

NALCOR ENERGY - OIL AND GAS INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2017
(Unaudited)

NALCOR ENERGY - OIL AND GAS 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 | | 9,301 | 29,727 |
| Trade and other receivables | | 39,841 | 46,982 |
| Inventory | | 10,288 | 4,213 |
| Prepayments | | 3,234 | 1,226 |
| Derivative assets | 12 | 866 | - |
| Total current assets | | 63,530 | 82,148 |
| Non-current assets | | | |
| Property, plant and equipment | 3 | 1,160,377 | 1,102,042 |
| Intangible assets | 4 | 79,992 | 58,421 |
| Other long-term assets | | 726 | 758 |
| Total assets | | 1,304,625 | 1,243,369 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | | 31,804 | 57,242 |
| Current portion of deferred revenue | | 687 | 600 |
| Current portion of decommissioning liabilities | 5 | - | 995 |
| Derivative liabilities | 12 | 590 | 4,790 |
| Total current liabilities | | 33,081 | 63,627 |
| Non-current liabilities | | | |
| Deferred revenue | | 1,305 | 1,836 |
| Decommissioning liabilities | 5 | 68,689 | 65,996 |
| Employee future benefits | | 1,024 | 893 |
| Total liabilities | | 104,099 | 132,352 |
| Shareholder's equity | | | |
| Share capital | | 110,000 | 110,000 |
| Shareholder contributions | 7 | 906,112 | 887,205 |
| Reserves | 6 | (60) | (5,124) |
| Retained earnings | | 184,474 | 118,936 |
| Total equity | | 1,200,526 | 1,111,017 |
| Total liabilities and equity | | 1,304,625 | 1,243,369 |

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 | |
|--|-------|--------------------|--------|-------------------|---------|
| | | 2017 | 2016 | 2017 | 2016 |
| Petroleum and natural gas sales | | 49,122 | 40,475 | 162,121 | 86,912 |
| Royalty expense | | (1,879) | (918) | (7,427) | (2,927) |
| Other revenue | | 2,920 | 2,915 | 4,090 | 3,746 |
| Revenue, net | | 50,163 | 42,472 | 158,784 | 87,731 |
| Operating costs | 8 | 1,590 | 1,572 | 4,915 | 6,066 |
| Production, marketing and transportation costs | 9 | 7,575 | 6,358 | 23,123 | 17,847 |
| Depreciation, depletion and amortization | 3,4 | 16,189 | 13,713 | 51,991 | 32,959 |
| Exploration and evaluation expense | | 301 | 9 | 460 | 208 |
| Net finance expense | 10 | 835 | 844 | 2,330 | 2,464 |
| Other expense (income) | 11 | 2,977 | (234) | 10,427 | (4,580) |
| Expenses | | 29,467 | 22,262 | 93,246 | 54,964 |
| Profit for the period | | 20,696 | 20,210 | 65,538 | 32,767 |
| Other comprehensive (loss) income | | | | | |
| <i>Total items that may or have been reclassified to profit or loss</i> | | | | | |
| Net fair value (losses) gains on cash flow hedges | 6 | (1,413) | 133 | 5,015 | (663) |
| Reclassification adjustments related to: | | | | | |
| Cash flow hedges recognized in profit or loss | 6 | (378) | (124) | 49 | (6,108) |
| Other comprehensive (loss) income for the period | | (1,791) | 9 | 5,064 | (6,771) |
| Total comprehensive income for the period | | 18,905 | 20,219 | 70,602 | 25,996 |

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> | | | | | | | |
| Balance at January 1, 2017 | | 110,000 | 887,205 | (4,788) | (336) | 118,936 | 1,111,017 |
| Profit for the period | | - | - | - | - | 65,538 | 65,538 |
| Other comprehensive income | | | | | | | |
| Net change in the fair value of cash flow hedges | 6 | - | - | 5,015 | - | - | 5,015 |
| Net change in the fair value of financial instruments reclassified to profit or loss | 6 | - | - | 49 | - | - | 49 |
| Total comprehensive income for the period | | - | - | 5,064 | - | 65,538 | 70,602 |
| Shareholder contributions | 7 | - | 18,907 | - | - | - | 18,907 |
| Balance at September 30, 2017 | | 110,000 | 906,112 | 276 | (336) | 184,474 | 1,200,526 |
| | | | | | | | |
| Balance at January 1, 2016 | | 110,000 | 710,712 | 6,855 | (373) | 61,332 | 888,526 |
| Profit for the period | | - | - | - | - | 32,767 | 32,767 |
| Other comprehensive loss | | | | | | | |
| Net change in the fair value of cash flow hedges | 6 | - | - | (663) | - | - | (663) |
| Net change in the fair value of financial instruments reclassified to profit or loss | 6 | - | - | (6,108) | - | - | (6,108) |
| Total comprehensive (loss) income for the period | | - | - | (6,771) | - | 32,767 | 25,996 |
| Shareholder contributions | | - | 166,013 | - | - | - | 166,013 |
| Balance at September 30, 2016 | | 110,000 | 876,725 | 84 | (373) | 94,099 | 1,080,535 |

