2014 BUSINESS AND FINANCIAL REPORT

KEY ACCOMPLISHMENTS

Years ended December 31 (millions of dollars)	**2014**	2013
Revenues	**796.1**	784.9
Net income	**115.6**	87.7
Capital assets, net	**5,676.8**	3,742.6
Total assets	**10,643.1**	9,523.7
Long-term debt	**6,240.5**	6,047.9
Shareholder's equity	**2,722.0**	2,267.8
Capital expenditures	**2,021.9**	1,037.4
Debt to capital	**68.9%**	72.1%

SAFETY: TO BE A SAFETY LEADER

- Achieved best safety performance on record, with zero lost-time injuries. 27% reduction in high potential incidents from 2013, and 56% overall decrease since 2011.
- Achieved the Canadian Electricity Association's (CEA) top quartile safety performance level, and received the CEA Vice President's Award.
- Lower Churchill Project hosted a full-day safety forum for project team, Nalcor Energy and contractors.
- Delivered year two of the public education plan for power line safety.

ENVIRONMENT: TO BE AN ENVIRONMENTAL LEADER

- Completed 97% of environmental leadership targets.
- Exceeded 2014 energy efficiency targets in all program areas.
- Successfully completed a three-year isolated community energy efficiency program pilot.
- Collaborated with Newfoundland Power to develop an energy conservation education plan including materials for residential and business customers.
- Implemented more than 15 environmental effects monitoring plans for the generation and transmission components of the Muskrat Falls Project.

BUSINESS EXCELLENCE: THROUGH OPERATIONAL EXCELLENCE, PROVIDE EXCEPTIONAL VALUE TO ALL CONSUMERS OF OUR ENERGY

- Reached several key construction milestones for the Muskrat Falls Project, including first placement of concrete, completion of Strait of Belle Isle drilling program and erection of the first transmission tower.
- Completed capital investments of $209 million at Hydro and $50 million at Churchill Falls in support of long-term asset management plan.
- Developed and launched a public awareness program on Hydro's winter readiness work.
- Hydro achieved an 84% customer service satisfaction rating in 2014, and developed a new customer service strategy.
- Initiated and completed a comprehensive internal system review within Hydro following the January 2014 supply disruptions.
- Developed and executed a comprehensive action plan with 82 actions from recommendations made by Liberty, the PUB, and Hydro.
- Executing one of the largest ongoing offshore 2D seismic programs in the world, with partners TGS and PGS, acquiring 37,500 km of 2D seismic – the most data captured in a single year since 1983.
- Realized promising returns on investment in new offshore exploration data, making over $1 million in 2014, demonstrating early interest from the global industry.
- 180,000 tonne Hebron gravity base structure successfully towed by Hebron Project from the dry dock to the deepwater construction site at Bull Arm.
- Energy Marketing delivered 99% of available energy to market and generated net revenues 12% higher than the market benchmark.

PEOPLE: TO ENSURE A HIGHLY SKILLED AND MOTIVATED TEAM OF EMPLOYEES WHO ARE COMMITTED TO NALCOR ENERGY'S SUCCESS AND FUTURE DIRECTION

- Continued to support the Labrador Aboriginal Training Partnership to assist Labrador Aboriginal people to qualify for employment with the Muskrat Falls Project.
- Developed and initiated a project aimed at youth to promote career opportunities in the province's electricity industry.
- Continued successful Wellness Works program with more than 300 employees receiving fitness reimbursements to support a healthy lifestyle.

COMMUNITY: TO BE A VALUED CORPORATE CITIZEN IN NEWFOUNDLAND AND LABRADOR

- Employees of Nalcor and Hydro volunteered more than 500 hours for good causes.
- More than $240,000 raised for Ronald McDonald House Newfoundland and Labrador's Red Shoe Crew Walk for Families, sponsored by Hydro.
- Hydro's child and youth partnership with the Heart & Stroke Foundation supported initiatives promoting healthy, active living.

OUR VALUES: OPEN COMMUNICATION • ACCOUNTABILITY • SAFETY • HONESTY AND TRUST • TEAMWORK • RESPECT AND DIGNITY • LEADERSHIP

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Our vision is to build a strong economic future for successive generations of Newfoundlanders and Labradorians.

MESSAGE FROM THE CHAIR

The Board of Directors, like Nalcor Energy's dedicated employees across our province, is ever guided by the company's vision to secure a strong economic future for generations of Newfoundlanders and Labradorians to come.

For everyone at Nalcor, protecting ourselves, our colleagues and our community is priority. So much great work was completed over the past year; yet what we are most proud of is Nalcor's record of safety. Last year marked the company's most successful safety performance recorded in terms of injury prevention and other safety measures, with zero lost-time injuries across all lines of business, and achieving world-class safety performance. We are relentlessly committed to continued improvement in this safety culture.

As a business, we also remain keenly focused on our long-term asset management plan, and have continued to make strategic investments to ensure that these assets are utilized and overseen wisely and their value is maximized for the people of the province.

Following the supply disruptions experienced in early 2014, Newfoundland and Labrador Hydro took swift, comprehensive and responsible actions to ensure reliability and public confidence in the province's electricity system. This included completing an aggressive maintenance program, acquiring new generation equipment, and communicating more effectively with the province's residents and businesses who rely on the power we supply. Hydro also developed and implemented a new roadmap for delivering customer service.

Substantial progress was made on the Muskrat Falls Project over the last year as construction continued on the generation facility site, the Labrador-Island Transmission Line, and the transmission line connecting Muskrat Falls to Churchill Falls. And, in the oil and gas business, seismic surveying lead by Nalcor is helping to lay a strong foundation as we implement our exploration strategy.

Nalcor's governance and accountability processes are also an area of priority for the Board, as we oversee the business activities of the corporation and its subsidiaries and ensure a strong financial position for the benefit of our Shareholder, the Government of Newfoundland and Labrador, and the people of the province. During 2014, 70 Board and committee meetings were held. All directors and Nalcor's management team work diligently and responsibly so that our governance processes continue to serve the company well. You can find more information on the governance structure in this report.

We also made the commitment in 2014 to begin publicly releasing Nalcor's financial statements on a quarterly basis, which we began doing in the third quarter. This new financial reporting practice brings Nalcor more in line with industry standards for public companies.

As Nalcor continues on its journey, the responsibility of the Board of Directors is to help steward the company to ensure we stay on course towards the vision, and each director is dedicated to supporting and guiding management in this effort. I thank them for devoting their time and energy to overseeing this and helping ensure Nalcor performs strongly, with the interests of Newfoundlanders and Labradorians at the centre of everything it does.

As we move forward, with the corporation's core values as our compass, Nalcor continues to work actively toward realizing the full potential of our province's energy resources.

KEN MARSHALL
CHAIR, BOARD OF DIRECTORS

MESSAGE FROM THE CEO

Nalcor Energy, as the steward of the province's energy resources, continues to be guided by its vision for the future, and driven forward by the many talented and dedicated people who believe strongly in that vision and in the values we stand for.

Above all else, safety is the priority in everything we do at Nalcor. This unwavering commitment is reflected in our positive results over the past year. Nalcor maintained zero lost-time injuries for a 13-month period and saw our strongest safety results on record. Our commitment to safety has been recognized externally as our subsidiary company Newfoundland and Labrador Hydro was placed in the Canadian Electricity Association's top quartile for safety performance. As we carry out our day-to-day work we are ever mindful that pursuing our goals would be fruitless without a continuous commitment to safety as our foundation.

Investing for the future is critical. To that end, we are implementing our long-term strategy for asset management to continually maintain and upgrade equipment and facilities, and ensure the safe, reliable operation of the province's electrical system. I am proud of the response by our people to the January 2014 supply disruptions, and the tremendous work that Hydro has undertaken since then to strengthen processes and the service we provide to the people of the province. We proactively identified opportunities to improve, took advice from external experts, and put a plan into action to further enhance our winter readiness, while maintaining our focus on delivering electricity to our customers safely and reliably.

Our investment in geoscience exploration is paying off. The basin area offshore Newfoundland and Labrador has doubled in size with three new deepwater basins identified. As well, play types – rock formations that may hold oil resources – that have yielded some of the leading discoveries in other regions of the world have been identified in our offshore. We are sharing these insights with the global oil and gas industry and as a result, there is a heightened knowledge and interest in our region. International oil and gas companies are paying attention to what is happening in Newfoundland and Labrador, positioning the province to attract a greater share of global exploration investment and opening up long-term opportunities.

Strong progress was made with construction on the Muskrat Falls Project in 2014, where safety, again, is the topmost priority. Through the project, we are building valuable energy infrastructure and securing a sustainable, clean energy supply to meet the future electricity needs of the province.

As we progress toward bringing Muskrat Falls online, we are taking steps to plan and ready the organization for this transition with a view to operations beyond 2017. We will have new generation and transmission infrastructure ready for integration into our existing asset base, and we will be fully interconnected to the North American grid for the first time in our history. Our focus will continue to be on ensuring system performance and reliability while positioning ourselves to optimize the value of our energy resources into the future for the benefit of our shareholders, the people of the province.

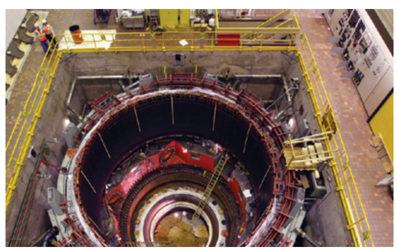
ED MARTIN
PRESIDENT & CHIEF EXECUTIVE OFFICER

CORPORATE PROFILE

NEWFOUNDLAND AND LABRADOR HYDRO

Hydro provides, safe, reliable, least-cost electricity supply to meet current electricity needs and future growth. Hydro generates and delivers electricity in Newfoundland and Labrador to utility, industrial, residential and commercial customers in over 200 communities across the province.

CHURCHILL FALLS



Churchill Falls is one of the largest underground hydroelectric powerhouses in the world with a rated capacity of 5,428 megawatts (MW). The Churchill Falls generating station provides clean, renewable electricity to millions of consumers throughout North America.

OIL AND GAS

Nalcor is currently a partner in three developments in the Newfoundland and Labrador offshore oil and gas industry: the Hebron oil field, the White Rose Growth Project, and the Hibernia Southern Extension. Through its multi-year exploration strategy, Nalcor is accelerating the exploration and delineation of the province's undiscovered oil and gas resources.

Nalcor Energy is Newfoundland and Labrador's energy company focused on sustainable development of the province's energy resources.

Nalcor's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; and industrial fabrication and energy marketing.

LOWER CHURCHILL PROJECT

The lower Churchill River is one of the most attractive hydroelectric resources in North America and is a key component of the province's energy warehouse. The project's two sites at Muskrat Falls and Gull Island have a combined capacity of over 3,000 MW. Phase One, the Muskrat Falls Project, includes construction of an 824 MW hydroelectric dam and more than 1,500 km of transmission lines that will provide Newfoundlanders and Labradorians with long-term stable electricity rates and serve as a valuable power-producing asset for generations.

BULL ARM FABRICATION

The Bull Arm Fabrication site is a world-class facility spanning over 6,300 acres with capabilities for steel fabrication and concrete construction, outfitting installation, at-shore hook-up and deep water commissioning. The site is an important asset for the development of the oil and gas industry in Newfoundland and Labrador and the advancement of the province's fabrication capacity. The site is leased by ExxonMobil Canada Properties for the Hebron project until 2017.

ENERGY MARKETING

Nalcor's energy marketing portfolio currently includes Churchill Falls recall power that is surplus to Newfoundland and Labrador's needs, energy sales to industrial customers in Labrador, long-term transmission service agreements through Québec, and power sales from the Menihek hydroelectric station. This will continue to grow over the coming years with the development of the Lower Churchill Project and increased production from Nalcor's offshore oil and gas interests. Nalcor will continue to pursue opportunities to increase the overall value of its energy portfolio.

THE ROAD TO SAFETY EXCELLENCE

Nalcor's number one goal for all employees is safety. Achieving safety excellence and ensuring that each and every employee arrives home safe and healthy every single day is more than a process. It is a personal commitment 24 hours a day, seven days a week. Safety is a constant and integral part of everyday thinking.

In 2014, the company achieved its best safety performance in the 16 years that statistics are available and has maintained a record zero lost-time injuries (injuries that prevent someone from returning to work) for 13 months, or 2.8 million hours of work time. Last year also saw a continued decrease in high-potential incidents - a 27 per cent decrease from 2013, representing an overall decrease of 56 per cent since 2011.

Nalcor has made it a priority to reduce the frequency and severity of workplace incidents. A multi-year strategic safety plan was developed and is being implemented, which includes establishing annual safety performance metrics, program initiatives, as well as comprehensive corporate and operational plans. Monitoring and audit processes as well as internal operational controls and procedures are in place to assess compliance with this standard. At Hydro and Churchill Falls, where employees routinely work in and around energized equipment, the company has implemented an electrical safety program, including a comprehensive Work Protection Code that establishes conditions to provide employees with a safe work area when working on or around electrical and other energized equipment.

All these activities and achievements are evidence of Nalcor’s strong safety culture, where open reporting, ongoing learning and engagement are hallmarks of the company’s safety and health program. A comprehensive safety framework that includes a Safety Credo, an Internal Responsibility System and strong processes to support safety reporting and investigation (Safe Work Observation Program) further reinforces this culture.

Nalcor’s safety record is not possible without the daily promise employees make to themselves and each other to model positive safety behaviour, to identify potential workplace hazards and to prevent injuries from occurring. The company's safety journey is further supported by our union leadership, who actively participate in creating a safe work environment for our employees. The continued success of Nalcor’s safety brand, Take a Moment for Safety, where all employees learn to assess and become aware of their work environment and any potential hazards, demonstrates the company’s focus to incorporate continuous improvement in its daily work practice.

Strategic plans are in place to manage and integrate new developments such as the Muskrat Falls Project.

STRENGTHENING THE PROVINCE'S ELECTRICITY SYSTEM

Nalcor's subsidiary, Newfoundland and Labrador Hydro (Hydro), ensures there is a safe, reliable and cost-effective electricity supply available to meet current customer demand and future growth in the province. And, at Churchill Falls, Nalcor is actively managing a world-class resource to provide long-term benefit to the people of the province while delivering high-quality service to current customers.

MANAGING ASSETS FOR THE FUTURE

A key challenge in the Canadian utility industry is renewal of aging electricity infrastructure. As with other utilities across Canada, many of Hydro's assets are over 40 years old and require significant investment to ensure a continued safe and reliable supply of electricity for customers. At the same time, residential and commercial demand has increased in Newfoundland and Labrador due to the growing economy and consumers' continued preference for electric heating. This demand for safe, reliable power continues to rise.

In 2006, Hydro recognized this reality and began taking measures to complete detailed condition and maintenance assessments of its key assets. A formal asset management strategy was implemented in 2009, which has resulted in a significantly expanded asset refurbishment and replacement program and increased capital investment. Total capital expenditure for 2014 was $209 million.

Managing assets prudently is also a key focus for the Churchill Falls Generating Station, a facility that has been in place for more than 40 years and is still one of the largest power generation plants in the world. As these important assets continue to age, capital asset requirements for Churchill Falls have been rising steadily, consistent with the company's long-term plan, and this increasing level of investment in property and equipment is projected to continue. The asset management plan for Churchill Falls addresses these ongoing capital requirements so that the assets remain in safe and reliable operating condition well into the future.

2014 BUSINESS PERFORMANCE REVIEW

COMMITTED TO RELIABILITY AND SERVICE EXCELLENCE

In January 2014, the province experienced power disruptions and rotating outages. Hydro immediately began implementing the key findings and lessons learned from both internal and external reviews to execute a comprehensive action plan. Extensive maintenance and upgrades were completed well in advance of the 2014/15 winter season. As well, major capital work was completed on the generation fleet and transmission infrastructure across the province.

Following the events of January, Hydro determined it would be prudent to advance the purchase and construction of a 123.5 MW combustion turbine plant in Holyrood to provide an additional source of power generation for peak periods and emergency purposes. Hydro also secured capacity assistance arrangements with industrial customers to make additional power available if needed. And, in response to research conducted through focus groups and surveys across the province, Hydro renewed its commitment to providing customers with timely and accurate information about the electricity system. Hydro also developed an advance notification system for conservation requests or power rotations if the system nears peak capacity.

As well, in December 2014, the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) approved the construction of a new 230 kilovolt transmission line from Bay d'Espoir to the Avalon Peninsula. The line will reinforce the stability of the transmission network when the new transmission line between the island and Labrador comes in service. The estimated cost is $291.7 million and the line is proposed to be in service for 2018.

In the future, Nalcor will be harnessing the province's hydroelectric potential with the development of the 824 MW generating facility at Muskrat Falls. For the first time, the island grid will be connected with Labrador through the Labrador-Island Transmission Link and with Nova Scotia through the Maritime Link transmission line. These connections will provide enhanced system reliability and a path to markets to sell the province's surplus energy.

At the same time, the company continues to move forward with strategic and major capital investments to strengthen our current assets to ensure a smooth transition as the province moves from an isolated system to an interconnected system, and to provide reliable service to customers now and over the long-term.

We are well on the way to transforming the electricity system in this province.

