

**NALCOR ENERGY - OIL AND GAS INC.**  
**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**March 31, 2017**  
**(Unaudited)**

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

<i>As at (thousands of Canadian dollars)</i>	Notes	<b>March 31</b>	December 31
		<b>2017</b>	2016
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		<b>25,132</b>	29,727
Trade and other receivables		<b>47,052</b>	46,982
Inventory		<b>5,235</b>	4,213
Prepayments		<b>2,142</b>	1,226
Derivative assets	14	<b>86</b>	-
<b>Total current assets</b>		<b>79,647</b>	82,148
Non-current assets			
Property, plant and equipment	3	<b>1,128,507</b>	1,102,042
Intangible assets	4	<b>57,162</b>	58,421
Other long-term assets		<b>1,025</b>	758
<b>Total assets</b>		<b>1,266,341</b>	1,243,369
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables		<b>36,066</b>	57,242
Current portion of deferred revenue	5	<b>450</b>	600
Current portion of decommissioning liabilities	6	<b>932</b>	995
Derivative liabilities	14	<b>324</b>	4,790
<b>Total current liabilities</b>		<b>37,772</b>	63,627
Non-current liabilities			
Deferred revenue	5	<b>2,103</b>	1,836
Decommissioning liabilities	6	<b>66,704</b>	65,996
Employee future benefits		<b>937</b>	893
<b>Total liabilities</b>		<b>107,516</b>	132,352
Shareholder's equity			
Share capital		<b>110,000</b>	110,000
Shareholder contributions	9	<b>906,112</b>	887,205
Reserves	8	<b>(574)</b>	(5,124)
Retained earnings		<b>143,287</b>	118,936
<b>Total equity</b>		<b>1,158,825</b>	1,111,017
<b>Total liabilities and equity</b>		<b>1,266,341</b>	1,243,369

Commitments and contingencies (Note 16)

*See accompanying notes*

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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	Notes	<b>Three months ended</b>	
		<b>2017</b>	2016
Petroleum and natural gas sales		<b>56,147</b>	15,846
Royalty expense		<b>(2,662)</b>	(905)
Other revenue		<b>337</b>	59
<b>Revenue, net</b>		<b>53,822</b>	15,000
Operating costs	10	<b>1,225</b>	2,274
Production, marketing and transportation costs	11	<b>8,500</b>	5,168
Depreciation, depletion and amortization	3,4	<b>17,242</b>	8,447
Exploration and evaluation expense		<b>150</b>	43
Net finance expense	12	<b>769</b>	814
Other expense (income)	13	<b>1,585</b>	(2,749)
<b>Expenses</b>		<b>29,471</b>	13,997
<b>Profit for the period</b>		<b>24,351</b>	1,003
Other comprehensive income (loss)			
<i>Total items that may or have been reclassified to profit or loss</i>			
Net fair value gains on cash flow hedges	8	<b>3,838</b>	222
Reclassification adjustments related to:			
Cash flow hedges recognized in profit or loss	8	<b>712</b>	(4,141)
<b>Other comprehensive income (loss) for the period</b>		<b>4,550</b>	(3,919)
<b>Total comprehensive income (loss) for the period</b>		<b>28,901</b>	(2,916)

*See accompanying notes*

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

	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<i>(thousands of Canadian dollars)</i>							
<b>Balance at January 1, 2017</b>		<b>110,000</b>	<b>887,205</b>	<b>(4,788)</b>	<b>(336)</b>	<b>118,936</b>	<b>1,111,017</b>
<b>Profit for the period</b>		-	-	-	-	<b>24,351</b>	<b>24,351</b>
<b>Other comprehensive income</b>							
Net change in the fair value of cash flow hedges	8	-	-	<b>3,838</b>	-	-	<b>3,838</b>
Net change in the fair value of financial instruments reclassified to profit or loss	8	-	-	<b>712</b>	-	-	<b>712</b>
<b>Total comprehensive income for the period</b>		-	-	<b>4,550</b>	-	<b>24,351</b>	<b>28,901</b>
<b>Shareholder contributions</b>	9	-	<b>18,907</b>	-	-	-	<b>18,907</b>
<b>Balance at March 31, 2017</b>		<b>110,000</b>	<b>906,112</b>	<b>(238)</b>	<b>(336)</b>	<b>143,287</b>	<b>1,158,825</b>
Balance at January 1, 2016		110,000	710,712	6,855	(373)	61,332	888,526
Profit for the period		-	-	-	-	1,003	1,003
Other comprehensive loss							
Net change in the fair value of cash flow hedges	8	-	-	222	-	-	222
Net change in the fair value of financial instruments reclassified to profit or loss	8	-	-	(4,141)	-	-	(4,141)
<b>Total comprehensive loss for the period</b>		-	-	<b>(3,919)</b>	-	<b>1,003</b>	<b>(2,916)</b>
<b>Shareholder contributions</b>		-	<b>57,878</b>	-	-	-	<b>57,878</b>
<b>Balance at March 31, 2016</b>		<b>110,000</b>	<b>768,590</b>	<b>2,936</b>	<b>(373)</b>	<b>62,335</b>	<b>943,488</b>

