

NALCOR ENERGY - BULL ARM FABRICATION INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2017
(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
		2017	2016
ASSETS			
Current assets			
Cash and cash equivalents		1,021	2,169
Short-term investments		-	907
Trade and other receivables		20	2
Prepayments		50	24
Derivative assets	6	484	-
Total current assets		1,575	3,102
Non-current assets			
Investment property		960	1,000
Total assets		2,535	4,102
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		461	506
Deferred revenue		-	1,804
Derivative liabilities	6	-	273
Total current liabilities		461	2,583
Non-current liabilities			
Employee future benefits		124	68
Total liabilities		585	2,651
Shareholder's equity			
Reserves		335	(219)
Retained earnings		1,615	1,670
Total equity		1,950	1,451
Total liabilities and equity		2,535	4,102

Commitments and contingencies (Note 7)

See accompanying notes

NALCOR ENERGY - BULL ARM FABRICATION INC.
STATEMENT OF PROFIT AND OTHER COMPREHENSIVE INCOME
(Unaudited)

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2017	2016	2017	2016
Revenue	4	4,862	5,251	40,527	16,000
Operating costs		270	229	880	879
Depreciation		13	11	40	34
Net finance income		(4)	(3)	(11)	(9)
Other (income) expense	5	(293)	(128)	832	174
Expenses		(14)	109	1,741	1,078
Profit for the period		4,876	5,142	38,786	14,922
Other comprehensive income for the period					
<i>Total items that may or have been reclassified to profit or loss:</i>					
Net fair value gain (loss) on cash flow hedges		315	(198)	740	1,115
Reclassification adjustments related to:					
Cash flow hedges recognized in profit or loss	5	(246)	(104)	(186)	174
Other comprehensive income (loss) for the period		69	(302)	554	1,289
Total comprehensive income for the period		4,945	4,840	39,340	16,211

See accompanying notes

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

	Notes	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<i>(thousands of Canadian dollars)</i>					
Balance at January 1, 2017		(273)	54	1,670	1,451
Profit for the period		-	-	38,786	38,786
Other comprehensive income					
Net change in the fair value of cash flow hedges		740	-	-	740
Net change in the fair value of financial instruments reclassified to profit or loss		(186)	-	-	(186)
Total comprehensive income for the period		554	-	38,786	39,340
Dividends paid	3	-	-	(38,841)	(38,841)
Balance at September 30, 2017		281	54	1,615	1,950
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 the fair value of cash flow hedges		1,115	-	-	1,115
Net change in the fair value of financial instruments reclassified to profit or loss		174	-	-	174
Total comprehensive income for the period		1,289	-	14,922	16,211
Dividends paid	3	-	-	(14,966)	(14,966)
Balance at September 30, 2016		142	62	1,751	1,955

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	
		2017	2016	2017	2016
Operating activities					
Profit for the period		4,876	5,142	38,786	14,922
Adjusted for items not involving a cash flow:					
Depreciation		13	11	40	34
Employee benefits		4	3	56	8
Hedge ineffectiveness	5	(127)	-	(203)	-
		4,766	5,156	38,679	14,964
Changes in non-cash working capital balances	8	21,909	33	(1,893)	1,924
Net cash provided from operating activities		26,675	5,189	36,786	16,888
Investing activities					
Additions to investment property		-	(42)	-	(42)
Decrease (increase) in short-term investments		907	(3)	907	2
Net cash provided from (used in) investing activities		907	(45)	907	(40)
Financing activity					
Dividends paid to Nalcor Energy	3	(28,671)	(5,116)	(38,841)	(14,966)
Net cash used in financing activity		(28,671)	(5,116)	(38,841)	(14,966)
Net (decrease) increase in cash and cash equivalents		(1,089)	28	(1,148)	1,882
Cash and cash equivalents, beginning of period		2,110	2,057	2,169	203
Cash and cash equivalents, end of period		1,021	2,085	1,021	2,085
Interest received		3	3	17	16
Interest paid		1	1	3	4

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 2011, Bull Arm Fabrication signed a sublease agreement with a third party for use of the Bull Arm Fabrication site. The site was used for the construction of a gravity based structure to be used in the Hebron oil field.

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 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 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 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 November 7, 2017.