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 | |
|--|-------|--------------------|----------|-------------------|-----------|
| | | 2017 | 2016 | 2017 | 2016 |
| Operating activities | | | | | |
| Profit for the period | | 20,696 | 20,210 | 65,538 | 32,767 |
| Adjusted for items not involving a cash flow: | | | | | |
| Depreciation, depletion and amortization | 3,4 | 16,189 | 13,713 | 51,991 | 32,959 |
| Accretion | 10 | 713 | 780 | 2,131 | 2,579 |
| Loss on disposal of property, plant and equipment | 11 | 1,516 | - | 7,821 | - |
| Other | | (9) | 34 | 161 | (22) |
| Settlement of decommissioning liabilities | 5 | (254) | (9) | (995) | (17) |
| | | 38,851 | 34,728 | 126,647 | 68,266 |
| Changes in non-cash working capital balances | 15 | (9,882) | (20,350) | (15,154) | (23,434) |
| Net cash provided from operating activities | | 28,969 | 14,378 | 111,493 | 44,832 |
| Investing activities | | | | | |
| Additions to property, plant and equipment | 3 | (14,718) | (47,195) | (109,266) | (156,625) |
| Additions to intangible assets | 4 | (15,750) | (5,667) | (30,863) | (16,341) |
| Proceeds on disposal of property, plant and equipment | | 25 | - | 973 | - |
| Change in non-cash working capital balances | 15 | (5,066) | (15,412) | (11,670) | (22,300) |
| Net cash used in investing activities | | (35,509) | (68,274) | (150,826) | (195,266) |
| Financing activity | | | | | |
| Increase in shareholder contributions | 7 | - | 71,765 | 18,907 | 166,013 |
| Net cash provided from financing activity | | - | 71,765 | 18,907 | 166,013 |
| Net (decrease) increase in cash and cash equivalents | | (6,540) | 17,869 | (20,426) | 15,579 |
| Cash and cash equivalents, beginning of period | | 15,841 | 15,021 | 29,727 | 17,311 |
| Cash and cash equivalents, end of period | | 9,301 | 32,890 | 9,301 | 32,890 |
| Interest received | | 1 | 22 | 8 | 50 |
| Interest paid | | 123 | 87 | 207 | 177 |

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 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 November 7, 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 |
|---|-------------------------------------|--------------|------------------|
| Cost | | | |
| 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 |
| Additions | 109,045 | 221 | 109,266 |
| Transfers | - | (258) | (258) |
| Disposals | (8,794) | (15) | (8,809) |
| Decommissioning liability revisions | 562 | - | 562 |
| Balance at September 30, 2017 | 1,413,282 | 1,932 | 1,415,214 |
| Depreciation, depletion and impairment | | | |
| 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 |
| Depreciation and depletion | 42,285 | 156 | 42,441 |
| Disposals | - | (15) | (15) |
| Balance at September 30, 2017 | 254,026 | 811 | 254,837 |
| Carrying value | | | |
| Balance at January 1, 2016 | 943,576 | 851 | 944,427 |
| Balance at December 31, 2016 | 1,100,728 | 1,314 | 1,102,042 |
| Balance at September 30, 2017 | 1,159,256 | 1,121 | 1,160,377 |

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

4. INTANGIBLE ASSETS

| <i>(thousands of Canadian dollars)</i> | Exploration Assets | Computer Software | Total |
|--|-----------------------|----------------------|----------------|
| Cost | | | |
| 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 |
| Additions | 30,596 | 267 | 30,863 |
| Transfers | - | 258 | 258 |
| Balance at September 30, 2017 | 99,247 | 3,080 | 102,327 |
| Amortization | | | |
| 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 |
| Amortization | 9,362 | 188 | 9,550 |
| Balance at September 30, 2017 | 20,687 | 1,648 | 22,335 |
| Carrying value | | | |
| Balance at January 1, 2016 | 37,525 | 1,294 | 38,819 |
| Balance at December 31, 2016 | 57,326 | 1,095 | 58,421 |
| Balance at September 30, 2017 | 78,560 | 1,432 | 79,992 |