MANAGING OUR RESOURCES FOR GROWTH AND PROSPERITY

BUILDING TODAY TO SECURE OUR ENERGY FUTURE FOR TOMORROW

The Muskrat Falls Project includes an 824 MW hydroelectric generating facility, over 1,500 kilometres of associated transmission lines in the province, and the Maritime Link between the island of Newfoundland and Nova Scotia. The project will meet Newfoundland and Labrador's energy needs into the future and deliver significant long-term value to the people of the province.

Progress was made in all areas of the Muskrat Falls Project in 2014.

At Muskrat Falls, all infrastructure was in place to support construction of the generating facility, including a 1,500-person accommodations complex. The first placement of concrete in the spillway structure in August was a major milestone for the facility. Work also progressed in the areas of foundation preparation and installation, formwork, and rebar placement.

For transmission line work in Labrador, right-of-way clearing was completed on the line between Muskrat Falls and Churchill Falls. In October the first transmission tower was safely erected and progress continued throughout the year.

Work also progressed on the Labrador-Island Transmission Link from Muskrat Falls to Soldiers Pond, including the Strait of Belle Isle marine cable crossing. Construction of the 1,100 km transmission line began in summer 2014 with clearing and access road construction south of Muskrat Falls in Labrador. Work also started on tower line construction and assembly in Labrador. The horizontal directional drilling program in the Strait of Belle Isle was successfully completed before the end of the year, marking a significant milestone for that component of the project.

Economic and employment benefits from the project are being realized across the province. In 2014, employment on the project peaked at just over 4,000 people; 81 per cent of those workers were residents of Newfoundland and Labrador. The project has also fostered tremendous economic benefits in our province, with almost $400 million invested in over 500 businesses in the province in 2014.

2014 BUSINESS PERFORMANCE REVIEW

ADVANCING THE PROVINCE'S OIL AND GAS SECTOR

Nalcor is focused on sustainable growth and development of the province's oil and gas resources for the benefit of the people of Newfoundland and Labrador. Nalcor currently manages ownership interests in three offshore oil and gas developments – White Rose Extension, Hibernia Southern Extension and Hebron.

In addition to the economic value created through its ownership interests, as a partner Nalcor gains important insight into a project's realities, challenges and opportunities. Nalcor is in a position to ensure the province will benefit from oil and gas resources for generations to come.

Significant milestones were achieved in the province's offshore projects in 2014, including the completion of the first Hibernia Southern Extension water injection well and the installation of the subsea infrastructure for South White Rose Extension. The Hebron Project also successfully towed the gravity base structure (GBS) from the dry dock to the deepwater site at the Bull Arm Fabrication Site.

With the support of the Provincial Government, Nalcor through its exploration strategy is also investing in acquiring modern geoscience data to scientifically evaluate and find future oil and gas resources for the people of Newfoundland and Labrador. This strategy is yielding significant results:

- the basin area in offshore Labrador has more than doubled;
- new areas in the slope and deepwater are being surveyed for the first time in the province's history;
- new play types that have never been seen in offshore Newfoundland and Labrador are being seen – successful play types that are yielding some of the leading discoveries in other producing hydrocarbon regions of the world.

In 2014, the company successfully acquired 37,500 kilometres of 2D seismic data with global partners TGS and Petroleum Geo-Services (PGS). This is the most data captured in a single year since 1983, bringing the four-year total to 84,500 line kilometres. Before this survey, a significant portion of the survey area had not previously been imaged. Nalcor, with industry partner Electromagnetic Geoservices ASA, also completed the first multi-client 3D electromagnetics survey in the history of offshore Newfoundland and Labrador.

Nalcor is seeing strong industry interest in its new exploration data results that the company has been presenting to the global industry over the last 12 to 24 months. In 2014, the company earned $14.3 million on seismic data licence sales, while investing

$13 million in collecting new data. This interest is well above expectation this early in the exploration strategy. The company maintains ongoing stakeholder engagement with the global industry through presentations, participation in international conferences, and direct engagement with exploration and production (E&P) companies. A highlight of last year was when St. John's hosted the 2014 Atlantic Conjugate Margins Conference – a global conference held bi-annually – in partnership with the Government of Newfoundland and Labrador and the Newfoundland and Labrador Oil and Gas Industries Association. The conference had a record attendance, bringing together 380 exploration geoscientists, including global industry experts from over 30 E&P companies.

BUILDING OPPORTUNITIES AT BULL ARM

The Bull Arm Fabrication site is a world-class facility spanning over 6,300 acres with capabilities for steel fabrication and concrete construction, outfitting installation, at-shore hook-up and deepwater commissioning. It is an important asset for the development of the oil and gas industry in Newfoundland and Labrador and the advancement of the province's fabrication capacity.

The site is currently fully leased by ExxonMobil Canada Properties for the duration of the Hebron Project. Activities at site include the construction of the GBS, fabrication of the living quarters and GBS and topsides installation and integration activities. First oil from the Hebron Project is expected in 2017. In July, the 180,000 tonne Hebron GBS was successfully towed from the dry dock to the deepwater construction site at Bull Arm.

Last year, the Bull Arm Corporation continued its successful leasing arrangement with the Hebron Project, while focusing its attention on developing a long-term strategy for the site post Hebron. The Hebron Project has invested approximately $10 million in upgrades and site refurbishments, including significant upgrades and refurbishment to the assembly pier. The pier is now able to accommodate over 46,000 tonnes. These improvements will help ensure the site assets are in good condition to support its long-term operations.

POSITIONING OURSELVES FOR LONG-TERM ENERGY MARKETING NEEDS

Nalcor's Energy Marketing company continues to leverage surplus power to deliver safe, reliable electricity to markets in eastern Canada and the northeastern US. In 2014, approximately 1.5 terawatt hours of surplus hydroelectric power was exported, generating in excess of $68 million in revenues for the province.

In early 2014, Nalcor Energy Marketing was formed as a wholly-owned subsidiary of Nalcor. It was a year of progress for the Energy Marketing business on its path towards becoming a full-service energy trading operation. A large part of its work in 2014 was in building capacity to meet this goal, primarily structuring front office trading functions including analytics, trading, scheduling, and systems. As a result, the division added new team members trained to fill these critical roles. In November 2014, Nalcor's trading centre moved to a 24-7 operation with in-house energy schedulers actively tracking market demand and energy transactions to sell power from Newfoundland and Labrador to New York and other markets.

COMMITTED TO ENVIRONMENTAL STEWARDSHIP

As a leader in the development of Newfoundland and Labrador's energy resources, Nalcor Energy is dedicated to environmentally-sound practices.

In 2014, Nalcor achieved 97 per cent of its environmental targets, including ISO 14001 Certified Environmental Management Systems (EMS) initiatives for Hydro and Churchill Falls. Progress was made to expand the EMS to all of Nalcor's lines of business; this is on target to be achieved by the end of 2015.

In 2014, the takeCHARGE energy efficiency program continued. The takeCHARGE initiative encourages residents and businesses to take steps to be energy efficient and reduce their electricity usage by providing useful information, tools and rebate programs. A new business efficiency program was also launched in 2014 as well as a small technologies program. Hydro also offered takeCHARGE programs to its customers in isolated areas. In 2014, Hydro completed its Isolated System Community Energy Efficiency Program, an innovative three-year pilot, which helped residential and commercial customers in isolated and coastal communities save energy through the direct installation of energy saving products. As a result of takeCHARGE programming last year, an estimated 2,033 MWh in annual savings were achieved in communities that Hydro serves.

In October 2014, the Provincial Government expanded the takeCHARGE energy conservation education program for schools through the launch of the HotShots Project, which has been rolled out to more than 200 public schools in the province. Hydro also partnered with the Provincial Government to help implement a year-long pilot project to determine how real-time electricity monitoring influences energy conservation actions. The results will be used for planning future electrical energy conservation initiatives in Newfoundland and Labrador.

Since 2010, Hydro has delivered an Industrial Energy Efficiency Program which provides industrial electricity customers with financial assistance to complete feasibility studies and capital upgrades to achieve energy savings. In 2014, three projects that began in 2013 were completed at the Corner Brook Pulp and Paper mill and will achieve over 22,200 MWh in annual energy savings.

The company also implemented an EMS for the Muskrat Falls Project to ensure regulatory compliance and that commitments and conditions of environmental assessments are met. Environmental protection plans have been developed for both the generation and transmission projects and have been approved by the Provincial Government. Environmental effects monitoring programs have been initiated for many environmental components in 2013 and continued throughout 2014.

Employees throughout Nalcor's lines of business strive to be committed and innovative in their activities related to corporate social responsibility.

HERE FOR OUR COMMUNITIES

Every year, the employees of Nalcor Energy and Hydro exhibit the energy and commitment through volunteerism and charitable giving to help create healthy, vibrant communities.

Through their collective efforts in 2014, employees volunteered almost 540 hours and more than $51,000 was raised in support of local charities in the province through employee giving and company matching donations. In addition, more than $240,000 was raised for Ronald McDonald House Newfoundland and Labrador, and the Red Shoe Crew Walk for Families sponsored by Hydro.

During Nalcor's Acts of Kindness Week held annually in April, the company's commitment to giving back to communities shone through, with employees volunteering more than 100 hours with several charitable activities.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2014

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SECTION 1: CORPORATE OVERVIEW

Nalcor Energy (Nalcor or the Company) is a Crown Corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). Nalcor's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication site management; and energy marketing. Nalcor's legal structure as at December 31, 2014 included the entities listed below:

Entity Name	Description of Interest
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary
Nalcor Energy – Oil and Gas Inc. (Oil and Gas)	Wholly owned subsidiary
Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication)	Wholly owned subsidiary
Nalcor Energy Marketing Corporation (Energy Marketing)	Wholly owned subsidiary
Muskrat Falls Corporation (Muskrat Falls)	Wholly owned subsidiary
Labrador Transmission Corporation (Labrador Transco)	Wholly owned subsidiary
Labrador-Island Link Holding Corporation (LIL Holdco)	Wholly owned subsidiary
Labrador-Island Link Limited Partnership (LIL LP)	Limited partnership in which Nalcor, through LIL Holdco, owns 100% of the 75 Class A limited partnership units
Labrador-Island Link General Partner Corporation (LIL GP)	Wholly owned subsidiary
Labrador-Island Link Operating Corporation (LIL OpCo)	Wholly owned subsidiary
Lower Churchill Management Corporation (LCMC)	Wholly owned subsidiary
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51% owned subsidiary of Hydro (inactive)
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8% owned joint operation of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3% owned joint venture of Churchill Falls

Nalcor is leading the development of the Province's energy resources and has a corporate-wide framework that facilitates the prudent management of its assets while continuing an unwavering focus on the safety of its employees, contractors and the public.

Nalcor has segregated its business into seven reporting segments. Segregation of business segments allows Senior Management to evaluate operational performance and assess the overall contribution of each segment to Nalcor's long-term objectives. The designation of segments has been based on a combination of regulatory status and Management accountability. The following summary provides a brief overview of the nature of the operations included in each of the Company's business segments.

1. **Hydro Regulated** generates, transmits and distributes electricity to customers within the Province.
2. **Churchill Falls** owns and operates the Churchill Falls Generating Station, one of the largest power generation plants in the world.
3. **Oil and Gas** holds and manages both onshore and offshore oil and gas interests in the Province.
4. **Energy Marketing** markets and trades the Province's surplus energy in markets in Canada and the United States (US).
5. **Phase 1 Lower Churchill Project** (Lower Churchill Project, LCP) includes construction of the Muskrat Falls hydroelectric plant, the Labrador-Island Link and the Maritime Link between the island of Newfoundland and Nova Scotia.
6. **Bull Arm Fabrication** consists of an industrial fabrication site which is currently leased for a major construction project.
7. **Corporate and Other Activities** encompasses corporate support functions, business development activities and certain development projects not yet sanctioned, including Phase 2 of the Lower Churchill Project (Gull Island or Phase 2 Lower Churchill Project).

Nalcor maintains appropriate systems of internal control, policies and procedures which provide Management with reasonable assurance that assets are safeguarded and its financial information is reliable. The following discussion and analysis is the responsibility of Management and is as at March 13, 2015. The Board of Directors (the Board) carries out its responsibility for review of this disclosure, principally through its Audit Committee, comprised exclusively of independent directors. The Audit Committee has reviewed this Management's Discussion and Analysis (MD&A).

This MD&A should be read in conjunction with the Annual Audited Consolidated Financial Statements of Nalcor for the year ended December 31, 2014.

Basis of Presentation

Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Nalcor adopted IFRS as of January 1, 2014, with a date of transition effective January 1, 2013. Prior to January 1, 2014, Nalcor prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Comparative balances presented in this MD&A and Nalcor's Annual Audited Consolidated Financial Statements have been restated to be in accordance with IFRS.

All financial information is reported in CAD, unless otherwise noted.

Non-GAAP Financial Measures

Certain financial measures in this MD&A are not prescribed by IFRS as contained within Part I of the Chartered Professional Accountants of Canada Handbook. These non-GAAP financial measures are defined in Section 8 - Non-GAAP Financial Measures.

Forward-Looking Information

Certain statements in this MD&A are forward-looking statements, based on Nalcor's current expectations, estimates, projections and assumptions, subject to risks and uncertainties. Statements containing words such as "could", "expect", "may", "anticipate", "believe", "intend", "estimate", "plan" and similar expressions constitute forward-looking statements. By their nature, forward-looking statements require Management to make assumptions and are subject to important unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. While Management considers these assumptions to be reasonable and appropriate based on information currently available, there is a risk that they may not be accurate. Nalcor assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or any other reason.

SECTION 2: SIGNIFICANT ITEMS AND RECENT DEVELOPMENTS

SIGNIFICANT ITEMS

Key Profit Drivers

Key profit drivers vary by each of Nalcor's seven business segments as there is a combination of regulated operations, operations with long-term and medium-term supply contracts (mostly denominated in CAD, but some in USD) and operations in markets where revenues are driven entirely by commodity prices and the prevailing USD/CAD exchange rate (electricity and oil). In addition, in the case of the Oil and Gas segment, cash flow and results of operations are significantly influenced by oil production levels in the offshore developments

in which Nalcor holds equity interests. As a result, it is necessary to consider the underlying key profit drivers and performance of each business segment to understand Nalcor's consolidated performance.

Hydro Regulated experienced a significant increase in earnings during Q4 2014 and for the 2014 fiscal year due to the approval of regulatory cost deferrals in December 2014. Also, as a result of an increase in overall electricity export prices in 2014 (despite a decrease in Q4 2014), Energy Marketing experienced an increase in profit for the 2014 year. The continued decline in oil prices during Q4 2014 had a negative impact on the Oil and Gas segment, partially offset by a strengthening USD and sales of seismic data.

The financial performance of several of Nalcor's business segments are impacted by seasonality. Specifically, electricity sales in Hydro Regulated and Churchill Falls are lowest during the summer months. In contrast, Energy Marketing has the highest level of energy available to sell in export markets during the summer months and the least available to sell in winter months. In addition, electricity prices in the export markets tend to peak in winter and summer periods, but can vary by year depending on temperatures, the specific market and other factors.

Statement of Financial Position

Nalcor's total assets and regulatory deferrals at the end of 2014 were $10.6 billion, an increase of $1.1 billion from 2013. The composition of the Company's assets at the end of 2014 included property, plant and equipment of $5.7 billion (2013 - $3.7 billion), long-term investments and restricted cash from the proceeds of the Lower Churchill Project financing of $4.0 billion (2013 - $5.0 billion) and other assets totaling $0.9 billion (2013 - $0.8 billion). The change in assets during 2014 has primarily been the result of capital expenditures related to the Lower Churchill Project. From a liabilities and equity perspective, long-term debt has increased by $118.8 million, largely due to a $200.0 million long-term bond issue completed by Hydro in September 2014, offset by the retirement of $124.7 million in debentures in June 2014. Increases in other components of liabilities include higher trade payables as a result of increased capital expenditures as well as Maritime Link costs incurred and paid for by a subsidiary of Emera Inc. that are included in Nalcor's Consolidated Statement of Financial Position. Equity has increased by $454.2 million, resulting primarily from the receipt of equity contributions of $327.3 million from the Shareholder (Government of Newfoundland and Labrador) and earnings during the year totaling $115.6 million. Further details on changes in the Consolidated Statement of Financial Position are included in Section 3 – Consolidated Financial Highlights.

Capital

2014 capital expenditures of $2.0 billion are higher than 2013 by $1.0 billion. The largest portion of the increase relates to an increase in Lower Churchill Project capital expenditures of $0.8 billion. In addition, 2014 capital expenditures are higher than the prior year in other business segments. Compared to 2013, capital expenditures in Hydro Regulated are up by $121.9 million and by $52.8 million in Oil and Gas. Additional details on Nalcor's capital expenditures are provided in Section 5 – Liquidity and Capital Resources.

2014 Profit

Nalcor earned a $115.6 million profit in 2014 compared to a profit of $87.7 million in 2013, a year-over-year increase of $27.9 million. This increase occurred in Q4 2014, primarily due to increased revenue for Hydro Regulated as a result of the approval of regulatory cost deferrals. These deferrals are expected to be reflected through customer rates in future periods and are established through the rate setting process but are subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's net income in the year the order is received.