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	<b>Three months ended</b>	
		<b>2017</b>	<b>2016</b>
<b>Operating activities</b>			
Profit for the period		<b>24,351</b>	1,003
Adjusted for items not involving a cash flow:			
Depreciation, depletion and amortization	3,4	<b>17,242</b>	8,447
Accretion	12	<b>709</b>	899
Employee benefits	7	<b>44</b>	40
Loss on disposal of property, plant and equipment	13	<b>764</b>	-
Hedge ineffectiveness	13	<b>(2)</b>	-
Other		<b>(267)</b>	(8)
		<b>42,841</b>	10,381
Changes in non-cash working capital balances	17	<b>(10,738)</b>	8,772
<b>Net cash provided from operating activities</b>		<b>32,103</b>	19,153
<b>Investing activities</b>			
Additions to property, plant and equipment	3	<b>(41,778)</b>	(50,646)
Additions to intangible assets	4	<b>(1,669)</b>	(1,268)
Settlement of decommissioning liabilities	6	<b>(64)</b>	(5)
Proceeds on disposal of property, plant and equipment		<b>235</b>	-
Change in non-cash working capital balances	17	<b>(12,329)</b>	(31,920)
<b>Net cash used in investing activities</b>		<b>(55,605)</b>	(83,839)
<b>Financing activity</b>			
Increase in shareholder contributions	9	<b>18,907</b>	57,878
<b>Net cash provided from financing activity</b>		<b>18,907</b>	57,878
<b>Net decrease in cash and cash equivalents</b>		<b>(4,595)</b>	(6,808)
Cash and cash equivalents, beginning of period		<b>29,727</b>	17,311
<b>Cash and cash equivalents, end of period</b>		<b>25,132</b>	10,503
Interest received		<b>4</b>	21
Interest paid		<b>64</b>	56

*See accompanying notes*

## **NALCOR ENERGY - OIL AND GAS INC.**

### **NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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#### **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 mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development, and production activities while downstream includes transportation and processing activities. 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. Oil and Gas' head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0C9, Canada.

#### **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 using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2016.

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.

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 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 Board of Directors (the Board) has delegated the authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the financial statements on May 9, 2017.

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

**3. PROPERTY, PLANT AND EQUIPMENT**

<i>(thousands of Canadian dollars)</i>	Petroleum and Natural Gas Assets	Other	Total
<b>Cost</b>			
Balance at January 1, 2016	1,115,405	1,434	1,116,839
Additions	207,634	574	208,208
Disposals	(269)	(24)	(293)
Decommissioning liability additions and revisions	(10,301)	-	(10,301)
Balance at December 31, 2016	1,312,469	1,984	1,314,453
<b>Additions</b>	<b>41,694</b>	<b>84</b>	<b>41,778</b>
<b>Disposals</b>	<b>(999)</b>	<b>-</b>	<b>(999)</b>
<b>Balance at March 31, 2017</b>	<b>1,353,164</b>	<b>2,068</b>	<b>1,355,232</b>
<b>Depreciation, depletion and impairment</b>			
Balance at January 1, 2016	171,829	583	172,412
Depreciation and depletion	39,912	110	40,022
Disposals	-	(23)	(23)
Balance at December 31, 2016	211,741	670	212,411
<b>Depreciation and depletion</b>	<b>14,287</b>	<b>27</b>	<b>14,314</b>
<b>Balance at March 31, 2017</b>	<b>226,028</b>	<b>697</b>	<b>226,725</b>
<b>Carrying value</b>			
Balance at January 1, 2016	943,576	851	944,427
Balance at December 31, 2016	1,100,728	1,314	1,102,042
<b>Balance at March 31, 2017</b>	<b>1,127,136</b>	<b>1,371</b>	<b>1,128,507</b>