5. DECOMMISSIONING LIABILITIES

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations, including a rate of inflation of 2%, at September 30, 2017 are \$116.7 million (December 31, 2016 - \$116.8 million). Payments to settle the liabilities are expected to occur between 2017 and 2030. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 3.7% to 4.3% (December 31, 2016 - 4.0% to 4.3%). The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities is as follows:

| <i>As at (thousands of Canadian dollars)</i> | September 30 2017 | December 31 2016 |
|--|------------------------------|---------------------|
| Decommissioning liabilities, beginning of period | 66,991 | 74,193 |
| Accretion | 2,131 | 3,116 |
| Liabilities settled | (995) | (17) |
| Revisions | 562 | (10,301) |
| Decommissioning liabilities, end of period | 68,689 | 66,991 |
| Less: current portion of decommissioning liabilities | - | (995) |
| | 68,689 | 65,996 |

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

6. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of, and changes in, accumulated other comprehensive loss are as follows:

Items that will not be reclassified to profit or loss:

| <i>(thousands of Canadian dollars)</i> | 2017 | 2016 |
|--|--------------|-------|
| Employee benefit reserve | | |
| Balance at January 1 | (336) | (373) |
| Net actuarial gains on defined benefit plans | - | - |
| Balance at September 30 | (336) | (373) |

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

| <i>(thousands of Canadian dollars)</i> | 2017 | 2016 |
|---|----------------|---------|
| Fair value reserve | | |
| Balance at January 1 | (4,788) | 6,855 |
| Fair value gains (losses) during the period | 5,015 | (663) |
| Amounts reclassified to profit or loss | 49 | (6,108) |
| Balance at September 30 | 276 | 84 |

7. SHAREHOLDER CONTRIBUTIONS

| | September 30 | December 31 |
|--|---------------------|-------------|
| <i>As at (thousands of Canadian dollars)</i> | 2017 | 2016 |
| Total shareholder contributions | 906,112 | 887,205 |

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.

8. OPERATING COSTS

| | Three months ended | | Nine months ended | |
|--|---------------------------|-------|--------------------------|-------|
| <i>For the period ended September 30 (thousands of Canadian dollars)</i> | 2017 | 2016 | 2017 | 2016 |
| Salaries and benefits | 675 | 540 | 2,079 | 2,964 |
| Professional services | 281 | 310 | 991 | 1,019 |
| Insurance | 282 | 405 | 667 | 913 |
| Cost recoveries | 123 | 162 | 477 | 555 |
| Other operating costs | 229 | 155 | 701 | 615 |
| | 1,590 | 1,572 | 4,915 | 6,066 |

9. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

| | Three months ended | | Nine months ended | |
|--|---------------------------|-------|--------------------------|--------|
| <i>For the period ended September 30 (thousands of Canadian dollars)</i> | 2017 | 2016 | 2017 | 2016 |
| Processing and marketing | 1,964 | 1,760 | 6,654 | 4,076 |
| Transportation and transshipment | 876 | 1,128 | 3,343 | 3,076 |
| Project operating costs | 4,735 | 3,470 | 13,126 | 10,695 |
| | 7,575 | 6,358 | 23,123 | 17,847 |

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

10. NET FINANCE EXPENSE

| <i>For the period ended September 30 (thousands of Canadian dollars)</i> | Three months ended | | Nine months ended | |
|--|---------------------------|------|--------------------------|-------|
| | 2017 | 2016 | 2017 | 2016 |
| Finance income | | | | |
| Other interest income | 1 | 22 | 8 | 50 |
| | 1 | 22 | 8 | 50 |
| Finance expense | | | | |
| Accretion expense | 713 | 780 | 2,131 | 2,579 |
| Other finance expense | 123 | 86 | 207 | 177 |
| | 836 | 866 | 2,338 | 2,756 |
| Interest capitalized during construction | - | - | - | (242) |
| | 836 | 866 | 2,338 | 2,514 |
| Net finance expense | 835 | 844 | 2,330 | 2,464 |

11. OTHER EXPENSE (INCOME)

| <i>For the period ended September 30 (thousands of Canadian dollars)</i> | Three months ended | | Nine months ended | |
|--|---------------------------|-------|--------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Settlement of commodity swaps | (39) | (124) | 347 | (6,108) |
| Settlement of foreign exchange forward contracts | (339) | - | (298) | - |
| Hedge ineffectiveness | 3 | - | (2) | - |
| Loss on disposal of property, plant and equipment | 1,516 | - | 7,821 | - |
| Realized foreign exchange loss | 1,503 | 175 | 2,507 | 162 |
| Unrealized foreign exchange loss (gain) | 333 | (285) | 52 | 1,366 |
| Other expense (income) | 2,977 | (234) | 10,427 | (4,580) |

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

12.1 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 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:

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.
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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 September 30, 2017 and the year ended December 31, 2016.