Hydro Regulated's profit for 2014 is $17.1 million higher than that of 2013 primarily due to the approval of regulatory cost deferrals in the 2014 fiscal year. Oil and Gas experienced a $10.9 million higher profit in 2014 than 2013 resulting from increased oil production and seismic sales. Energy Marketing had an increase in profit of $4.7 million year-over-year due to higher electricity prices in export markets. Bull Arm Fabrication's profit was $1.8 million higher in 2014 than that of 2013 due to a favourable USD to CAD exchange rate and a financial adjustment recorded in 2014 related to the transfer of ownership of the Bull Arm Fabrication site from the Province to Nalcor in 2009. Churchill Falls' profit is $5.9 million below 2013 largely due to reduced demand from Hydro-Québec, resulting in decreased energy sales. Further detail on Nalcor's segment performance year-to-date is discussed in Section 4 – Segmented Results and Analysis.

Q4 2014 Profit

Nalcor earned a $69.8 million profit in the quarter compared to a profit of $11.2 million in the same period in 2013, a year-over-year increase of $58.6 million. The largest factor in this increase is a $54.7 million increase in Hydro Regulated's profit in Q4 2014 over Q4 2013, primarily due to regulatory deferrals of $55.5 million relating to 2014 costs. Also contributing to the increase was a $5.5 million increase in Oil and Gas profit largely due to the capitalization of 2014 costs incurred in the acquisition of seismic data, offset by decreased production, a $1.3 million increase in profit in Bull Arm Fabrication due to favourable foreign exchange rates on USD lease revenue and a financial adjustment related to the transfer of ownership of the Bull Arm Fabrication site from the Province to Nalcor in 2009 and a $1.2 million increase in Churchill Falls profit mainly due to an increase in GWAC revenue. Partially offsetting the increase in profit for the quarter was a $3.5 million decrease in profit for the Energy Marketing segment largely due to a decrease in export market prices and a decrease in export electricity volumes, as well as a $1.7 million decrease in profit associated with Corporate and Other Activities. A detailed discussion of the performance of each of Nalcor's segments is contained in Section 4 - Segmented Results and Analysis.

RECENT DEVELOPMENTS

HYDRO REGULATED

Hydro Regulated is regulated by the Public Utilities Board (PUB) and operates under a cost of service regulation whereby it is entitled to the opportunity to recover, through customer rates, all reasonable and prudent costs incurred in providing electricity service to its customers, in addition to a just and reasonable return on rate base in accordance with Section 80 of the Public Utilities Act. During 2014, Hydro had significant regulatory activity related to obtaining new rates for 2014 and 2015, approval of major capital projects and other regulatory activities.

General Rate Application (GRA)

A GRA was filed with the PUB on July 30, 2013 for a general rate increase effective January 1, 2014 based on a 2013 test year. Prior to this filing, Hydro's last GRA was filed in 2006. Since filing its GRA in 2013, Hydro filed three applications for approval of an interim deferral and recovery mechanism that would provide earnings relief to Hydro in 2014 until a regulatory decision could be obtained on the GRA. The PUB denied each of those applications.

Due to delays in the regulatory process, the rates proposed in the original application no longer provided Hydro with a reasonable opportunity to recover its costs plus a regulated rate of return. As a result, on November 10, 2014, Hydro filed an amended GRA based on a 2014 and 2015 test year. The amended GRA filing requested new rates effective February 1, 2015 for most customers in conjunction with a proposed mechanism to provide interim earnings relief as of January 1, 2015 until a final regulatory decision has been obtained on the GRA. Approval of this application will enable Hydro to recover its costs and provide an opportunity to attain a reasonable return on rate base for 2015. The amended GRA also included proposals for the phase-in of rates for industrial customers and $45.9 million of interim earnings relief related to 2014. On December 24, 2014, the PUB issued an order approving the deferral of $45.9 million of costs related to the 2014 fiscal year. Recovery of these costs will be subject to a future PUB order anticipated at the conclusion of Hydro's GRA. The PUB also approved interim electricity rates charged to industrial customers in Labrador effective January 1, 2015. A schedule and hearing for Hydro's GRA has been set by the PUB and the hearing is scheduled to commence September 2015.

Capital Projects

Hydro is committed to investing in capital projects to ensure the continued safe and reliable operation of the province's electrical system. The capital program focuses on maintaining and upgrading facilities in response to growing customer demand and aging infrastructure as part of the long-term asset management strategy.

On April 30, 2014, Hydro submitted an application to construct a $291.7 million, 188 kilometre, 230 kV transmission line between Bay d'Espoir and the Western Avalon terminal stations. This project is expected to be completed in 2018. The application was approved by the PUB on December 12, 2014.

On August 1, 2014, Hydro filed an application with the PUB requesting approval for its 2015 capital projects. The application was approved by the PUB on December 2, 2014, for $76.8 million.

On September 30, 2014, Hydro submitted an application to increase the amount of expenditure relating to the Labrador City Voltage Upgrade. On November 20, 2014, the PUB approved this application in the amount of $1.9 million.

Hydro has a number of outstanding regulatory applications submitted to the PUB seeking approval of capital projects and related recovery in rate base:

- On April 10, 2014, Hydro filed an application with the PUB to obtain approval for the construction of a combustion turbine (CT) to be located adjacent to the existing Holyrood Thermal Generating Station (HTGS). The cost of the 123MW CT is $119.0 million and approval for construction was obtained from the PUB on May 7, 2014, however, the order did not address recovery of the cost through inclusion in rate base. A further review process is being undertaken by the PUB with respect to the inclusion of the cost of this asset in Hydro's rate base.

- Hydro filed supplemental and unforeseen capital applications with the PUB in 2014. Hydro filed applications totaling $16.4 million, of which $5.9 million has been approved by the PUB and $10.5 million has been approved to construct, with cost recovery subject to a future PUB order.

Other Regulatory Activity

Between 2007 and 2013, approximately $162.0 million in fuel cost savings accumulated in the Rate Stabilization Plan (RSP). The fuel savings resulted from reduced thermal generation due to the shut down of a portion of the pulp and paper industry in the Province since Hydro's last GRA in 2006. In 2013, the Provincial Government issued directives to the PUB and Hydro on the allocation of the RSP balance as follows: (1) $49.0 million allocated to the benefit of industrial customers, and (2) the balance of $113.0 million allocated to the benefit of retail ratepayers. On October 31, 2013, Hydro filed an application with the PUB regarding the refund of the RSP balance of $113.0 million to Newfoundland Power customers and Hydro rural customers, whose rates are based on those charged by Newfoundland Power. The PUB ruled the $113.0 million RSP surplus should be refunded to all retail customers, including those on the Labrador Interconnected grid. The Consumer Advocate and Hydro have appealed this decision to the Supreme Court of Newfoundland and Labrador on the basis that customers on the Labrador Interconnected grid did not contribute to the RSP. The Court of Appeal hearing on the RSP payout commenced February 19, 2015.

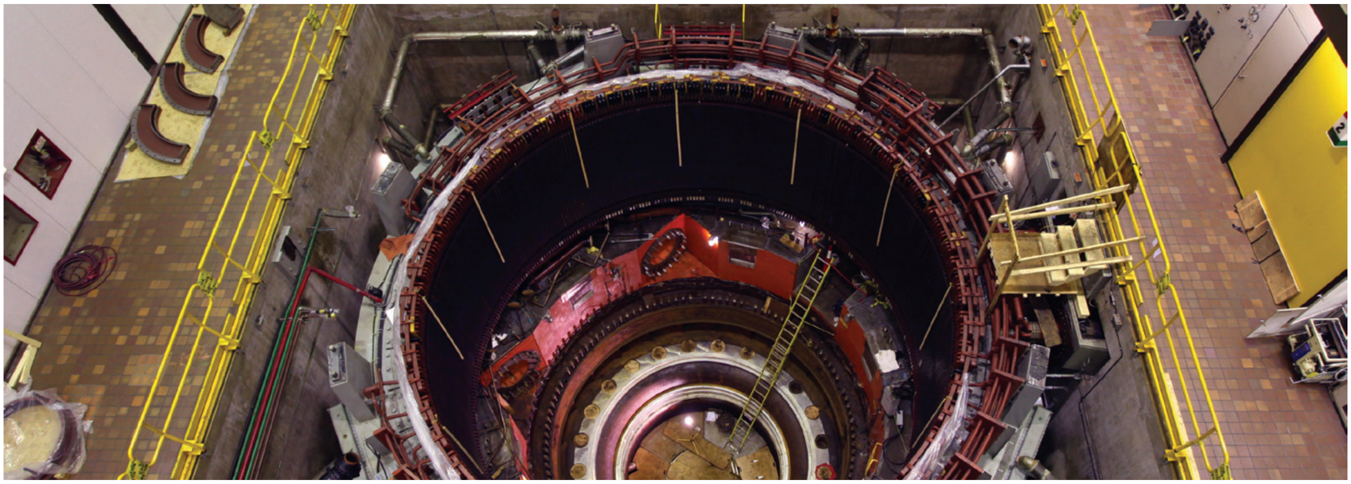
On July 8, 2014, Hydro filed an application with the PUB to obtain approval for a proposed $200.0 million bond issue. The application was approved on August 1, 2014, and on September 15, 2014, Hydro issued new long-term debt through the sale of $200.0 million Series AF debentures to its underwriting syndicate. The debentures mature on December 31, 2045 and pay a coupon rate of 3.6% semi-annually. The proceeds from the debt were used to pay down short-term borrowings with the remainder being used to fund the capital plan.

On October 8, 2014, Hydro filed an application with the PUB for deferral and recovery of $9.6 million in additional capacity supply costs incurred during the first quarter of 2014. During this period, Hydro incurred substantial increases in fuel and purchased power supply costs to deal with capacity constraints on the Island Interconnected System. On December 24, 2014, the PUB issued an order approving the deferral of $9.6 million in capacity related costs. Recovery of these costs is subject to a future PUB order.

Finally, a regulatory decision on Hydro's request for the recovery of Holyrood black-start diesel plant lease costs incurred in 2013 and 2014 remains outstanding, subject to further regulatory review.

Supply Outage Inquiry

During the period January 2 to January 8, 2014, there were instances when Hydro experienced a shortage in the generation supply and therefore, was unable to meet the supply requirements on Hydro's Island Interconnected System. On January 4, 2014, Hydro experienced a major transmission system outage initiated by a transformer failure in its Sunnyside Terminal Station which resulted in a significant power outage to a large portion of the Island Interconnected power system. Hydro immediately initiated a thorough internal investigation and completed a report dated March 24, 2014 with recommendations for a number of areas of improvement. The PUB also commenced an inquiry process into the Island Interconnected System supply issues and power interruptions. The PUB hired an independent consultant, Liberty Consulting Group (Liberty), who filed an interim report on April 24, 2014. The PUB issued an interim report on May 15, 2014. Liberty's final report findings and recommendation were issued on December 17, 2014. Management has reviewed this report in detail and has found many of the recommendations align with Hydro's own findings and work which Hydro has been addressing. Hydro will continue to work closely with the PUB and Liberty regarding the implementation of actions to provide reliable electricity service to the people of Newfoundland and Labrador.



Industry Structure

During 2014, the Government of Newfoundland and Labrador engaged consultants, Power Advisory, to complete an independent review of the operation, management and regulation of the electricity system in Newfoundland and Labrador. This review is ongoing. Nalcor is also undertaking its own work to assess the necessary changes to ensure the successful integration of the Lower Churchill Project into the Province's electricity system.

CHURCHILL FALLS

On July 24, 2014, Churchill Falls received judgment from the Québec Superior Court (the Court) on the motion filed by Churchill Falls in February 2010 regarding the disparities of the 1969 Power Contract and 2016 Renewal Contract between Churchill Falls and Hydro-Québec. The Court ruled against Churchill Falls and the ruling requires Churchill Falls to pay court costs of $1.4 million to Hydro-Québec.

Churchill Falls is appealing the decision of the Court and, on August 26, 2014, filed an Inscription in Appeal with the Québec Court of Appeal.

In July 2013, Hydro-Québec filed a Motion for Declaratory Judgment (the Motion) in Québec Superior Court relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the clarification of certain terms and obligations of the parties under the Renewal Contract, which commences in 2016. Churchill Falls filed a Defense to the Motion on September 19, 2014 and the trial is scheduled to take place in the fall of 2015.

The arrangements under which Churchill Falls supplies the 225 MW Twinco Block to Twin Falls expired on December 31, 2014. As a result, a new power purchase agreement (PPA) between Churchill Falls and Hydro for the sale of up to 225 MW of power produced by the Churchill Falls Generating Station was signed by Churchill Falls and Hydro, and is effective January 1, 2015.

The Sub-lease between Twin Falls and Churchill Falls dated November 15, 1961, giving Twin Falls the right to develop hydroelectric power on the Unknown River (the Sub-lease) expired on December 31, 2014. New sub-lease agreements were signed between Hydro, Churchill Falls and Twin Falls, naming Hydro as the lessee of the transmission lines and related assets, for the period of January 1 to June 30, 2015.

Discussions continue between Churchill Falls, Twin Falls and Hydro regarding the commercial matters arising from the expiration of the 1961 Sub-lease, including the ownership of assets and the assumption of liabilities (including any environmental liabilities).

OIL AND GAS

Oil and Gas is currently a joint venture working interest partner in three developments in the Newfoundland and Labrador offshore. It manages a 4.9% working interest in the Hebron oil field, the Province's fourth offshore oil project which was sanctioned for development on December 31, 2012; a 5.0% working interest in the White Rose Extension Project (WRX), which produced first oil from the North Amethyst field in May 2010; and a 10.0% working interest in the Hibernia Southern Extension (HSE) Project, which produced first oil in June 2011. Oil and Gas will continue to acquire equity positions in future development projects, consistent with the Province's Energy Plan and Nalcor's mandate and long-term strategic objectives.

Hebron

During 2014, the Hebron project achieved a major milestone with the 180,000 tonne GBS being towed from dry dock to the Bull Arm Fabrication deep-water construction site. Mooring lines were attached to the structure and the flotilla of barges was placed around the GBS to prepare for the next phase of construction. The concrete slipforming for the next construction phase commenced in September and will resume in the summer of 2015.

White Rose Extension Project

The partners have been evaluating and executing on further developments such as the South White Rose Extension (SWRX) and the West White Rose Extension (WWRX) pilot project. The SWRX subsea installation was successfully completed in 2014. The operator, Husky Energy, has stated that it expects first oil from its SWRX production well around the middle of 2015, later than originally planned due to rig availability.

On December 17, 2014, the operator announced that it will defer the final investment decision on its offshore WWRX development project for a year. First production for WWRX was originally anticipated for 2017. This decision was taken so that the partners can further evaluate cost efficiencies with the proposed fixed wellhead platform and other potential development options.

Hibernia Southern Extension

With the installation of the subsea infrastructure completed, the first water injection well, of up to six planned over the life of the field,

commenced injection to support production. As well, drilling was completed on the third of up to six producer wells planned for the extension project. Work continues on the development of the secondary reservoir, the Ben Nevis-Avalon, within the Hibernia South Unit.

Exploration

In 2009, Oil and Gas developed a strategy to stimulate exploration activity in the Province's offshore. Vast areas of the offshore have remained underexplored due to both a lack of knowledge about the petroleum geology and a lack of data coverage. Nalcor partnered with global industry experts to address these data gaps and undertook regional geoscientific studies to improve Nalcor's understanding of the offshore's petroleum potential. The satellite seeps survey demonstrated the potential for an oil play off Labrador and directed the extension of a multi-client seismic survey into the deepwaters of Labrador and Newfoundland.

Oil and Gas has entered into strategic partnerships in seismic surveys of offshore Newfoundland and Labrador. Nearly 37,500 kilometres (line-km) of high-quality seismic data was acquired in 2014 (2013 – 17,000 line-km). This is part of a multi-year program that will significantly add to the offshore 2D seismic data set in Newfoundland and Labrador bringing the four-year total to 84,400 line-km – one of the largest regional seismic programs on a global basis. Oil and Gas also benefits from the strategic partnerships by recognizing a percentage of the revenue from the sale of data to third parties.

In August 2014, Nalcor signed a multi-client license agreement with Electromagnetic Geoservices ASA for regional 3D electromagnetic (EM) survey data over frontier areas of Newfoundland's offshore. The EM survey will initially target the Flemish Pass Basin, where recent major oil discoveries have been made, including Statoil's Bay du Nord discovery. Integrated data delivery will be available to the global industry in early 2015, prior to the close of the scheduled license round in the fall of 2015.

These strategic investments have delivered data and new scientific insights to the global oil and gas industry resulting in many companies focusing their new venture teams on Newfoundland's offshore for the first time. Nalcor and the Province have communicated these new insights to the global industry at international conferences and forums to further stimulate exploration and investment. The response from industry has been extremely positive.