**4. INTANGIBLE ASSETS**

<i>(thousands of Canadian dollars)</i>	Exploration Assets	Computer Software	Total
<b>Cost</b>			
Balance at January 1, 2016	40,583	2,544	43,127
Additions	28,068	11	28,079
Balance at December 31, 2016	68,651	2,555	71,206
<b>Additions</b>	<b>1,669</b>	<b>-</b>	<b>1,669</b>
<b>Balance at March 31, 2017</b>	<b>70,320</b>	<b>2,555</b>	<b>72,875</b>
<b>Amortization</b>			
Balance at January 1, 2016	3,058	1,250	4,308
Amortization	8,267	210	8,477
Balance at December 31, 2016	11,325	1,460	12,785
<b>Amortization</b>	<b>2,875</b>	<b>53</b>	<b>2,928</b>
<b>Balance at March 31, 2017</b>	<b>14,200</b>	<b>1,513</b>	<b>15,713</b>
<b>Carrying value</b>			
Balance at January 1, 2016	37,525	1,294	38,819
Balance at December 31, 2016	57,326	1,095	58,421
<b>Balance at March 31, 2017</b>	<b>56,120</b>	<b>1,042</b>	<b>57,162</b>

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

**5. DEFERRED REVENUE**

Oil and Gas has received funding from the Province towards two initiatives. The first is the Petroleum Exploration Enhancement Program (PEEP) which is designed to boost new petroleum exploration in Western Newfoundland through acquisition and assessment of seismic data. The second is the Offshore Geoscience Data Project (OGDP) which is designed to encourage new offshore petroleum exploration in Newfoundland and Labrador through the acquisition and assessment of seismic data. The funding is recognized as other revenue when the related expenditures are incurred. Deferred revenue also includes the over-lift position associated with Oil and Gas' net working interest of petroleum and natural gas produced, and the fair value of oil inventory held at the Newfoundland Transshipment site.

<i>As at March 31, 2017 (thousands of Canadian dollars)</i>	OGDP	PEEP	Other	Total
Deferred revenue, beginning of period	659	993	784	2,436
Additions	-	-	267	267
Recognized in profit or loss	(150)	-	-	(150)
Deferred revenue, end of period	509	993	1,051	2,553
Less: current portion	(250)	(200)	-	(450)
	259	793	1,051	2,103

**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 is as follows:

<i>As at (thousands of Canadian dollars)</i>	March 31 2017	December 31 2016
Decommissioning liabilities, beginning of period	66,991	74,193
Accretion	709	3,116
Liabilities settled	(64)	(17)
Revisions	-	(10,301)
Decommissioning liabilities, end of period	67,636	66,991
Less: current portion of decommissioning liabilities	(932)	(995)
	66,704	65,996

**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 \$79,500 (2016 - \$70,000) were 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 2016 and 2017, there were no cash payments to beneficiaries for its unfunded other employee future benefits plans. An actuarial valuation was performed as at December 31, 2016.



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

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2017</b>	2016
Component of benefit cost		
Current service cost	<b>34</b>	30
Interest cost	<b>10</b>	10
<b>Total benefit expense for the period</b>	<b>44</b>	40

**8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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>	<b>2017</b>	2016
Employee benefits liability		
Balance at January 1	<b>(336)</b>	(373)
Net actuarial gains on defined benefit plans	-	-
<b>Balance at March 31</b>	<b>(336)</b>	(373)

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

<i>(thousands of Canadian dollars)</i>	<b>2017</b>	2016
Cash flow hedges		
Balance at January 1	<b>(4,788)</b>	6,855
Fair value gains during the year	<b>3,838</b>	222
Amounts reclassified to profit or loss	<b>712</b>	(4,141)
<b>Balance at March 31</b>	<b>(238)</b>	2,936

**9. SHAREHOLDER CONTRIBUTIONS**

During 2017, Nalcor made contributions to Oil and Gas totaling \$18.9 million (December 31, 2016 - \$176.5 million). These contributions were used to fund Oil and Gas' investment activities.

