)
Additions to intangible assets	4	(20,309)	(8,056)	(23,390)	(8,538)
Change in non-cash working capital balances	15	12,731	(16,687)	21,345	(10,342)
Net cash used in investing activities		(64,333)	(89,636)	(165,733)	(196,476)
Financing activities					
Increase in shareholder contributions	8	51,500	33,500	148,400	121,303
Increase in other long-term assets		112	-	(539)	-
Net cash provided from financing activities		51,612	33,500	147,861	121,303
Net (decrease) increase in cash and cash equivalents		(4,285)	(3,744)	1,544	(1,406)
Cash and cash equivalents, beginning of period		18,334	8,632	12,505	6,294
Cash and cash equivalents, end of period		14,049	4,888	14,049	4,888

Supplementary cash flow information (Note 15)

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 Extension	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	11,270	58,226	93,196	996	163,688
Disposals	-	-	-	(38)	(38)
Balance at September 30, 2015	207,155	241,525	550,512	3,723	1,002,915
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	8,906	588	-	197	9,691
Disposals	-	-	-	(38)	(38)
Balance at September 30, 2015	99,248	5,670	-	1,770	106,688
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 September 30, 2015	107,907	235,855	550,512	1,953	896,227

4. INTANGIBLE ASSETS

<i>(thousands of Canadian dollars)</i>	September 30 2015	December 31 2014
Balance, beginning of period	12,945	-
Additions	23,390	12,945
Amortization	(1,462)	-
Balance, end of period	34,873	12,945

Intangible assets consist of exploration investments in acquired seismic data and technical studies, used to identify and encourage the development of areas with potential oil reserves off the coast of Newfoundland and Labrador. Intangible assets are amortized on a straight-line basis over a six-year period.

NALCOR ENERGY - OIL AND GAS INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)

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	-	(30)	435
Amortization	(819)	(94)	-	(913)
Balance, end of period	2,107	1,118	539	3,764
Less: current portion of deferred revenue	(729)	(452)	(539)	(1,720)
	1,378	666	-	2,044

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.

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 September 30, 2015 and December 31, 2014 is as follows:

<i>(thousands of Canadian dollars)</i>	September 30 2015	December 31 2014
Decommissioning liabilities, beginning of period	15,194	9,140
Liabilities incurred	-	5,914
Accretion	511	386
Settlements	(15)	(31)
Revisions	-	(215)
Decommissioning liabilities, end of period	15,690	15,194
Less: current portion of decommissioning liabilities	(200)	(1,100)
	15,490	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 \$208,000 (2014 - \$133,000) 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, 2015. 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	22	16	64	49
Interest cost	10	9	30	26
Total benefit expense for the period	32	25	94	75

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

8. SHAREHOLDER'S EQUITY

Shareholder Contributions

	September 30	December 31
	2015	2014
<i>(thousands of Canadian dollars)</i>		
Total shareholder contributions	666,412	518,012

During 2015, Nalcor made contributions to Oil and Gas totaling \$148.4 million (December 31, 2014 - \$212.5 million). These contributions were used to fund Oil and Gas' investment activities.

9. OPERATING COSTS

	Three months ended		Nine months ended	
	2015	2014	2015	2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
Salaries and benefits expense	1,176	972	3,427	2,851
Professional services	719	1,207	2,024	2,597
Other operating costs	638	720	2,129	1,772
	2,533	2,899	7,580	7,220

10. NET FINANCE (INCOME) EXPENSE

	Three months ended		Nine months ended	
	2015	2014	2015	2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
Finance income				
Other interest income	10	11	58	37
	10	11	58	37
Finance expense				
Accretion expense	229	152	685	457
Other finance expense	12	23	61	48
	241	175	746	505
Interest capitalized during construction	(59)	(57)	(175)	(168)
	182	118	571	337
Net finance (income) expense	172	107	513	300

11. OTHER (INCOME) EXPENSE

	Three months ended		Nine months ended	
	2015	2014	2015	2014
<i>For the period ended September 30 (thousands of Canadian dollars)</i>				
Mark-to-market of commodity swaps	-	(1,832)	1,238	(1,793)
Settlement of commodity swaps	(2,897)	67	(7,735)	346
Foreign exchange (gain) loss	(18)	(531)	2	(312)
Other (income) expense	(2,915)	(2,296)	(6,495)	(1,759)

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 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 Oil and Gas might receive or incur in actual market transactions.

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

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).

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 September 30, 2015 and the year ended December 31, 2014.

As at September 30, 2015 and December 31, 2014, the Company 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	14,049	14,049	12,505	12,505
Trade and other receivables	1	15,284	15,284	22,863	22,863
Derivative assets	2	6,638	6,638	9,019	9,019
Financial liabilities					
Trade and other payables	1	50,340	50,340	28,999	28,999
Long-term payable*	2	-	-	6,876	6,628

*At June 30, 2015, the long-term payable balance was reclassified to trade and other payables.

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.

12.2 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.

On June 24, 2015, Oil and Gas entered into a series of four commodity price swaps with a notional value of \$4.4 million USD to mitigate commodity price exposure. These contracts provide Oil and Gas with an average fixed price of \$67.23 USD per barrel on 65,500 barrels of production for the second quarter of 2016.

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

As at September 30, 2015, ongoing contracts related to 2015 production will provide an average fixed price of \$87.63 per barrel on 76,554 barrels of production. Contracts in place for the first two quarters of 2016 will provide an average fixed price of \$63.37 USD per barrel on 133,500 barrels of production.

As the contracts have been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income.

13. 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

- (a) For the period ended September 30, 2015, Oil and Gas paid \$37,000 (2014 - \$6,000) to Nalcor for interest on intercompany loans. All loan balances have been repaid in full.
- (b) For the period ended September 30, 2015, Oil and Gas was charged \$508,000 (2014 - \$346,000) by Hydro for management and administrative services received.
- (c) As at September 30, 2015, Oil and Gas has a payable to Nalcor of \$407,000 (2014 - \$245,000) related to intercompany operating costs.
- (d) As at September 30, 2015, Oil and Gas has a payable to companies under common control of \$71,000 (2014 - \$172,000) related to intercompany operating costs.
- (e) Nalcor provides cash to fund investing activities that are periodically settled by shareholder contributions. As at September 30, 2015, Nalcor provided \$148.4 million (December 31, 2014 - \$212.5 million) in shareholder contributions to Oil and Gas during 2015.
- (f) Total funding to be received under PEEP was \$4.5 million over five years. For the period ended September 30, 2015, there was no funds received (2014 - \$nil). Included in deferred revenue at September 30, 2015, is \$1.1 million (2014 - \$1.2 million) related to funding received.
- (g) Total funding to be received under OGDG was \$14.3 million over four years. For the period ended September 30, 2015, \$0.5 million (2014 - \$0.5 million) was received from the Province. Included in deferred revenue at September 30, 2015, is \$2.1 million (2014 - \$2.5 million) related to funding received.

14. 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)**

15. 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
Trade and other receivables	3,437	8,479	7,579	10,715
Prepayments	318	(2,903)	507	(3,270)
Trade and other payables	13,500	21,348	14,291	10,950
Deferred revenue	(2,253)	(376)	(478)	(395)
Changes in non-cash working capital balances	15,002	26,548	21,899	18,000
Related to:				
Operating activities	2,271	43,235	554	28,342
Investing activities	12,731	(16,687)	21,345	(10,342)
	15,002	26,548	21,899	18,000
Interest received	10	11	58	37
Interest paid	12	21	60	47

16. 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.