Other

On October 31, 2014, Oil and Gas entered into a series of fixed price swaps to mitigate its exposure to oil prices in 2015. These swap contracts, which have a notional value of $22.6 million USD, provide for an average fixed price of $87.44 USD on 26% of budgeted 2015 production. Further, because oil sales are denominated in USD, the impact of sustained price pressure in 2015 may be partially offset by a projected stronger USD. Global oil prices have continued to weaken due to further imbalances between supply and demand. Current price forecasts suggest that, barring any new supply disruption, this downward pressure will continue into 2015. This market development creates significant uncertainty over the future prices Oil and Gas will receive for its products in the short-term.

ENERGY MARKETING

Since April 2009, Nalcor, through Hydro, has been marketing surplus recall energy from Churchill Falls to markets outside of the Province through a contract with a third-party marketer. Since 2011, Nalcor has been building the necessary procedures, systems and expertise to bring this activity in-house. In early 2014, Nalcor formed a wholly owned subsidiary, Energy Marketing, to manage Nalcor's participation in extra-provincial energy markets. Nalcor is on target to conclude the contract with the third-party marketer and to complete the transition of export activities from Hydro to Energy Marketing by April 1, 2015.

LOWER CHURCHILL PROJECT

On June 26, 2014, Nalcor provided an updated capital cost forecast for the Muskrat Falls Generation Facility, Labrador-Island Link and Labrador Transmission Assets components of the Lower Churchill Project. Market cost pressures combined with strategic investments to enhance system reliability, operation and productivity throughout construction, resulted in an updated facilities capital cost forecast for these components of the Lower Churchill Project of $6.990 billion compared to $6.2 billion estimate at sanction in December 2012.

The Lower Churchill Project has made significant construction progress throughout 2014 and major milestones include the following:

Muskrat Falls Generation Facility

- Mobilization of Astaldi Canada (Astaldi), the main contractor responsible for constructing the intake, powerhouse, spillway and transition dams. Progress has been made by Astaldi in the areas of integrated cover system erection, concrete placement, foundation preparation, installation, formwork and rebar placement. Included in these activities was the first pouring of concrete in the spillway structure;
- Progress on the manufacturing of the gates, turbines and generators by Andritz Hydro Canada, with the first delivery of turbine components to the site during Q4 2014;
- The 1,500 person camp, kitchen, dining and recreation hall was opened at the Muskrat Falls site; and
- The remaining major procurement contracts entered into the request for proposal / bidding process.

Labrador-Island Link

- Construction of the 350kV HVdc Labrador-Island Transmission Line was awarded to Valard Construction (Valard);
- Construction of the synchronous condensers and the switchyard at Soldiers Pond, as well as the supply and install of the converter stations and cable transition compounds, was awarded to Alstom during Q3 and Q4 2014;
- HVdc right-of-way (ROW) clearing and installation of grillage foundations underway and on schedule;
- Completion of the sixth and final bore hole required for the 35 km crossing of the submarine cable across the Strait of Belle Isle (SOBI) from Forteau Point, Labrador to Shoal Cove, Newfoundland is on schedule;
- Manufacturing of the SOBI submarine cable in Japan, with the first cable completed and the second and third cables in progress; and
- Completion of the earthworks program at Soldier's Pond, which will be the home for the island's converter station, switchyard and synchronous condenser facility.

Labrador Transmission Assets

- Completion of the ROW clearing for the HVac transmission line between Muskrat Falls and Churchill Falls;
- Construction of the switchyards at the Muskrat Falls and Churchill Falls locations awarded to Alstom;
- Mobilization of Valard, the contractor for HVac transmission line construction. Transmission construction and tower erection is proceeding on schedule; and
- Completion of the earthworks program at the Muskrat Falls and Churchill Falls switchyard locations.

SECTION 3: CONSOLIDATED FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME HIGHLIGHTS

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$206.2**	$214.2	$(8.0)	**$796.1**	$784.9	$11.2
Fuels	**(64.5)**	(67.3)	2.8	**(268.1)**	(190.9)	(77.2)
Power purchased	**(15.9)**	(16.2)	0.3	**(68.3)**	(63.0)	(5.3)
Operating costs	**(66.0)**	(52.2)	(13.8)	**(247.5)**	(212.0)	(35.5)
Depreciation and depletion	**(22.6)**	(23.9)	1.3	**(92.7)**	(89.9)	(2.8)
Exploration and evaluation expense	**(1.2)**	(4.6)	3.4	**(1.2)**	(7.4)	6.2
Net finance income and expense	**(13.6)**	(18.9)	5.3	**(72.0)**	(73.8)	1.8
Other income and expense	**6.4**	(6.5)	12.9	**2.6**	(3.5)	6.1
Share of profit of joint arrangement	**0.1**	0.1	-	**0.4**	0.4	-
Profit before regulatory adjustments	**28.9**	24.7	4.2	**49.3**	144.8	(95.5)
Regulatory adjustments	**40.9**	(13.5)	54.4	**66.3**	(57.1)	123.4
Profit for the period	**69.8**	11.2	58.6	**115.6**	87.7	27.9
Other comprehensive (loss) income for the period	**(1.0)**	(7.4)	6.4	**11.3**	(25.1)	36.4
Total comprehensive income for the period	**68.8**	3.8	65.0	**126.9**	62.6	64.3

Revenue

The decrease in revenue for the quarter is primarily a result of decreased Oil and Gas production volumes and a lower average dated Brent price per barrel, as well as a decrease in electricity export market prices and electricity export volumes in Energy Marketing. The increase in revenue for the year is largely due to increased export prices in the first half of 2014 in Energy Marketing, increased energy usage by Hydro Regulated's customers partially offset by amounts billed to customers related to the RSP and increased seismic data sales in Oil and Gas. This year-over-year increase was partially offset by decreased revenue in Churchill Falls due to lower energy deliveries to Hydro-Québec as a result of reduced load requests.

Fuels

The decrease in fuel costs for the quarter was primarily driven by a lower price per barrel of No. 6 fuel in Hydro Regulated as a result of lower world oil prices, partially offset by higher fuel consumption. The increase in fuel costs for the year was primarily due to increased fuel consumption at Holyrood, higher No. 6 fuel prices in 2014 as compared to 2013, increased diesel and gas turbine costs and a lower fuel conversion rate at Holyrood.

Power purchased

The decrease in power purchased for the quarter was a result of reduced purchases by Hydro Regulated due to reduced production from non-utility generators, offset by an increase in power purchased costs by Energy Marketing resulting from higher prices paid for market purchases. The increase in power purchased for the year is primarily due to Hydro Regulated's increased power purchased costs resulting from higher cost power purchased from Corner Brook Pulp and Paper as well as an increase in power purchased costs by Energy Marketing due to higher prices paid for market purchases.

Operating costs

The increase in operating costs for the quarter and the year was largely due to additional work performed relating to Hydro Regulated's asset maintenance as well as increased equipment lease costs to provide black-start capability for HTGS, increased operating costs for White Rose and Hebron, increased transportation costs as well as legal and consulting services relating to Oil and Gas and increased costs associated with Energy Marketing's plan to move energy trading operations in-house in 2015 and inflationary increases.

Depreciation and depletion

The decrease in depreciation and depletion for the quarter was a result of decreased levels of production relating to Oil and Gas which was partially offset by increased levels of capital investment in Hydro. The increase in depreciation and depletion for the year was due to increased investment in property, plant and equipment in Hydro, partially offset by decreased levels of production in the second half of 2014 related to Oil and Gas.

Exploration and evaluation

The decrease in exploration and evaluation for the quarter and the year was due to Oil and Gas' balance sheet reclassification of the 2014 costs incurred by Oil and Gas in the acquisition of seismic data to intangible assets.

Net finance income and expense

Net finance income and expense includes interest income and expense, foreign exchange gains and losses and accretion expense on long-term debt and long-term liabilities, less interest capitalized during construction. The decrease in net finance income and expense for the quarter and year was primarily due to decreased interest expense due to favourable interest rates on new debt financing, partially offset by an increase in foreign exchange losses associated with No. 6 fuel purchases and decreased finance income due to a withdrawal from the reserve fund in Churchill Falls.

Other income and expense

The variation in other income and expense for the quarter and the year is primarily due to the timing of Hydro Regulated insurance proceeds, timing of asset retirements and disposals and mark-to-market fluctuations on the fair value of derivative instruments.

Regulatory adjustments

The increase in regulatory adjustments for the quarter and the year is primarily due to PUB approvals to defer $45.9 million in 2014 costs as an interim measure until final rates relating to Hydro's GRA are approved. As well, $9.6 million of additional capacity related supply costs were deferred in 2014. Also contributing to the year-over-year increase was $40.8 million in fuel costs that were deferred through the RSP and a $17.7 million reduction in RSP amortization as a result of the normal operation of the RSP.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2014 and December 31, 2013 include:

(millions of dollars)	Increase (Decrease)	Explanation
ASSETS		
Cash and cash equivalents	($32.9)	See Section 5 - Liquidity and Capital Resources Section.
Restricted cash	605.1	Increase due to cash balances held in accounts administered by a collateral agent related to the Lower Churchill Project. The balance of these accounts varies on a monthly basis as structured deposit notes mature and cash is drawn to fund construction costs.
Short-term investments	33.4	Increase as a result of the purchase of short-term investments during 2014.
Trade and other receivables	99.4	Increase primarily due to current portion of advances paid to contractors on long-term construction projects related to the Lower Churchill Project.
Inventories	21.9	Increase in purchases and price per barrel of No. 6 fuel.
Prepayments, excluding long-term	4.8	Increase in prepaid insurance and advance payments to contractors related to the Lower Churchill Project.
Derivative assets	11.6	Increase is primarily due to commodity price swaps entered into in 2014 by Oil and Gas to mitigate commodity price exposure in 2015.
Property, plant and equipment	1,934.2	Increase is primarily due to capital expenditures of $2.0 billion less depreciation and depletion.
Intangibles	12.9	Increase relates to the acquisition of seismic data in Oil and Gas.
Other long-term assets	38.8	Increase is a result of a decrease in sinking funds and a decrease in the reserve fund, offset by long-term advances to a supplier relating to the construction of the Muskrat Falls hydroelectric plant.
Long-term investments	(1,606.0)	Decrease due to maturities of structured deposit notes during 2014. The structured deposit notes are comprised of the proceeds of the Lower Churchill Project 2013 bond financing.
Regulatory deferrals	59.8	Increase primarily due to two new regulatory cost deferrals approved by the PUB in 2014.
LIABILITIES AND EQUITY		
Short-term borrowings	12.0	Increase is due to the issuance of Hydro promissory notes.
Trade and other payables	260.4	Increase due to advancing progress in construction costs relating to the Lower Churchill Project.
Long-term debt (including current portion)	118.8	Increase due to Hydro's issuance of $200.0 million debenture, offset by $124.7 million debt retirement and a decrease in sinking fund investments in Hydro debentures.
Class B limited partnership units	6.4	Increase due to accrued interest during 2014.
Deferred credits (current and long-term)	238.5	Increase primarily due to deferred energy sales related to the Maritime Link. See Note 16 of the Annual Audited Consolidated Financial Statements.
Deferred contributions	4.5	Increase due to an increase in contributions in aid of construction.
Decommissioning liabilities	9.3	Increase due to liabilities associated with the retirement of portions of the HTGS, disposals of Polychlorinated Biphenyls and Nalcor's net ownership interests in oil and gas properties and well sites.
Long-term payable	(4.3)	Decrease due to payments made under the UCRA and the AEB offset by accretion associated with the UCRA, the IBA and the Benefits Agreement Drilling Equipment Set Settlement Agreement.
Employee benefits liability	26.0	Increase due to current service and interest cost increases.
Shareholder contributions	327.3	Increase due to equity contributions from the Province to fund offshore developments in Oil and Gas and to fund the Lower Churchill Project.
Reserves	11.3	Increase is primarily a result of favourable mark-to-market fair value variances in available for sale financial instruments and cash flow hedges, partially offset by an actuarial loss on employee benefit liability.
Retained earnings	115.6	Increase due to profit earned in 2014.
Regulatory deferrals	(6.5)	Decrease primarily due to changes related to normal operation of the RSP.

SECTION 4: SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit (loss) for the three and twelve months ended December 31, 2014, by business segment, in comparison to the three and twelve months ended December 31, 2013. This discussion should be read in conjunction with Note 30 of the Annual Audited Consolidated Financial Statements for the year ended December 31, 2014:

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Hydro Regulated	**$44.8**	$(9.9)	$54.7	**$17.6**	$0.5	$17.1
Churchill Falls	**10.6**	9.4	1.2	**20.2**	26.1	(5.9)
Oil and Gas	**8.9**	5.5	3.4	**37.1**	26.2	10.9
Energy Marketing	**3.5**	7.0	(3.5)	**38.0**	33.3	4.7
Bull Arm Fabrication	**5.1**	3.8	1.3	**17.3**	15.5	1.8
Phase 1 Lower Churchill Project	**(2.2)**	(2.0)	(0.2)	**(2.4)**	(2.0)	(0.4)
Corporate and Other Activities	**(0.9)**	(2.6)	1.7	**(12.2)**	(11.9)	(0.3)
Profit for the period	**69.8**	11.2	58.6	**115.6**	87.7	27.9

HYDRO REGULATED

The operations of Hydro are influenced by many external factors including regulation, performance of the domestic economy, weather patterns and fuel costs. The demand for electricity is met through a combination of hydroelectric generation, thermal generation and power purchases including wind generation. Hydro uses the RSP, as directed by the PUB, to annually adjust customer rates, both as a means to smooth rate impacts for island electricity consumers and to protect Hydro Regulated's net income from variations in the HTGS fuel costs. Fuel costs fluctuate as a result of variations in electricity sales, fuel prices and hydraulic production.

As Hydro's GRA is currently ongoing and final rates have not been approved, the electricity rates in effect for 2014 were determined during Hydro's last GRA which was based on a 2007 cost of service with the exception of the annual adjustments to the cost of fuel consumed at the HTGS which occur through the normal operation of the RSP. In 2014, Hydro sought interim relief for 2014 rates as final rates had not yet been approved. Accordingly, in December 2014 the PUB approved the deferral of $45.9 million of 2014 costs which effectively represents the impact of bringing rates in line with 2014 cost levels. At the same time, the PUB also approved the deferral of $9.6 million in capacity supply costs related to the power supply interruption that occurred in January 2014. Recovery of both of these amounts is subject to a future PUB order.

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$149.2**	$148.6	$0.6	**$551.6**	$545.6	$6.0
Fuels	**(64.5)**	(67.3)	2.8	**(268.1)**	(190.9)	(77.2)
Power purchased	**(14.5)**	(15.5)	1.0	**(63.8)**	(59.4)	(4.4)
Operating costs	**(36.9)**	(27.7)	(9.2)	**(139.1)**	(113.0)	(26.1)
Depreciation	**(15.0)**	(13.0)	(2.0)	**(56.0)**	(51.3)	(4.7)
Net finance income and expense	**(16.2)**	(18.7)	2.5	**(74.2)**	(74.3)	0.1
Other income and expense	**1.7**	(2.8)	4.5	**0.9**	0.9	-
Profit (loss) before regulatory adjustments	**3.8**	3.6	0.2	**(48.7)**	57.6	(106.3)
Regulatory adjustments	**40.9**	(13.5)	54.4	**66.3**	(57.1)	123.4
Profit (loss) for the period	**44.7**	(9.9)	54.6	**17.6**	0.5	17.1

Revenue

The increase in revenue for the quarter was primarily due to increased industrial customer load and RSP billings to customers, partially offset by lower sales to Newfoundland Power as a result of weather. The increase in revenue for the year was primarily due to an increase in load related to Newfoundland Power, rural utility sales and industrial customer sales, partially offset by changes in the amount billed to customers relating to the RSP.

Fuels

The decrease in fuel cost for the quarter was primarily driven by lower price per barrel of No. 6 fuel as a result of lower oil prices, partially offset by higher fuel consumption. The majority of this variance is offset through the RSP in the Regulatory Adjustments line. The increase in fuel cost for the year was primarily due to increased fuel consumption at Holyrood, higher No. 6 fuel prices, increased diesel and gas turbine costs and a lower fuel conversion rate. Holyrood plant production increased by 358 Gigawatt hours (GWh) in 2014 compared to the same period last year. Colder temperatures in the first quarter of 2014 combined with higher utility and industrial load growth resulted in higher energy requirements during the year and the need to operate a Holyrood unit throughout the summer months of 2014 in order to reliably support transmission into the Avalon Peninsula. The majority of this variance is offset through the RSP in the Regulatory Adjustments line (see discussion of regulatory adjustments below).