3. DIVIDENDS

	Three months ended		Nine months ended	
<i>For the period ended September 30 (thousands of Canadian dollars)</i>	2017	2016	2017	2016
Declared and paid during the period	28,671	5,116	38,841	14,966

4. REVENUE

In June 2017, Bull Arm Fabrication and the site’s tenant reached an agreement on the close-out value of the multi-year sublease. As a result, additional revenue of \$18.9 million USD (\$25.5 million CAD) was recorded for the period ended June 30, 2017.

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

5. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2017	2016	2017	2016
Settlement of foreign exchange forward contracts	(246)	(104)	(186)	174
Hedge ineffectiveness	(127)	-	(203)	-
Realized foreign exchange loss (gain)	1,137	(20)	1,175	(56)
Unrealized foreign exchange (gain) loss	(1,057)	(4)	46	56
Other (income) expense	(293)	(128)	832	174

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

6.1 Fair Value

The estimated fair values of financial instruments as at September 30, 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 Bull Arm Fabrication might receive or incur in actual market transactions.

As a 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 measurements during the period ended September 30, 2017, and the year ended December 31, 2016.

As at September 30, 2017, and December 31, 2016, Bull Arm Fabrication did not have any Level 3 instruments.

	Level	Carrying	Fair	Carrying	Fair
		Value	Value	Value	Value
<i>(thousands of Canadian dollars)</i>		September 30, 2017		December 31, 2016	
Financial assets					
Derivative assets	2	484	484	-	-
Financial liabilities					
Derivative liabilities	2	-	-	273	273

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

6.2 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

Market risk refers primarily to the risk of loss resulting from changes in interest rates, foreign exchange rates and commodity prices. Bull Arm Fabrication is not exposed to any significant interest rate or commodity price risk.

Foreign Currency

The fair value of future cash flows of a financial instrument will fluctuate due to changes in the foreign exchange rate between a foreign currency and the Canadian Dollar. Bull Arm Fabrication is exposed to foreign exchange risk when it enters into transactions to procure goods and services denominated in a foreign currency. Bull Arm Fabrication's rental agreement is denominated in USD. Market risk associated with fluctuations in foreign exchange rates are managed consistent with Bull Arm Fabrication's Financial Risk Management Policy.

As at September 30, 2017, Bull Arm Fabrication had five foreign exchange forward contracts remaining, with a notional value of \$6.7 million USD and an average rate of \$1.32 CAD per USD. As these contracts have all been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. For the period ended September 30, 2017, \$0.2 million in gains (2016 - \$0.2 million in losses) have been included in other (income) expense related to the forward contracts and \$0.3 in unrealized gains (2016 - \$0.1 million) remain in other comprehensive income. As at September 30, 2017, the fair value of the derivative asset presented on the Statement of Financial Position was \$0.5 million (December 31, 2016 – \$0.3 million liability).

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The components of change impacting the carrying value of derivative assets and liabilities for the nine month periods ended September 30, 2017 and 2016 are as follows:

<i>(thousands of Canadian dollars)</i>	Level II
Balance at January 1, 2017	(273)
Purchases	-
Transfers	-
	(273)
Changes to profit	
Hedge ineffectiveness	203
Total	203
Changes in other comprehensive income	
Mark-to-market	740
Settlements realized in profit	(186)
Total	554
Balance at September 30, 2017	484
Balance at January 1, 2016	(1,147)
Purchases	-
Transfers	-
	(1,147)
Changes in other comprehensive income	
Mark-to-market	1,115
Settlements realized in profit	174
Total	1,289
Balance at September 30, 2016	142

7. 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.

(b) The 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>(thousands of Canadian dollars)</i>	2017	2018	2019	2020	2021	Thereafter
Minimum lease payments	7,733	-	-	-	-	-

8. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (thousands of Canadian dollars)</i>	Three months ended		Nine months ended	
	2017	2016	2017	2016
Trade and other receivables	27,490	3	(18)	3
Prepayments	(44)	(25)	(26)	(11)
Trade and other payables	(3,796)	(2)	(45)	170
Deferred revenue	(1,741)	57	(1,804)	1,762
Changes in non-cash working capital balances	21,909	33	(1,893)	1,924