As at September 30, 2017 and December 31, 2016, the Company did not have any Level 3 instruments.

| | Level | Carrying Value | Fair Value | Carrying Value | Fair Value |
|--|-------|--------------------|------------|-------------------|------------|
| | | September 30, 2017 | | December 31, 2016 | |
| <i>(thousands of Canadian dollars)</i> | | | | | |
| Financial assets | | | | | |
| Derivative assets | 2 | 866 | 866 | - | - |
| Financial liabilities | | | | | |
| Derivative liabilities | 2 | 590 | 590 | 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.

12.2 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 (December 31, 2016 - \$30.0 million) unsecured demand operating facility with the Company's bank. As at September 30, 2017, Oil and Gas had no borrowings outstanding on the credit facility (2016 - \$nil) and \$6.9 million of the borrowing limit has been used to issue three irrevocable letters of credit (December 31, 2016 - \$0.5 million).

On April 10, 2017, and July 27, 2017, Oil and Gas issued irrevocable letters of credit in the amounts of \$4.9 million and \$1.5 million, respectively, to the Canada-Newfoundland and Labrador Offshore Petroleum Board. The purpose of these letters was to provide proof of financial responsibility with respect to the Hebron project.

As at September 30, 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 foreign exchange forward contracts.

As at September 30, 2017, Oil and Gas had three commodity price swaps remaining with a notional value of \$8.0 million USD, and an average fixed price of \$53.35 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive (loss) income. During 2017, \$0.3 million in realized losses (2016 - \$6.1 million in gains) have been included in other expense (income) and \$0.6 million in unrealized losses (2016 - \$0.1 million in gains) remain in other comprehensive (loss) income.

As at September 30, 2017, Oil and Gas had four foreign exchange forward contracts remaining, with a notional value of \$10.7 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 (loss) income. During 2017, \$0.3 million in realized gains have been included in other expense (income) and \$0.9 million in unrealized gains remain in other comprehensive (loss) income. There were no foreign exchange forward contracts held at September 30, 2016.

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

| | Commodity and | | Total |
|--|-------------------|----------|----------------|
| | Forward Contracts | Other* | |
| <i>(thousands of Canadian dollars)</i> | Level II | Level II | Level II |
| Balance at January 1, 2017 | (4,790) | - | (4,790) |
| Purchases | - | - | - |
| Transfers | - | - | - |
| | (4,790) | - | (4,790) |
| Changes to profit (loss) | | | |
| Hedge ineffectiveness | 2 | - | 2 |
| Total | 2 | - | 2 |
| Changes in other comprehensive income | | | |
| Mark-to-market | 5,015 | - | 5,015 |
| Settlements realized in profit (loss) | 49 | - | 49 |
| Total | 5,064 | - | 5,064 |
| Balance at September 30, 2017 | 276 | - | 276 |
| Balance at January 1, 2016 | 6,855 | (7,108) | (253) |
| Purchases | - | - | - |
| Transfers | - | - | - |
| | 6,855 | (7,108) | (253) |
| Changes to profit (loss) | | | |
| Accretion | - | (242) | (242) |
| Settlements | - | 7,350 | 7,350 |
| Total | - | 7,108 | 7,108 |
| Changes in other comprehensive loss | | | |
| Mark-to-market | (663) | - | (663) |
| Settlements realized in profit (loss) | (6,108) | - | (6,108) |
| Total | (6,771) | - | (6,771) |
| Balance at September 30, 2016 | 84 | - | 84 |

* *Hebron penalty payable*

13. 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:

| Related Party | Relationship |
|---|-----------------------------------|
| 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) Nalcor provides cash to fund investing activities that are periodically settled by shareholder contributions. For the nine month period ended September 30, 2017, Nalcor provided \$18.9 million (2016 - \$166.0 million) in shareholder contributions to Oil and Gas.

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

- (b) For the nine month period ended September 30, 2017, Oil and Gas expensed \$7.4 million (2016 – \$2.9 million) to the Province for royalties on its oil and gas operations.

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.

15. 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 | 1,249 | (13,436) | 7,141 | (17,102) |
| Inventory | (695) | (1,996) | (6,075) | (1,996) |
| Prepayments | (1,417) | (11,751) | (2,008) | (11,763) |
| Trade and other payables | (10,760) | (8,576) | (25,438) | (12,636) |
| Deferred revenue | (3,325) | (3) | (444) | (2,237) |
| Changes in non-cash working capital balances | (14,948) | (35,762) | (26,824) | (45,734) |
| Related to: | | | | |
| Operating activities | (9,882) | (20,350) | (15,154) | (23,434) |
| Investing activities | (5,066) | (15,412) | (11,670) | (22,300) |
| | (14,948) | (35,762) | (26,824) | (45,734) |