The following tables summarize fuel consumption and average price:

	Three months ended			Twelve months ended		
For the period ended December 31	**2014**	2013	Variance	**2014**	2013	Variance
No. 6 fuel consumption: Millions of barrels	**0.6**	0.6	-	**2.3**	1.6	0.7
Average price (CAD/BBL)	**$97.8**	$105.0	($7.2)	**$108.5**	$106.6	$1.9
Diesel fuel consumption: Millions of liters	**4.2**	4.2	-	**16.9**	15.7	1.2
Average price (CAD/liter)	**1.1**	1.1	-	**1.2**	1.1	0.1

Fuel costs are summarized below:

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
No. 6 fuel and other	**$60.0**	$62.7	($2.8)	**$248.7**	$173.7	$75.0
Diesel	**4.5**	4.6	(0.1)	**19.4**	17.2	2.2
Total fuel costs	**64.5**	67.3	(2.8)	**268.1**	190.9	77.2

Generation mix is summarized below:

	Three months ended			Twelve months ended		
For the period ended December 31 (GWh)	**2014**	2013	Variance	**2014**	2013	Variance
Generation						
Hydraulic generation[1]	**1,251.7**	1,293.8	(42.1)	**4,658.0**	4,688.3	(30.3)
Holyrood generation	**355.0**	354.6	0.4	**1,315.3**	957.4	357.9
Standby generation	**(0.9)**	-	(0.9)	**2.0**	(0.5)	2.5
Power purchases[2]	**221.5**	249.5	(28.0)	**962.1**	1,012.3	(50.2)
Total generation	**1,827.3**	1,897.9	(70.6)	**6,937.4**	6,657.5	279.9

[1] Includes Hydro generation only.
[2] Purchases include generation from Exploits, wind and other non-utility generators.

Electricity sales are summarized below:

	Three months ended			Twelve months ended		
For the period ended December 31 (GWh)	**2014**	2013	Variance	**2014**	2013	Variance
Sales[1]						
Newfoundland Power	**1,592.2**	1,615.5	(23.3)	**5,852.0**	5,605.7	246.3
Hydro rural	**120.6**	122.4	(1.8)	**463.5**	458.0	5.5
Industrial	**120.4**	92.3	28.1	**391.9**	351.4	40.5
Transmission losses	**57.1**	67.7	(10.6)	**230.0**	242.4	(12.4)
Total sales	**1,890.3**	1,897.9	(7.6)	**6,937.4**	6,657.5	279.9

[1] Island interconnected only.

Power purchased

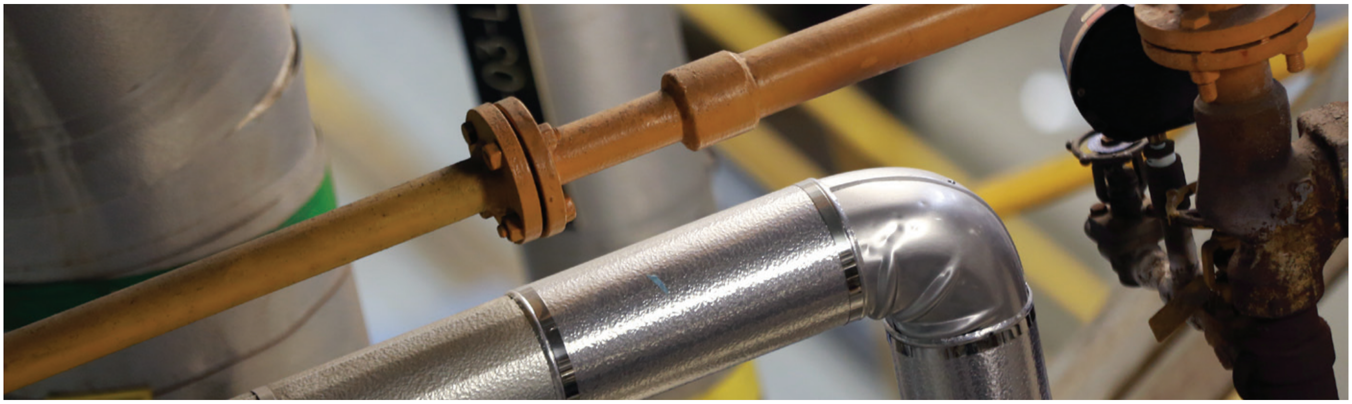
The decrease in power purchased for the quarter was mainly a result of reduced production from non-utility generators, specifically Exploits and Star Lake. The increase in power purchased for the year was driven by an increase in power purchased costs primarily as a result of higher cost power purchased from Corner Brook Pulp and Paper, partially offset by the decline in power purchased in the prior year.

Operating costs

The increase in operating costs for the quarter and the year was due primarily to costs incurred in connection with additional work performed relating to asset maintenance. Also, there were increased equipment lease costs to provide black-start capability for the HTGS, higher costs related to regulatory activity and inflationary increases.

Depreciation

The increase in depreciation for the quarter and the year was due to increased levels of investment in property, plant and equipment.



Net finance income and expense

The decrease in net finance income and expense for the quarter was due to decreased interest expense as a result of a debt retirement and subsequent refinancing at lower interest rates. Net finance income and expense for the year remained fairly consistent with the previous year due to favourable interest rates on new debt financing, partially offset by an increase in foreign exchange losses associated with No. 6 fuel purchases.

Other income and expense

The increase in other income and expense for the quarter resulted from higher insurance proceeds and lower costs associated with the disposal of assets in 2014 when compared to the same period last year. Other income and expense for the year remained consistent when compared to the same period in 2013 due to lower insurance proceeds, offset by lower costs associated with the disposal of assets in 2014.

Regulatory adjustments

The increase in regulatory adjustments for the quarter and the year was primarily due to PUB approvals to defer $45.9 million in 2014 costs as an interim measure until final rates relating to Hydro's GRA are approved. As well, $9.6 million of additional capacity related supply costs were deferred in 2014. Also contributing to the increase in the year was $40.8 million in fuel costs that were deferred through the RSP and a $17.7 million reduction in RSP amortization as a result of the normal operation of the RSP.

CHURCHILL FALLS

Churchill Falls is the owner and operator of the Churchill Falls Generating Station, with a rated capacity of 5,428 MW. A power contract with Hydro-Québec dated May 12, 1969 and expiring on August 31, 2016 (the Power Contract), and a Renewal Contract commencing September 1, 2016 and expiring August 31, 2041, provide for the sale of electricity from this facility to Hydro-Québec.

Churchill Falls also sells electricity to Hydro for use in Labrador and export sales, as well as interruptible power and supplies up to 225 MW (approximately 1.8 TWh) to Twin Falls. In addition, Churchill Falls earns revenue from Hydro-Québec under the GWAC. The GWAC was signed with Hydro-Québec in 1998 and expires on August 31, 2041, and provides revenue from the sale of up to 682 MW of seasonal availability to Hydro-Québec during the months of November through March.

During 2014, Churchill Falls derived 63.4% of its revenue from sales to Hydro-Québec under the Power Contract (2013 – 65.1%), 29.1% from the GWAC (2013 – 27.7%) and 7.5% from other revenue (2013 - 7.2%).

The strategy for Churchill Falls focuses on safely operating and maintaining its assets to optimize long-term value while maximizing profit and cash flow.

Churchill Falls' capital requirements are expected to continue to increase as investments are made to replace aging infrastructure. Churchill Falls has in place a long-term asset management plan, which addresses capital requirements to keep assets in reliable operating condition, which will in turn provide reliable operations for the long term. Accordingly, during 2014, Churchill Falls invested $50.3 million net of contributions in aid of construction (2013 - $49.1 million) in property, plant and equipment. Further, in accordance with the 1999 Shareholders' Agreement, Churchill Falls maintains a segregated reserve fund to contribute towards funding capital expenditures related to the replacement of existing infrastructure. As at December 31, 2014, this fund had a balance of $52.0 million (2013 - $76.7 million).

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$24.0**	$22.8	$1.2	**$72.9**	$76.6	$(3.7)
Operating costs	**(10.7)**	(10.1)	(0.6)	**(41.4)**	(41.3)	(0.1)
Depreciation	**(3.7)**	(3.6)	(0.1)	**(13.8)**	(13.0)	(0.8)
Net finance income and expense	**0.2**	0.4	(0.2)	**1.2**	1.5	(0.3)
Other income and expense	**-**	(0.9)	0.9	**(1.8)**	(1.3)	(0.5)
Share of profit of joint venture	**0.1**	0.1	-	**0.4**	0.4	-
Preferred dividends	**0.7**	0.7	-	**2.7**	3.2	(0.5)
Profit for the period	**10.6**	9.4	1.2	**20.2**	26.1	(5.9)

Revenue

The increase in revenue for the quarter was primarily due to favourable GWAC revenue earned over the same period last year. The decrease in revenue for the year was due to lower energy deliveries to Hydro-Québec commencing in May 2014, as a result of reduced load requests.

Operating costs

The increase in operating costs for the quarter was primarily due to the nature and timing of recoverable expenses incurred, as net operating costs for the year remained consistent compared to the prior year.

Depreciation

The increase in depreciation for the quarter and the year was due to increased levels of investment in property, plant and equipment.

Net finance income and expense

The decrease in net finance income and expense for the quarter and the year was due to a withdrawal from the reserve fund to fund capital expenditures in accordance with the terms of the Shareholder's Agreement.

Other income and expense

The decrease in other income and expense for the quarter is primarily due to timing of asset retirements and disposals earlier in the year as compared to 2013. The increase in other income and expense for the year was largely due to more asset retirements and disposals in 2014.

OIL AND GAS

Financial Highlights

For the period ended December 31 (millions of dollars)	Three months ended 2014	2013	Variance	Twelve months ended 2014	2013	Variance
Revenue	**$17.3**	$23.6	$(6.3)	**$79.4**	$78.3	$1.1
Operating costs	**(4.9)**	(5.9)	1.0	**(21.6)**	(19.1)	(2.5)
Depreciation and depletion	**(3.9)**	(7.1)	3.2	**(22.5)**	(25.1)	2.6
Exploration and evaluation expense	**(1.2)**	(4.6)	3.4	**(1.2)**	(7.4)	6.2
Net finance income and expense	**-**	0.3	(0.3)	**-**	0.3	(0.3)
Other income and expense	**1.6**	(0.8)	2.4	**3.0**	(0.8)	3.8
Profit for the period	**8.9**	5.5	3.4	**37.1**	26.2	10.9

Revenue

The decrease in revenue for the quarter was a result of decreased production volumes totaling 116,110 bbls (2013 – 171,014 bbls) and a lower average dated Brent price per barrel. The decrease in Q4 2014 production was due primarily to a delay in the completion of water injection wells required to support Hibernia Southern Extension production. The increase in revenue for the year was attributable to increased production volumes totaling 660,715 bbls (2013 – 657,618 bbls) and increased seismic sales. Oil price data for 2013 and 2014 is summarized in the table below. The Average Market Price reflects prices available in the market. The Realized Price (USD) includes the impact of oil commodity price hedges, and Realized Price (CAD) includes the impact of foreign exchange.

For the period ended December 31	Three months ended 2014	2013	Twelve months ended 2014	2013
Average Dated Brent Price ($USD/bbl)	**$67.48**	$112.71	**$101.54**	$111.06
Realized Price ($USD/bbl)	**84.64**	110.60	**104.60**	110.86
Realized Price ($CAD/bbl)	**95.87**	116.68	**115.26**	114.64

Investment in seismic data from 2011 through 2014, combined with engagement by Nalcor with exploration and production companies worldwide, has yielded increased interest in Newfoundland and Labrador seismic data, leading to increased revenue for 2014. For the quarter, exploration data sales totaled $8.8 million (2013 - $4.0 million). For the year, exploration data sales totaled $14.3 million (2013 - $4.0 million).

Operating costs

The decrease in operating costs for the quarter was attributable to a decrease in production, processing and marketing costs due to decreased production volumes. The increase in operating costs for the year was attributable to an increase in project operating costs for White Rose and Hebron and an increase in transportation costs related to an adjustment for prior years.

Depreciation and depletion

The decrease in depreciation and depletion for the quarter was a result of decreased levels of production. The decrease in depreciation and depletion for the year was due to decreased levels of production in the second half of 2014.

Exploration and evaluation expense

The decrease in exploration and evaluation expense for the quarter and the year was due to the balance sheet reclassification of the 2014 costs incurred in the acquisition of seismic data to intangible assets.

Net finance income and expense

The change in net finance income and expense for the quarter and the year was largely a result of foreign exchange fluctuations and accretion.

Other income and expense

The change in other income and expense for the quarter and the year was primarily due to a net gain from the mark-to-market of the fair value of hedge instruments during the fourth quarter of 2014, compared to a net loss in 2013.

Capital Expenditures

During 2014, costs capitalized as petroleum and natural gas properties totaled \$250.4 million (2013 - \$187.4 million) and include pre-development, development and drilling costs. The 2014 costs are comprised of expenditures related to the White Rose Extension of \$25.7 million, Hebron of \$153.1 million, Hibernia South Extension of \$58.7 million and seismic and other exploration expenditures of \$12.9 million.

Nalcor contracted independent reserve evaluators, Sproule Associates Limited, to evaluate and prepare reports on oil reserves according to the Canadian Oil and Gas Evaluation Handbook reserve definitions and standards. Reserves as at December 31, 2014 are as follows:

	2014 Light and Medium Oil		2013 Light and Medium Oil	
For the period ended December 31 (Thousands of barrels - mbbls)	**Gross**	**Net**	Gross	Net
Average Developed	**5,562**	**3,981**	1,075	814
Undeveloped	**11,011**	**9,976**	7,440	4,766
Total Proved	**16,573**	**13,957**	8,515	5,580
Probable	**45,328**	**32,600**	50,506	37,931
Total Proved Plus Probable	**61,901**	**46,557**	59,021	43,511

Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Total gross proved and probable reserves at December 31, 2014 are 61,901 mbbls, an increase of 2,880 mbbls over 2013 reserve levels. This increase is as a result of new information, leading to field extensions at all Nalcor properties.

ENERGY MARKETING

The revenue and earnings in this segment are derived primarily from sales of available recall energy. This electricity is sold to markets in eastern Canada and the northern US, as well as to the iron ore industry in Labrador. In addition, revenue is generated through the 18.7 MW Menihek Generating Station. In 2005, Hydro (subsequently transferred to Nalcor) entered into a 40-year PPA with Hydro-Québec to supply electricity from the Menihek facility to Hydro-Québec for its customers in the Schefferville region.

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$11.5**	$15.2	$(3.7)	**$75.6**	$68.2	$7.4
Power purchased	**(2.4)**	(1.8)	(0.6)	**(8.5)**	(7.7)	(0.8)
Operating costs	**(6.9)**	(6.3)	(0.6)	**(27.6)**	(26.7)	(0.9)
Net finance income and expense	**(0.9)**	(0.1)	(0.8)	**(1.0)**	(0.3)	(0.7)
Other income and expense	**2.2**	-	2.2	**(0.5)**	(0.2)	(0.3)
Profit for the period	**3.5**	7.0	(3.5)	**38.0**	33.3	4.7

Revenue

The decrease in revenue in the quarter was primarily due to a decrease in export market prices and a decrease in export electricity volumes. Lower prices in export markets in Q4 2014 are primarily the result of an extended outage on the Québec system which blocked access to the New York market and also reduced access to the lower-value Ontario market. This outage combined with unseasonably mild temperatures in Q4 2014 reduced realized price. The increase in revenue for the year was mainly as a result of increased export market prices in the first half of 2014. The price increases in export markets are primarily the result of a colder winter in the Northeast US resulting in greater demand and higher energy prices. During the year, 90.6% of revenues were related to export sales (2013 – 89.1%) and 9.4% of revenues were derived from other sources (2013 – 10.9%). Prices for 2013 and 2014 for sales into export markets are summarized below. The Average Market Price reflects prices available in the market.

	Three months ended		Twelve months ended	
For the period ended December 31	**2014**	2013	**2014**	2013
Average Market Price (USD)	**$23.49**	$35.78	**$38.80**	$37.68

Power purchased

The increase in power purchased for the quarter and the year was primarily a result of higher prices paid for market purchases that were necessary in response to external market reliability events as described above.

Operating costs

The increase in operating costs for the quarter and the year was primarily driven by costs associated with Energy Marketing's implementation plan to move energy trading operations in-house in 2015 as well as increased legal expenditures. This implementation plan will result in the elimination of marketing fees paid to the third-party marketer starting in Q2 2015. The transition to an in-house operation is projected to increase long-term value.

Net finance income and expense

The change in net finance income and expense for the quarter and the year was a result of foreign exchange fluctuations.

Other income and expense

The change in other income and expense for the quarter was primarily due to a gain on transmission congestion contracts and commodity hedges. The change in other income and expense for the year was primarily due to a loss on commodity and foreign exchange hedges.

BULL ARM FABRICATION

Bull Arm Fabrication is Atlantic Canada's largest industrial fabrication site. The site is an important asset for the Province for the development of the oil and gas industry in Newfoundland and Labrador and the advancement of the Province's fabrication capacity. The Bull Arm Fabrication site provides extensive benefits for existing and future generations through its infrastructure, technology and knowledge transfer and the continual development of an experienced labour force.

Revenue is primarily generated through leasing arrangements associated with large construction projects. The site is currently under lease until 2017 to ExxonMobil Canada Properties for the construction of the GBS platform, fabrication of the Living Quarters module, as well as other construction and fabrication activities related to the Hebron project.

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$4.6**	$4.2	0.4	**$17.8**	$16.6	1.2
Operating costs	**(0.3)**	(0.2)	(0.1)	**(1.0)**	(0.9)	(0.1)
Depreciation	**-**	(0.1)	0.1	**-**	(0.1)	0.1
Net finance income and expense	**(0.3)**	-	(0.3)	**(0.6)**	0.1	(0.7)
Other income and expense	**1.1**	(0.1)	1.2	**1.1**	(0.2)	1.3
Profit for the period	**5.1**	3.8	1.3	**17.3**	15.5	1.8

Revenue

The increase in revenue for the quarter and the year was due to a favourable foreign exchange rate on USD lease revenue.