**10. OPERATING COSTS**

<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>Three months ended</b>	
	<b>2017</b>	2016
Salaries and benefits	<b>582</b>	1,240
Professional services	<b>285</b>	392
Cost recoveries	<b>89</b>	197
Insurance	<b>18</b>	254
Other operating costs	<b>251</b>	191
	<b>1,225</b>	2,274

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

**11. PRODUCTION, MARKETING AND TRANSPORTATION COSTS**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Project operating costs	<b>4,988</b>	3,369
Processing and marketing	<b>2,268</b>	962
Transportation and transshipment	<b>1,244</b>	837
	<b>8,500</b>	5,168

**12. NET FINANCE EXPENSE**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Finance income		
Other interest income	<b>(4)</b>	(21)
Finance costs		
Accretion	<b>709</b>	899
Other finance costs	<b>64</b>	56
	<b>773</b>	955
Interest capitalized during construction	<b>-</b>	(120)
	<b>773</b>	835
Net finance expense	<b>769</b>	814

**13. OTHER EXPENSE (INCOME)**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2017</b>	2016
Settlement of commodity swaps	<b>829</b>	(4,141)
Settlement of foreign exchange forward contracts	<b>(86)</b>	-
Hedge ineffectiveness	<b>(2)</b>	-
Loss on disposal of property, plant and equipment	<b>764</b>	-
Realized foreign exchange gain	<b>(80)</b>	(27)
Unrealized foreign exchange loss	<b>160</b>	1,419
Other expense (income)	<b>1,585</b>	(2,749)

**14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**14.1 Fair Value**

The estimated fair values of financial instruments as at March 31, 2017 and December 31, 2016 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 has the following levels:

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

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 measurements for the period ended March 31, 2017 and the year ended December 31, 2016.

As at March 31, 2017 and December 31, 2016, the Company did not have any Level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		<b>March 31, 2017</b>		December 31, 2016	
<i>(thousands of Canadian dollars)</i>					
Financial assets					
Derivative assets	2	86	86	-	-
Derivative liabilities	2	324	324	4,790	4,790

The fair values of cash and cash equivalents; 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 are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

## 14.2 Risk Management

Oil and Gas 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 Oil and Gas' expected future cash flows.

### Liquidity Risk

Oil and Gas is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Treasury and Risk Management's activities around liquidity risk management are directed to ensuring cash is available to meet those obligations as they become due. Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, and a \$30.0 million (2016 - \$30.0 million) unsecured demand operating facility with the Company's bank. As at March 31, 2017 Oil and Gas had no borrowings outstanding on the credit facility (2016 - \$nil), and \$0.5 million of the borrowing limit has been used to issue one irrevocable letter of guarantee (2016 - \$0.5 million).

As at March 31, 2017, Nalcor, on behalf of Oil and Gas, had \$25.7 million in outstanding letters of credit, issued to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities.

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

In the course of carrying out its operating, financing and investing activities, Oil and Gas 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 Oil and Gas has significant exposure include those relating to foreign exchange rates, most notably USD/CAD, and commodity prices, most notably the spot prices for oil.

*Foreign Exchange and Commodity Exposure*

Oil and Gas is exposed to foreign exchange and commodity price risk on its sales, which are denominated in USD and based on prevailing market oil prices. Exposures on USD denominated oil sales are addressed through the use of fixed price commodity swaps, and foreign exchange exposure on sales is partially offset by USD denominated capital expenditures and forward exchange forward contracts.

As at March 31, 2017, Oil and Gas had 9 commodity price swaps remaining with a notional value of \$22.4 million USD, and an average fixed price of \$52.79 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2017, \$0.8 million in realized losses (2016 - \$4.1 million in gains) have been included in other expense (income) and \$0.3 million in unrealized losses (2016 - \$2.9 million in gains) remain in other comprehensive income.

As at March 31, 2017, Oil and Gas had 10 foreign exchange forward contracts remaining, with a notional value of \$25.8 million USD, and an average rate of \$1.33 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2017, \$0.1 million in realized gains have been included in other expense (income) and \$0.1 million in unrealized gains remain in other comprehensive income. There were no foreign exchange forward contracts held at March 31, 2016.