Operating costs

Operating costs for the quarter and year are largely consistent with the prior year.

Depreciation

Depreciation for the quarter and year are largely consistent with the prior year.

Net finance income and expense

The change in net finance income and expense for the quarter and year was largely due to foreign exchange fluctuations.

Other income and expense

The increase in other income and expense for the quarter and year was primarily due to a financial adjustment related to the transfer of ownership of the Bull Arm Fabrication site from the Province to Nalcor in 2009. As well, a net gain from the mark-to-market on the fair value of hedge instruments was recorded in the fourth quarter of 2014, compared to a net loss in 2013.

PHASE 1 LOWER CHURCHILL PROJECT

The Lower Churchill Project was sanctioned on December 17, 2012. The development of the Lower Churchill Project will provide a clean, renewable source of electricity to meet the Province's growing energy demands.

The costs included in the Lower Churchill Project include costs incurred by Nalcor's subsidiaries in the construction of the Muskrat Falls hydroelectric plant, the Labrador-Island Link transmission line and the Labrador transmission assets. The current capital cost estimate is $6.990 billion plus capitalized interest and financing costs. The costs of the Maritime Link, which is owned and financed by a subsidiary of Emera Inc. (for 35 years at which time ownership will transfer to Nalcor), is included as capital expenditures in the Nalcor Annual Audited Consolidated Financial Statements.

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**-**	-	-	**-**	-	-
Operating costs	**(2.1)**	(0.2)	(1.9)	**(2.3)**	(0.2)	(2.1)
Net finance income and expense	**(0.1)**	-	(0.1)	**(0.1)**	-	(0.1)
Other income and expense	**-**	(1.8)	1.8	**-**	(1.8)	1.8
Loss for the period	**(2.2)**	(2.0)	(0.2)	**(2.4)**	(2.0)	(0.4)

Operating costs

Operating costs for Phase 1 of the Lower Churchill Project include corporate overhead, labour, audit fees and other general and administrative costs which are not eligible for capitalization in accordance with IFRS. The increase in operating costs for the quarter and the year as compared to 2013 is a result of 2014 being the first full year of operations for certain of the Lower Churchill Project subsidiaries, some of which were incorporated in late 2013.

Other income and expense

The change in other income and expense is due to the portion of settlement loss incurred by Muskrat Falls on a bond forward interest rate hedge which was classified as ineffective in accordance with IFRS hedge accounting requirements and immediately recognized in profit and loss in 2013.

Capital Expenditures

Capital expenditures increased by $254.2 million for the quarter and $810.0 million for the year compared to the same period in 2013. The breakdown by each component of Phase 1 Lower Churchill Project is as follows:

	Three months ended		Twelve months ended		Total To Date
For the period ended December 31 (millions of dollars)	**2014**	2013	**2014**	2013	**2014**
Muskrat Falls	**$185.8**	$143.5	**$580.3**	$470.7	$1,257.5
Labrador transmission assets	**54.5**	55.8	**182.9**	92.9	305.0
Labrador-Island Link	**145.4**	36.4	**404.5**	73.2	578.8
Nalcor facilities capital costs	**385.7**	235.7	**1,167.7**	636.8	2,141.3
Capitalized interest and financing costs	**34.9**	34.8	**130.7**	43.2	194.2[1]
Total capital costs for Nalcor project components	**420.6**	270.5	**1,298.4**	680.0	2,335.5
Maritime Link	**117.9**	13.8	**238.3**	46.7	332.0
Total capital expenditures	**538.5**	284.3	**1,536.7**	726.7	2,667.5

[1] Excludes $39.2 million of allowance for funds used during construction on Nalcor's Class A limited partnership units in the LIL LP that are eliminated upon consolidation.

CORPORATE AND OTHER ACTIVITIES

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Revenue	**$(0.1)**	$0.2	$(0.3)	**$0.1**	$0.5	$(0.4)
Operating costs	**(4.3)**	(1.8)	(2.5)	**(14.5)**	(10.8)	(3.7)
Depreciation	**-**	(0.1)	0.1	**(0.4)**	(0.4)	-
Net finance income and expense	**3.7**	(0.8)	4.5	**2.7**	(1.1)	3.8
Other income and expense	**(0.2)**	(0.1)	(0.1)	**(0.1)**	(0.1)	-
Loss for the period	**(0.9)**	(2.6)	1.7	**(12.2)**	(11.9)	(0.3)

With the exception of operating costs and net finance income and expense, corporate and other activities was largely consistent over the quarter and the year as compared to the same periods in 2013. The increase in operating costs for the quarter and the year was primarily driven by increased salaries, increased professional fees and inflationary increases. The change in net finance income and expense for the year was primarily due to an adjustment made by Nalcor in Q4 in connection with Nalcor's recording of the Maritime Link in its financial statements.

SECTION 5: LIQUIDITY AND CAPITAL RESOURCES

Nalcor's capital resources consist primarily of cash from operations, cash and cash equivalents, short-term investments, long-term investments and equity from the Province. These capital resources are used to fund the Company's consolidated capital resource requirements, which continue to include working capital needs, capital expenditures, development costs and the servicing and repayment of consolidated debt. Additional liquidity is available through a $250.0 million committed credit facility that Nalcor maintains with its primary bank.

While cash from operations depends on a number of factors, including commodity prices, foreign exchange rates and production volumes, Management believes existing capital resources and credit lines will be sufficient to fund all capital resource requirements and maintain adequate liquidity in 2015.

SOURCES AND USES OF CASH

Cash flows relating to operating, investing and financing activities are summarized in the following table:

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2014**	2013	Variance	**2014**	2013	Variance
Cash provided from (used in):						
Operating activities	**$(145.7)**	$45.6	$(191.3)	**$279.8**	$410.4	$(130.6)
Investing activities	**(14.9)**	(4,855.8)	4,840.9	**(116.6)**	(5,487.1)	5,370.5
Financing activities	**153.2**	4,796.7	(4,643.5)	**(196.1)**	5,158.5	(5,354.6)
Net (decrease) increase in cash and cash equivalents	**(7.4)**	(13.5)	6.1	**(32.9)**	81.8	(114.7)

OPERATING ACTIVITIES

The net cash provided from operating activities includes net income for the period and other non-cash items and changes in working capital. Cash flow from operations for the quarter was $191.3 million lower than the same period in 2013. Cash flow from operations for 2014 was $130.6 million lower than in 2013. The decrease in both the quarter and the year was primarily due to decreases in non-cash working capital balances, primarily related to an increase in trade and other payables as a result of increased activity.

INVESTING ACTIVITIES

The net cash used in investing activities for the quarter was $14.9 million due to capital expenditures of $681.7 million on property, plant and equipment and exploration and evaluation assets, primarily offset by a $489.7 million decrease in long-term investments. The net cash used in investing activities year-to-date was $116.6 million, primarily due to capital expenditures of $1,777.2 million on property, plant and equipment, a $33.4 million increase in short-term investments and a $20.8 million increase in long-term assets, offset by a $1,606.0 million decrease in long-term investments and a $102.0 million decrease in sinking funds.

FINANCING ACTIVITIES

The net cash from financing activities for the quarter was $153.2 million, primarily resulting from a $205.9 million increase in contributed capital and a $53.0 million increase in short-term borrowings, offset by an increase in restricted cash of $105.1 million. The net cash used in financing activities year-to-date was $196.1 million, primarily resulting from a $605.1 million increase in restricted cash due to maturities of structured deposit notes and a $124.7 million debt retirement, offset by net proceeds of $197.1 million from a $200.0 million Hydro bond issuance and a $327.3 million increase in contributed capital.

On September 15, 2014, Hydro issued new long-term debt through the sale of $200.0 million Series AF debentures to its underwriting syndicate. The debentures mature on December 31, 2045 and pay a coupon rate of 3.6% semi-annually. The debt will pay down the balance of short-term borrowings and fund the capital plan.

Hydro's 10.5% Series V debentures matured on June 15, 2014, $124.7 million was repaid using proceeds from long-term investments held in the Series V sinking fund. As at December 31, 2014, $0.3 million remained outstanding.

CAPITAL STRUCTURE

Nalcor's consolidated capital structure and associated performance indicators are shown in the table below:

For the period ended December 31 (millions of dollars)	**2014**	2013
Current portion of long-term debt	**$8.4**	$82.2
Long-term debt (net of sinking funds)	**6,240.5**	6,047.9
Short-term borrowings	**53.0**	41.0
Total debt	**6,301.9**	6,171.1
Total shareholder's equity	**2,722.0**	2,267.8
Debt to capital	**68.9%**	72.1%
Fixed rate debt as percentage of total indebtedness	**99.0%**	99.3%

The above noted ratios are non-GAAP financial measures. Refer to Section 7: Non-GAAP Financial Measures.

Capital structure is managed at the subsidiary level. As a result, Nalcor's consolidated capital structure is driven largely by the long-term funding decisions made at the subsidiary level. When capital resource requirements exceed cash from operations for a particular subsidiary, the difference is funded with long-term debt and/or equity contributions from Nalcor. The use of long-term debt to fund capital resource requirements is limited to cases where there is reasonable certainty that operating cash flows will be sufficient to service the debt while maintaining an appropriate level of stand-alone creditworthiness.

HYDRO REGULATED

Capital resource requirements for Hydro Regulated consist primarily of working capital needs, capital expenditures and debt servicing and repayment. Hydro funds capital resource requirements through a combination of cash from operations, sinking funds and long-term debt issuances.

Capital expenditures in excess of cash from operations are funded with proceeds from short-term debt issued under Hydro's provincially guaranteed $300.0 million promissory note program. Once borrowings under this program reach a pre-determined level, Management will refinance promissory notes with proceeds from long-term debt. In addition, Hydro maintains a $50.0 million demand operating facility with its primary bank.

Sinking funds were established for four of Hydro's debt issues. These four debt issues have a par value of $875.3 million. The remaining two debt issues, with par value of $425.0 million, will be refinanced in the capital markets at maturity.

CHURCHILL FALLS

Capital resource requirements for Churchill Falls consist primarily of capital expenditures and working capital needs, which the Company funds mainly through cash from operations. Churchill Falls also maintains a $75.0 million reserve fund which can be drawn upon in certain circumstances to fund capital expenditures, subject to the terms and conditions as established in the Shareholders' Agreement.

To ensure sufficient liquidity, Churchill Falls targets a minimum cash balance of $18.0 million (2013 - $10.0 million) and maintains a $10.0 million demand operating facility with its primary bank. As of December 2014, there were no amounts drawn on the facility (2013 - $nil).

OIL AND GAS

Capital resource requirements for Oil and Gas consist primarily of capital expenditures and working capital needs. While cash from operations is sufficient to meet working capital needs and fund a portion of Oil and Gas' capital expenditures, the primary source of long-term financing for capital expenditures in the near term will continue to be equity from the Province. Equity contributions from the Province totaled $212.5 million in 2014 (2013 - $149.9 million). Liquidity is provided through a $5.0 million demand operating facility the Company maintains with its primary bank. As of December 2014, there were no amounts drawn on the facility (2013 - $nil).

ENERGY MARKETING

Capital resource requirements for Energy Marketing are limited to working capital needs.

BULL ARM FABRICATION

Capital resource requirements for Bull Arm Fabrication are limited to working capital needs, which will continue to be funded through cash from operations. Historically, cash from operations has exceeded the Company's working capital requirements. Under the Company's existing dividend policy, cash and cash equivalents in excess of $1.0 million are distributed to Nalcor as a dividend at Management's discretion.

LOWER CHURCHILL PROJECT

Capital resource requirements for LCP consist primarily of capital expenditures in connection with construction of the Lower Churchill Project. The primary source of financing for Muskrat Falls, Labrador Transco and LIL LP will continue to be the credit facilities and equity contributions from the Province. Muskrat Falls and Labrador Transco have access to a $75.0 million working capital reserve account which can be used to meet any short-term funding requirements that may arise between drawdowns under the Muskrat Falls / Labrador Transmission Assets Project Finance Agreement (MF/LTA PFA). LIL LP has access to a $75.0 million working capital reserve account which can be used to meet any short-term funding requirements that may arise between drawn downs under the LIL PFA.

CAPITAL EXPENDITURES

Capital expenditures, which significantly impact the cash used in investing activities, increased by $276.8 million for the quarter and $984.5 million for the year. The breakdown by segment is as follows:

	Three months ended		Twelve months ended	
For the period ended December 31 (millions of dollars)	**2014**	2013	**2014**	2013
Hydro Regulated	**$65.6**	$27.4	**$208.5**	$86.6
Churchill Falls[1]	**9.1**	11.9	**33.0**	32.5
Oil and Gas	**51.0**	61.6	**237.5**	184.7
Energy Marketing	**0.7**	0.4	**1.4**	0.4
Phase 1 Lower Churchill Project	**420.6**	270.5	**1,298.4**	680.0
Corporate and Other Activities	**3.9**	6.4	**4.8**	6.5
Total Capital Expenditures before the following:	**550.9**	378.2	**1,783.6**	990.7
Maritime Link – Non Cash Additions	**117.9**	13.8	**238.3**	46.7
Total Capital Expenditures	**668.8**	392.0	**2,021.9**	1,037.4

[1] Reflects Nalcor's 65.8% ownership interest

OBLIGATIONS AND COMMITMENTS

Outstanding commitments for capital projects to be incurred in the next five years totaled $3.7 billion as at December 31, 2014 (December 31, 2013 - $2.4 billion), primarily related to the Phase 1 Lower Churchill Project, Oil and Gas investments, Hydro Regulated and Churchill Falls. Additional information about Nalcor's obligations and commitments can be found in Note 27 of the Annual Audited Consolidated Financial Statements for the year ended December 31, 2014.

SECTION 6: RISK MANAGEMENT PROCESS

BACKGROUND INFORMATION

Nalcor identifies and manages risk in a manner that supports disciplined corporate planning and strategy formulation. Integration between risk management and strategic planning continues to be essential as the business grows and Nalcor's risk profile continues to evolve.

The Board has endorsed a framework that is consistent with Risk Management Guidelines and Principles per International Standards Organization (ISO)/Canadian Standards Association (CSA) 31000. The ERM Framework (the Framework) provides for a timely, systematic and structured approach to identifying, evaluating, controlling, reporting and monitoring risks that have the potential to impact the achievement of Nalcor's goals. The Framework is based on four major categories of risk: strategic, operational, financial and compliance. Further detail regarding specific material risks to Nalcor's financial position, results and cash flows are provided in the section 'Key Business Risks and Uncertainties' below.

In November 2014, the Board approved an ERM Policy Statement which details the guiding principles, scope, processes, procedures and high level roles and responsibilities within the Framework.

RISK GOVERNANCE AND INFRASTRUCTURE

Infrastructure has been embedded to support the implementation of Nalcor's ERM Framework. An ERM Committee exists with the principle mandate of assisting in developing, implementing and continuously maintaining standards and procedures within the Framework. This committee includes membership from all lines of business and includes subject matter expertise in the area of risk management. In addition, a risk representative, who is responsible for ensuring that the risk management policy and related mitigation strategies are carried out, has been appointed in each line of business. The mandate of the ERM Committee focuses on how risks are identified, analyzed, evaluated and treated at the business unit level.

An ERM Corporate Oversight Committee, consisting of Nalcor executive and senior Management, provides focus on oversight of the planned approach for continued ERM implementation, and on integrating new processes with key existing business processes and functions, such as Corporate Planning and Internal Audit.

The Governance Committee of the Nalcor Board of Directors provides primary support to the Board in fulfilling its risk management mandate, including reviewing ERM policies and corporate ERM Plans, and making recommendations regarding their approval. Board approval is also required where risk appetite and tolerances are established or updated, following a similar process of review and recommendation by the Governance Committee.

ROLES AND RESPONSIBILITIES

There are several broad stakeholder groups who must fulfill their roles in order for the ERM Framework to be effective: front line staff and Management, the Corporate Risk department and independent oversight, provided by Internal Audit and the Board. All staff have the responsibility to appropriately balance risk and reward within the activities that they undertake, and to raise concerns where they are unsure this balance has been achieved.

The Chief Risk Officer (CRO) is a key senior leader on the finance team and is responsible to:

- Oversee the annual risk assessment process, in coordination with Strategic Planning;
- Act as a resource to coach and educate staff impacted by ERM implementation;
- Chair the ERM Committee and co-chair the ERM Corporate Oversight Committee;
- Ensure Risk Committee meetings take place at least quarterly and that there is adequate representation and expertise on the Committee;
- Review policy and other guidance at least annually for quality and adherence to standards;
- Provide training to lines of business as required and/or requested; and
- Report progress against ERM plan(s) to Executive and the Board as required.

The Board is charged with the role of representing Nalcor's stakeholders with respect to risk issues. This includes providing effective oversight of the Nalcor's risk profile, and in particular, ensuring that executive Management is effectively governing and managing the risk environment. Additionally, the Board is responsible for ensuring that Management has a process for identifying the principal risks of Nalcor's business and ensuring the implementation of appropriate systems to effectively monitor and manage such risks with a view to the long-term viability of the Company. This includes oversight of internal control, management information systems, and regulatory compliance processes.

Periodically, Internal Audit and/or specialized external service providers report independently to Management and the Board regarding the effectiveness of priority risk treatment plans and the ERM Framework.

KEY BUSINESS RISKS AND UNCERTAINTIES

The following information describes certain significant risks and uncertainties inherent in Nalcor's business. This section does not describe all risks applicable to Nalcor, its industry or its business, and is intended only as a summary of certain material risks. If any such risks or uncertainties materialize, the business, financial condition or operating results could differ materially from the plans and other forward-looking statements discussed in this MD&A. The nature of risk is such that no list can be comprehensive, and other risks may arise or risks not currently considered to be material may become material in the future. The risks presented herein are grouped by risk category, and detail known strategic, operational, financial and compliance risks.

STRATEGIC RISKS

Strategic risk management is a critical part of Nalcor's ERM process, focused on the most consequential and significant risks to enterprise value. Nalcor has identified key strategic risks within each line of business and at a portfolio, or corporate, level that could impede the achievement of strategic objectives. In addition to specific financial impacts, strategic risks with high potential impacts on Nalcor's reputation are also presented, as an impairment to the corporate reputation could materially affect the organization's ability to execute strategy. Such strategic risks include:

External Environmental Factors

Nalcor is subject to increased uncertainty pertaining to key estimates and assumptions, including but not limited to:

- Natural gas, crude oil and electricity production levels and prices;
- Weather conditions, including abnormally warm or cold weather that causes higher than expected energy usage for heating or cooling purposes, or periods of low rainfall that impact economic operation of hydro assets; and
- Transmission or transportation constraints.

The factors detailed above develop over time and early trends and indicators would generally be expected. To the extent possible, Nalcor mitigates these risks through its financial hedging strategy, which is explained in more detail within the financial risk section, and by continuous monitoring of market conditions.

Other external factors remain where their occurrence would be sudden and the impact catastrophic. This includes, but is not limited to:

- An act of terrorism against key generation or transmission infrastructure;
- A major cyber-attack targeting key systems, including those that operate generation and transmission assets; and
- A catastrophic natural disaster, such as a major hurricane or tsunami.

To mitigate the risk of a sudden and catastrophic incident, Nalcor has invested in business continuity and other emergency preparedness measures, and has controls in place governing physical and Information Technology (IT) security threats.

Pace of Offshore Oil Development

The demand for and pricing of oil and natural gas has a direct impact on the level of exploration, development and production activity. This and numerous other market conditions over which Nalcor has no control, may also impact results, including commodity prices, expectations about future prices, levels of consumer demand, severe weather events, policy or regulatory change, economic conditions and the ability of oil and gas companies to raise financing.

Given these uncertainties, the level of activity in the oil and natural gas industry is volatile. No assurance can be given that oil and natural gas exploration and production activities will continue at current levels. Any prolonged substantial reduction in oil and gas prices may slow the current pace of offshore oil exploration and development until market conditions are more favourable.

Electricity System Integration

Phase 1 of the Lower Churchill Project is well underway and the connection of the isolated island grid to North America is now approaching; it is expected by the end of 2017. As such, increased planning focus has shifted to longer-term operations. This affects the relevant risks. The integration of the Muskrat Falls hydroelectric generating plant and related transmission assets into Nalcor's existing asset base is complex and requires active management of risks across the electricity system, including those relating to the:

- Selection and implementation of an appropriate long-term service model;
- Documentation and finalization of any key agreements required;
- Consideration of impacts on scheduling, dispatch, reserve requirements, forecasting and reliability; and
- Ensuring national and international power export access.

Construction of the Lower Churchill Project is on schedule for first power in late 2017. While the Lower Churchill Project is progressing as planned, if a delay in project construction is encountered this could lead to a delay in interconnection to the North American grid with the potential impact of Nalcor not being able to sell energy into export markets as planned in a particular year. Such a delay could have a material impact on revenue assumptions, particularly if any delays are prolonged. A potential delay in the Lower Churchill Project could also delay delivery of power for island customers and, therefore, continuing dependence on the HTGS for longer than planned, which would also increase cost assumptions as fuel and other inputs would be required until the delay ceases. This may have implications on ratepayer cost, which would be subject to uncertainties related to recovery.

A key priority for Nalcor is to be organizationally ready for the transition to a longer-term electricity operations structure in advance of first power from Muskrat Falls. Resources have been dedicated to the integration and transition teams have been tasked with managing key work streams. These efforts are overseen by a Steering Committee comprised of members of the Nalcor executive team.

OPERATIONAL RISKS

Broadly, operational risks include risks to assets, other property, people and systems. This includes uncertainties relating to asset condition, maintenance and other operational concerns within the generation facilities that are maintained by Churchill Falls and Hydro, as well as risks to other property owned by Nalcor, such as office buildings, data and system infrastructure.

Operating Risks and Insurance

Hydro and Churchill Falls operations are subject to risks inherent to operating generation and transmission. Many of the generation and transmission assets are approaching the end of their service lives and are becoming more costly to maintain. The occurrence of significant unforeseen equipment failures could have a material adverse effect on the results of operations, cash flows and financial position of Nalcor.

Nalcor established a formal Office of Asset Management to enhance risk control, preventative maintenance, asset refurbishment and replacement and other key programs which are in place to treat certain of the risks noted above. In addition, each operational area has developed comprehensive response plans to provide guidance and contingency processes in the event of an emergency. The plans are based on consideration of adverse events that each area might be subject to in the course of its operations such as fire, explosion, equipment failure, and natural events such as floods and ice storms.

Nalcor maintains a comprehensive corporate insurance program against certain of these risks and typical for such an organization; insurance is subject to coverage limits and exclusions, as well as time-sensitive claims discovery and reporting provisions, and will not be available for all the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the entity's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. For material uninsured losses within Hydro Regulated, it is expected that regulatory relief would be sought, however, there is no assurance that this relief would be received.

Oil and Gas is subject to the operational risks of participation in offshore oil production, including equipment defects, malfunctions, failures, unplanned shut downs, safety or environmental incidents and external factors, such as hurricanes and other extreme weather. These risks and hazards could expose the organization to liability for workplace incidents, business interruption, property damage or destruction, or environmental liabilities. They are covered primarily through the corporate insurance program.

Safety

Hydro and Churchill Falls carry safety risks inherent to operating various generation facilities notably the risk of working in and around energized equipment. Employees are also exposed to hazards on the Lower Churchill Project sites relating to a large construction project. Based on the industry and the nature of work performed, there are many hazards and risks that could result in workplace incidents that could negatively impact Nalcor's employees, contractors, members of the public or operations. Such events can lead to disruption of the business, regulatory actions and other measures, which would have an adverse impact on employee and contractor morale and Nalcor's reputation as a safety leader. Unsafe work conditions can lead to workplace incidents that may result in increased turnovers, increased project and operating costs and lead to additional unforeseen expenses to investigate and respond to such an event.

Given the potential severity of a workplace incident, Nalcor has made it a priority to reduce the frequency and severity of incidents. A multi-year strategic safety plan has been implemented which includes establishing annual safety performance metrics, program initiatives, as well as comprehensive corporate and operational plans. Nalcor's Safety Program is currently based on the Occupational Health and Safety Assessment Standard (OHSAS) 18001, and a monitoring and audit process is in place to assess ongoing operational compliance with this standard, as well as internal Nalcor operational controls and procedures. Whenever our employees routinely work in and around energized equipment, the Company has implemented an Electrical Safety Program, including a comprehensive Work Protection Code which establishes conditions which provide workers with a safe work area when working on or around electrical and other energized equipment.

Nalcor works closely with their largest union, the IBEW, who represents the majority of unionized employees through two bargaining units; one for Newfoundland and Labrador Hydro (1615) and one for Churchill Falls (2351). Nalcor acts in strong partnership with the

IBEW, and supports a joint consultation process when discussing matters related to safety. A safety culture is reinforced throughout the organization through the development of a comprehensive safety framework, which includes a Safety Credo, an Internal Responsibility System and strong processes supporting safety reporting and investigation (Safe Work Observation Program). Nalcor has a network of safety and health professionals at the corporate office as well as embedded throughout its lines of business.

In addition, Hydro and Churchill Falls operate dams, dykes, spillways and water reservoirs through its hydraulic electricity generation operations. These facilities represent potentially large consequence but low probability risks for the Company with respect to life, financial, environmental and reputational loss. These risks are managed by both internal and external dam safety professionals through adherence to industry best practices and safety standards.

Environmental

The number and diversity of environmental risks facing Nalcor requires a structured and consistent Management approach. Nalcor applies the ISO 14001 Environmental Management System (EMS) standard to its relevant subsidiaries to ensure that risks are identified and assessed and controls are implemented to mitigate significant environmental risks.

Given the diversity of its operations, the territory that our system encompasses and the number of assets that are owned, it is not possible to guarantee that all such risks can be mitigated. This, coupled with the fact that Nalcor is subject to various municipal, provincial and federal requirements, and the high level of expectation from our stakeholders, means there are numerous environmental risks that exist. The following situations may have the ability to adversely affect Nalcor's financial position in any given year:

- Potential environmental liability with existing assets or from assets assumed from another operator;
- Presence or release of hazardous or other harmful substances that cause significant environmental damage, lead to claims by third parties and/or governmental fines, orders or directives requiring specific actions with associated costs or cause long-term impairment to our reputation; and
- Lack or absence of governmental approvals, permits or renewals of existing approvals and permits related to construction or operating facilities.

To ensure such risks are managed, Nalcor has implemented an Environmental Site Assessment (ESA) program for all properties it owns, operates or acquires. The objectives of the ESA program are to evaluate the potential for environmental contamination; undertake sampling to characterize and delineate any contamination; assess the potential risks and liabilities associated with any contamination identified; identify sites requiring monitoring or remediation; and, develop and implement remediation programs when necessary. The program is intended to guide the implementation of environmental site assessments, using standardized methods, on all properties owned or occupied by Nalcor.

Being prepared for accidental releases is critical to mounting a quick and effective response to minimize impacts on people and the environment. Nalcor and its lines of business have developed Environmental Emergency Response Plans (EERP) to quickly, effectively and safely deal with such incidents. All personnel who handle or work around petroleum or other hazardous products receive training related to the EERP and, where applicable, specific operating procedures have been developed to facilitate the safe handling of the products used.

The assessment of compliance is one of the key principles within Nalcor's Environmental Policy and Guiding Principles. As such, Nalcor is dedicated to demonstrating compliance with applicable legal and other requirements within the Company. This is achieved by conducting environmental compliance audits. Nalcor's audit program is based on the environmental risk of the activity concerned and the results of previous audits. The objectives of the program are to confirm compliance with environmental obligations, governmental approvals and permits, and facilitate the development of an EMS to manage environmental compliance.

Annual targets for improvements in environmental performance for all lines of business are also established and monitored as part of Nalcor's goals and objectives. Nalcor mitigates environmental risk through adherence to the various principles of the EMS, which include annual internal EMS audits and surveillance audits, and periodic recertification audits by independent third party contractors to ensure adherence to the ISO 14001 standard.

IT Infrastructure and Security

Information technology affects all aspects of Nalcor's operations. The Company's success is in part dependent on developing, maintaining and managing complex IT systems which are employed to operate transmission and generation facilities, financial and billing systems, and business systems. This increasing reliance on information systems and expanding data networks increases exposure to information security threats. Major risk exposures in this environment relate to information security (e.g. loss of processing capability due to hardware/software failure or threat of virus attacks), availability of information (e.g. loss of communication across the wide area network) and risk of corporate data loss (e.g. loss of data through cybercriminal malware).

With respect to information security, Nalcor has retained a service provider to help restore critical business systems. The service provider supplies a backup site along with all the necessary hardware and communication links. Nalcor maintains a Disaster Recovery Plan that details actual recovery procedures and processes, and is updated and tested on a periodic basis. External threats to Nalcor's computer systems are mitigated through the use of firewalls, anti-virus tools and detection/intrusion prevention appliances. Internet access is tightly controlled and managed by a web-filtering device that reduces the risk of potential computer viruses. A serious incident involving the loss of corporate data or access to critical business systems would result in unplanned costs to contain, investigate and remediate the incident as well as investments to change systems or processes if required. These costs could negatively affect the organization's financial results and reputation.

Human Resources

There are a number of large-scale construction projects ongoing in the Atlantic region, leading to a concern that the region as a whole does not have the capacity to meet the labour requirements for these projects. Attracting and retaining skilled labour was identified by Nalcor's Lower Churchill Project management team as a risk to the Lower Churchill Project. To manage these risks, extensive training and recruitment initiatives were put in place early in the project life cycle, and labour agreements included competitive terms for salaries, accommodations and working conditions. The focus also continues to be on promoting the Lower Churchill Project as a worksite of choice for Newfoundlanders and Labradorians across the country. To date, the labour acquisition program for the Lower Churchill Project has resulted in attracting and recruiting the necessary workforce. The focus remains on retaining qualified workers and retaining the Lower Churchill Project's skilled project management team.

The future success of Nalcor is tied to attracting and retaining sufficient qualified staff to replace those retiring. Approximately 20% of permanent and term employees will be eligible for the earliest unreduced pension within the next five years. Nalcor is focused on earlier identification and more rapid development of staff with management potential. Recruitment was at a record high in 2014, up 15% from the prior year, as apprenticeship and other programs were more effectively utilized to grow specific skills in-house and to shadow long-term employees nearing retirement. In particular, within Hydro and Churchill Falls, it is challenging to recruit and retain Power System

Operators, and specific pilot projects are under consideration to develop these resources internally over a longer timeframe. Other positions, such as Line Workers, also pose challenges, but the gap is not as acute. Nalcor is focused on workforce planning, recruitment and employee development to manage these uncertainties. However, an inability to recruit and retain specialized staff could have a material impact on Nalcor's business.

Nalcor works closely with its unions, including its largest union, the IBEW. There are financial uncertainties associated with our ability to negotiate collective agreements consistent with rate orders. In addition, in the event of a labour dispute, the organization could face operational risk relating to Nalcor's ability to continue to operate all assets during a labour interruption. Job action may be taken by the union, especially if there are challenges with ratifying a collective agreement. The collective agreement with Churchill Falls Local 2351 was last agreed in November 2014, and negotiations with Newfoundland and Labrador Hydro Local 1615 are expected to result in a collective agreement in early 2015.

In 2013, the Government of Newfoundland and Labrador issued three Special Project Orders (SPOs) confirming distinct labour relations regimes for specific components of the Lower Churchill Project. The SPOs were for: construction of the hydroelectric generation facility at Muskrat Falls; land clearing to support a water reservoir at Muskrat Falls; and, construction of transmission line and associated infrastructure in Labrador and on the island of Newfoundland. Labour relations stability is important to ensuring the timely and successful completion of the Lower Churchill Project.

Phase 1 Lower Churchill Project Execution

As is the case with any mega project, there are a variety of uncertainties relating to execution. There is a risk that costs increase over original estimates due to the numerous factors that influence original assumptions, including, but not limited to market changes such as inflation or materials cost increases, as well as changes that are made to the original plan which support other objectives, such as quality or future reliability. Schedule can be impacted by a variety of drivers as well, such as the availability of resources and materials, productivity, safety incidents onsite and changes to the original project plan which enhance quality, reliability or some other objective. The Lower Churchill Project has selected qualified suppliers and contractors, and extensive financial assessment occurs prior to award. However, the loss of a major contractor would pose significant risk to cost and schedule. The quality of the work done on site is of paramount importance, and issues with components not meeting the standards set can cause increases to cost or schedule.

The Lower Churchill Project has implemented rigorous controls over cost, schedule and quality. Competitive contracting was achieved by creating interest in the Lower Churchill Project from Canadian, North American and international contractors. Contractor oversight is also a key priority. Key staff from both Nalcor and various contractors are onsite and have presence at the Corporate office to ensure coordination, integration and oversight, and to ensure any issues are addressed on a timely basis. Project capital costs are closely monitored, and increases are considered where they further either quality and/or reliability. There is significant oversight of the Lower Churchill Project, via the owner's team, the internal controls and processes, and internal assurance mechanisms. In addition to Nalcor's internal processes and controls there are other mechanisms in place to provide assurance to the Government of Canada and the Government of Newfoundland and Labrador. The Independent Engineer engaged as part of the Government of Canada's Federal Loan Guarantee for the $5.0 billion debt financing completed in 2013, and the establishment of a Muskrat Falls Oversight Committee by the Province in 2014, have a mandate of protecting the Provinces' interests in the Lower Churchill Project. The Independent Engineer conducts periodic site visits, issues progress reports and will provide ongoing monitoring through both the construction and operational phases of the Lower Churchill Project. In addition, the Oversight Committee issues quarterly reports publicly to further enhance communication and transparency.