The components of change impacting the carrying value of financial instruments are as follows:

	<b>Commodity and Forward Contracts</b>	<b>Other*</b>	<b>Total</b>
<i>(thousands of Canadian dollars)</i>	<b>Level II</b>	<b>Level II</b>	<b>Level II</b>
<b>Balance at January 1, 2017</b>	<b>(4,790)</b>	-	<b>(4,790)</b>
<b>Changes to profit (loss)</b>			
<b>Hedge ineffectiveness</b>	<b>2</b>	-	<b>2</b>
<b>Changes in other comprehensive income</b>			
<b>Mark-to-market</b>	<b>3,838</b>	-	<b>3,838</b>
<b>Settlements realized in profit (loss)</b>	<b>712</b>	-	<b>712</b>
<b>Total</b>	<b>4,550</b>	-	<b>4,550</b>
<b>Balance at March 31, 2017</b>	<b>(238)</b>	-	<b>(238)</b>
Balance at January 1, 2016	6,855	(7,108)	(253)
Changes to profit (loss)			
Accretion	-	(120)	(120)
Changes in other comprehensive income			
Mark-to-market	222	-	222
Settlements realized in profit (loss)	(4,141)	-	(4,141)
<b>Total</b>	<b>(3,919)</b>	<b>-</b>	<b>(3,919)</b>
Balance at March 31, 2016	2,936	(7,228)	(4,292)

\* *Hebron penalty payable*

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

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**15. RELATED PARTY TRANSACTIONS**

Oil and Gas enters into various transactions with its shareholder 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:

<u>Related Party</u>	<u>Relationship</u>
Nalcor	100% shareholder of Oil and Gas
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. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

Significant related party transactions and balances are as follows:

- (a) For the three month period ended March 31, 2017, Oil and Gas was charged \$191,000 (2016 - \$150,600) by Nalcor for intercompany salaries.
- (b) As at March 31, 2017, Oil and Gas had a payable to Nalcor of \$235,000 (December 31, 2016 - \$372,000) related to intercompany operating costs.
- (c) Nalcor provides cash to fund investing activities that are periodically settled by shareholder contributions. For the three month period ended March 31, 2017, Nalcor provided \$18.9 million (2016 - \$57.9 million) in shareholder contributions to Oil and Gas.
- (d) For the three month period ended March 31, 2017, Oil and Gas expensed \$2.7 million (2016 - \$0.9 million) to the Province for royalties on its oil and gas operations.
- (e) Total funding to be received under PEEP was \$4.5 million over five years. For the three month period ended March 31, 2017, there were no funds provided. Included in deferred revenue at March 31, 2017, is \$1.0 million (December 31, 2016 - \$1.0 million) related to funding received.
- (f) Total funding to be received under OGDG was \$14.3 million over four years commencing in 2010. Additional funding of \$1.0 million has been received as at March 31, 2017, for a total of \$15.3 million (2016 - \$15.3 million). Included in deferred revenue at March 31, 2017, is \$0.5 million (December 31, 2016 - \$0.7 million) related to funding received.

**16. 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)**

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**17. SUPPLEMENTARY CASH FLOW INFORMATION**

	<b>Three months ended</b>	
<i>For the period ended March 31 (thousands of Canadian dollars)</i>	<b>2017</b>	<b>2016</b>
Trade and other receivables	<b>(70)</b>	7,722
Inventory	<b>(1,022)</b>	-
Prepayments	<b>(916)</b>	(7,905)
Trade and other payables	<b>(21,176)</b>	(22,971)
Deferred revenue	<b>117</b>	6
<b>Changes in non-cash working capital balances</b>	<b>(23,067)</b>	<b>(23,148)</b>
Related to:		
Operating activities	<b>(10,738)</b>	8,772
Investing activities	<b>(12,329)</b>	(31,920)
	<b>(23,067)</b>	<b>(23,148)</b>

**18. SUBSEQUENT EVENT**

On April 10, 2017, Oil and Gas issued an irrevocable letter of credit in the amount of \$4.9 million to the Canada-Newfoundland and Labrador Offshore Petroleum Board. The purpose of the letter was to provide proof of financial responsibility with respect to the Hebron project.