Oil and Gas External Factors

As a partner in three non-operated offshore developments, Nalcor is largely dependent on the operators to directly manage the risks that are associated with production and development. The operators control safety, operations, maintenance, drilling, cost management, human resourcing, transportation and other risks on behalf of all partners. Nalcor maintains a very close working relationship with the operator of each of these ventures, and has influence over key decisions made through joint venture rights and obligations, and actively participates in the various executive and operating committees.

In addition to commodity price and foreign exchange risk, Oil and Gas is subject to volume risk, or fluctuations in production levels. Decisions may be made by the operator that may adversely affect period project production levels if they are in the best interest of the life of specific development projects. Given the early stage of Nalcor's growth in the oil and gas sector, Nalcor is not yet diversified, holding interests in only two producing projects. The impact of declining production in just one well in either project could have a significant adverse effect on Nalcor's results and financial position.

To increase offshore activity and to diversify the production portfolio, Nalcor plays a major role in encouraging additional exploration in the province through its annual pre-competitive geoscience program which includes new 2D and 3D seismic data. Early indications show the potential for further significant offshore oil projects. While these findings are presented globally to interested exploration companies to solicit interest, the decision to invest remains with those companies.

FINANCIAL RISK

Nalcor's operations create exposure to various forms of financial risk, including commodity price, foreign exchange, credit and liquidity risk. Financial risks are managed in accordance with a Board-approved Financial Risk Management Policy, which requires each line of business to periodically review key financial risks and develop comprehensive risk treatment plans to address those risks. The policy also defines the Company's objectives for managing each type of financial risk and outlines acceptable mitigation strategies, which include the use of derivative instruments. All derivative instruments are purchased in accordance with the Financial Risk Management Policy and Strategy, and in compliance with Nalcor's internal processes and procedures.

Commodity Price Risk

Commodity price risk is the threat that a change in the market price of a commodity will adversely impact a producer (seller) who purchases (sells) that commodity. For Nalcor, exposure to commodity price risk relates primarily to oil sales through Oil and Gas, as well as purchases of No. 6 fuel oil and diesel fuel for Hydro thermal facilities, and sales of recall power at market rates.

When risk mitigation is considered appropriate in the context of market conditions and the financial risk management objectives, the Company has historically used fixed price commodity price swaps to manage the impact of market price volatility on sales in Oil and Gas and Energy Marketing. At the beginning of 2015, swap contracts with a notional value of USD $22.6 million were in place representing 26% of anticipated 2015 oil production, at an average fixed price of USD $87.44 per barrel. Swap contracts with a notional value of USD $32.5 million were in place representing 62% of anticipated 2015 power sales, at an average price of USD $43.60 per MWh (On Peak) and USD $30.10 per MWh (Off Peak). Nalcor's exposure to commodity price risk through the purchase of No. 6 fuel is mitigated by the operation of the RSP which passes commodity price risk on fuel purchases to customers. The risk of changes in the price of diesel fuel does not get passed to customers between rate hearings and therefore does impact Hydro's net income.

Foreign Exchange Risk

Foreign exchange risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the Company, being Canadian dollars. Nalcor's primary exposure to foreign exchange risk arises from exposure to USD through Hydro's purchases of No. 6 fuel for consumption at the HTGS; the sale of recall power at USD market rates; USD denominated sales of crude oil by Oil and Gas; USD denominated capital expenditures in Oil and Gas; USD denominated lease revenue in Bull Arm; and USD and EURO denominated capital expenditures for the Lower Churchill Project.

Management of foreign exchange risk is governed by the Financial Risk Management Policy and a supporting Financial Risk Management Strategy which details specific measures to be taken annually to manage this uncertainty. Hydro Regulated's exposure on the purchase of No. 6 fuel is mitigated through the operation of the RSP which passes the risk of foreign currency changes on fuel purchases to customers. The regulatory framework for the rate-regulated business also allows for recovery of prudently incurred costs, including foreign exchange. In Oil and Gas, there is exposure since oil sales are in USD, however, a significant portion of its capital expenditures are also in USD, which partially mitigates this exposure.

Additional mitigation against the remaining risk exposure may be undertaken, such as the purchase of foreign currency forward contracts, depending on market conditions and available terms. These measures are detailed and approved through an annual update to the Financial Risk Management Strategy and within the context of Nalcor's policies and procedures. For 2015, Bull Arm has foreign currency forward contracts in place with a notional value of USD $16.7 million, mitigating USD exposure on 92% of its expected USD denominated lease revenue. Energy Marketing has forward contracts in place with a notional value of USD $41.8 million, mitigating USD exposure on 75% of its expected USD denominated electricity sales.

Credit Risk

Credit risk represents the financial loss that would be suffered if the organization's counterparties in a transaction fail to meet or discharge their obligation to the company. Nalcor is exposed to credit risk in the event of non-performance by counterparties to its financial instruments.

Credit risk relating to the Company's revenues is largely mitigated by the profile of our customers, who are typically regulated utilities or investment grade counterparties, which is considered to be low risk. Procedures and practices designed to manage the credit risks include assessment and monitoring of counterparty creditworthiness, setting of credit limits, monitoring collections and various forms of credit assurance. Credit risk related to the sale of recall power is managed through contractual arrangements with creditworthy counterparties, supported by credit enhancements as appropriate.

Investments are similarly restricted to high-quality securities. Investments held within the sinking fund portfolios of Nalcor and Hydro and the reserve fund in Churchill Falls are limited to securities issued by or guaranteed by the Government of Canada, any of the provincial governments and Canadian banks rated A or better by Standard and Poor's (S&P's). In addition, portfolio investments held within the reserve fund of Churchill Falls do not exceed 10% with any one entity with the exception of the Government of Canada. Long-term investments held by Muskrat Falls, Labrador Transco and the LIL Construction Project Trust are with a Canadian Schedule 1 Bank with a credit rating of AA- (S&P's). Derivative transactions are executed with only highly rated banking institutions.

Liquidity Risk

Liquidity risk is the risk that the organization will not be able to meet its short-term financial obligations as they become due. Nalcor is exposed to liquidity risk with respect to its short-term contractual obligations and financial liabilities. Short-term liquidity is provided by cash and cash equivalents, funds from operations and maintenance of borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within its operations. Cash flows are monitored continuously. The Company maintains a $250.0 million committed credit facility with its banker to ensure additional liquidity is available to each of the lines of business. In addition, Nalcor maintains demand operating credit facilities for Oil and Gas, Hydro and Churchill Falls with limits of $5.0 million, $50.0 million and $10.0 million, respectively.

Long-term liquidity is provided through the issuance of debentures in the capital markets and injections of equity capital from the Province in support of large project investments. Long-term liquidity depends on Hydro's continued ability to access the capital markets and on the Province's ability to provide required equity contributions. The funding obligations associated with the longer-term debentures are managed through a balanced approach to debt maturity and a program of sinking fund investment. Debt maturities are managed to avoid overly demanding funding requirements in any given year.

COMPLIANCE RISK

Regulatory, Legislative and Contractual Framework

In addition to environmental and occupational, health and safety requirements, the Company's operations are subject to a variety of other federal, provincial and local laws, regulations and guidelines, including market rules governing Energy Marketing, provincial royalty and other regulations relating to the province's interest in offshore oil projects, federal aviation regulations concerning the operation of Churchill Falls airport and employee conduct. Certain legal issues are managed by Nalcor's corporate legal team, but most compliance risks are managed by the line of business they relate to.

Hydro is subject to the normal uncertainties facing entities that operate under cost of service rate regulation, including approvals by the PUB. The PUB approves electricity rates charged to Hydro's customers and ensures that those same rates provide Hydro with a reasonable opportunity to recover the estimated costs of providing electrical services, including a fair rate of return on rate base.

While Hydro can make applications to the PUB for recovery of capital projects, there is no assurance that these projects will be approved in part or in full, or that conditions on such approvals will not be imposed. Capital cost overruns, in excess of predefined thresholds, might not be recoverable and are subject to approval by the PUB. Further, there is no assurance that Hydro will receive regulatory decisions in a timely manner, meaning costs may have to be incurred prior to having approval of recovery from customers. Finally, there is no assurance that rate orders issued by the PUB will permit Hydro to recover all costs actually incurred to provide electricity service. In total, these factors may negatively affect the timing of capital projects, results of operations and financial position of Hydro. Management works to mitigate these risks by working closely with the PUB to ensure both compliance with existing regulations and the proactive management of regulatory issues.

As Nalcor grows its Energy Marketing segment and connects the island to the North American electrical system it is subject to increasing levels of US and Canadian regulation, including Federal Energy Regulatory Commission (FERC), Department of Energy (DOE), National

Energy Board (NEB) and market participant rules. This introduces the risk of loss of authorizations necessary to participate in chosen export markets, as well as causing reputational damage. Management has established dedicated resources to develop and maintain an appropriate compliance framework.

With respect to the Lower Churchill Project, Nalcor has reporting obligations as part of the arrangements for the $5.0 billion in federally guaranteed debt and through the commercial arrangements in place with Emera. These obligations are actively monitored and adhered to by Management to ensure compliance with contractual requirements.

SECTION 7: ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

ACCOUNTING POLICIES

Nalcor's significant accounting policies are described in Note 2 of the Annual Audited Consolidated Financial Statements for the year ended December 31, 2014.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2014, the IASB issued interim standard IFRS 14 – Regulatory Deferrals Accounts, applicable to rate regulated entities effective January 1, 2016 with earlier application permitted. This standard allows for qualifying Canadian rate-regulated entities to grandfather their regulatory deferral policies into their first IFRS financial statements. Nalcor adopted IFRS as of January 1, 2014, with a date of transition effective January 1, 2013. IFRS 1 First-Time Adoption of International Financial Reporting Standards (IFRS 1) has been applied. Prior to January 1, 2014, Nalcor prepared its financial statements in accordance with Canadian GAAP. Comparative balances presented in this MD&A have been restated to be in accordance with IFRS. The impact of the transition to IFRS on Nalcor's financial statements for the year ended December 31, 2014 and the opening balance sheet at January 1, 2013 are presented in Note 31 of the Annual Audited Consolidated Financial Statements for the year ended December 31, 2014.

SIGNIFICANT ACCOUNTING ESTIMATES

Significant accounting estimates are those that require Management to make assumptions about matters that are highly uncertain at the time the estimate is made. Significant accounting estimates are also those estimates which, where a different estimate could have been used or where changes in the estimate that are reasonably likely to occur, would have a material impact on the Company's financial condition or financial performance. Significant accounting estimates and judgments are reviewed annually by the Audit Committee of the Board. A detailed description of Nalcor's significant accounting estimates is provided in Note 3 of the Annual Audited Consolidated Financial Statements for the year ended December 31, 2014.

SECTION 8: NON-GAAP FINANCIAL MEASURES

Certain financial measures in the MD&A are not prescribed by GAAP. These non-GAAP financial measures are included because they provide MD&A users with enhanced understanding and clarity of Nalcor's operating performance, condition, leverage and liquidity. These non-GAAP financial measures do not have any standardized meaning and cannot necessarily be compared to similar measures presented by other companies.

NON-GAAP FINANCIAL MEASURES

Debt to capital	Total debt (promissory notes, long-term debt including current portion less sinking funds), divided by total debt plus shareholder's equity
Fixed rate debt as a percentage of total indebtedness	Long-term debt divided by total debt

SECTION 9: ABBREVIATIONS

The following table shows the abbreviations used in the MD&A and the Annual Audited Consolidated Financial Statements:

Measurement:	
bbl	Barrel
GWh	Gigawatt hours
MW	Megawatts
MWh	Megawatt hours
TWh	Terawatt hours
Currencies:	
CAD	Canadian dollars
USD	United States dollars
Corporate information:	
AEB	Annual Energy Base
CRO	Chief Risk Officer
EERP	Environmental Emergency Response Plan
ERM	Enterprise Risk Management
ESA	Environmental Site Assessment
GAAP	Generally Accepted Accounting Principles
GBS	Gravity Base Structure
GWAC	Guaranteed Winter Availability Contract
HTGS	Holyrood Thermal Generating Station
MD&A	Management's Discussion & Analysis
PPA	Power Purchase Agreement
UCRA	Upper Churchill Redress Agreement
Financial and Business environment:	
GRA	General Rate Application
IASB	Internatinal Accounting Standards Board
IBEW	International Brotherhood of Electrical Workers
IFRS	International Financial Reporting Standards
PUB	Newfoundland and Labrador Board of Commissioners of Public Utilities
RSP	Rate Stabilization Plan

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT REPORT

The accompanying Consolidated Financial Statements of Nalcor Energy, and all information in the Business and Financial Report, are the responsibility of Management and have been approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 18, 2015. Financial information presented elsewhere in the Business and Financial Report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditor, Deloitte LLP, is to express an independent, professional opinion on whether the Consolidated Financial Statements are fairly presented in accordance with International Financial Reporting Standards. The Auditor's Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfills its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.

Ed Martin
President and Chief Executive Officer

Derrick Sturge
Vice President, Finance and Chief Financial Officer

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Independent Auditor's Report

To the Lieutenant-Governor in Council, Province of Newfoundland and Labrador

We have audited the accompanying consolidated financial statements of Nalcor Energy, which comprise the consolidated statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nalcor Energy as at December 31, 2014, December 31, 2013 and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013, in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 18, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (millions of Canadian dollars)	Notes	December 31 2014	December 31 2013	January 1 2013
ASSETS				(Note 31)
Current assets				(Note 33)
Cash and cash equivalents	5	**60.8**	93.7	11.9
Restricted cash	5	**1,130.6**	525.5	-
Short-term investments		**34.4**	1.0	11.0
Trade and other receivables	6	**249.2**	149.8	124.7
Inventories	7	**97.1**	75.2	62.0
Current portion of sinking funds	11	**1.5**	65.4	-
Prepayments		**16.4**	11.6	5.6
Derivative assets	25	**11.8**	0.2	0.1
Total current assets		**1,601.8**	922.4	215.3
Non-current assets				
Property, plant and equipment	8	**5,676.8**	3,742.6	2,802.4
Intangible assets	9	**12.9**	-	-
Investment property		**1.0**	1.1	1.1
Other long-term assets	11	**353.5**	314.7	354.5
Investment in joint arrangement		**1.5**	1.1	0.7
Long-term investments	12	**2,871.4**	4,477.4	-
Total assets		**10,518.9**	9,459.3	3,374.0
Regulatory deferrals	10	**124.2**	64.4	65.1
Total assets and regulatory deferrals		**10,643.1**	9,523.7	3,439.1
LIABILITIES AND EQUITY				
Current liabilities				
Short-term borrowings	14	**53.0**	41.0	125.0
Trade and other payables	13	**672.1**	411.7	181.0
Current portion of long-term debt	14	**8.4**	82.2	8.2
Derivative liabilities	25	**1.6**	1.5	-
Current portion of other liabilities	16,17,18	**5.3**	6.0	8.5
Total current liabilities		**740.4**	542.4	322.7
Non-current liabilities				
Long-term debt	14	**6,240.5**	6,047.9	1,125.9
Class B limited partnership units	15	**79.4**	73.0	-
Deferred credits	16	**333.1**	93.5	45.0
Deferred contributions	17	**15.0**	10.7	9.9
Decommissioning liabilities	18	**42.1**	33.0	31.9
Long-term payables	19	**74.0**	78.3	82.4
Employee benefits liability	20	**144.5**	118.5	119.9
Total liabilities		**7,669.0**	6,997.3	1,737.7
Shareholder's equity				
Share capital	21	**122.5**	122.5	122.5
Shareholder contributions	21	**1,469.1**	1,141.8	435.8
Reserves		**(15.8)**	(27.1)	(2.0)
Retained earnings		**1,146.2**	1,030.6	942.9
Total equity		**2,722.0**	2,267.8	1,499.2
Total liabilities and equity		**10,391.0**	9,265.1	3,236.9
Regulatory deferrals	10	**252.1**	258.6	202.2
Total liabilities, equity and regulatory deferrals		**10,643.1**	9,523.7	3,439.1

See accompanying notes

Commitments and Contingencies (Note 27)
Subsequent events (Note 32)

On Behalf of the Board

Ed Martin
Director

Gerald Shortall
Director

CONSOLIDATED STATEMENTS OF PROFIT AND COMPREHENSIVE INCOME

For the year ended December 31 (millions of Canadian dollars)	Notes	**2014**	2013
Energy sales	22	**755.6**	755.3
Other revenue	22	**40.5**	29.6
Revenue		**796.1**	784.9
Fuels		**(268.1)**	(190.9)
Power purchased		**(68.3)**	(63.0)
Operating costs	23	**(247.5)**	(212.0)
Depreciation and depletion	8	**(92.7)**	(89.9)
Exploration and evaluation expense		**(1.2)**	(7.4)
Net finance income and expense	24	**(72.0)**	(73.8)
Other income and expense		**2.6**	(3.5)
Share of profit of joint arrangement		**0.4**	0.4
Profit, before regulatory adjustments		**49.3**	144.8
Regulatory adjustments	10	**66.3**	(57.1)
Profit for the year		**115.6**	87.7
Other comprehensive income (loss) for the year		**11.3**	(25.1)
Total comprehensive income for the year		**126.9**	62.6

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2014		**122.5**	**1,141.8**	**11.3**	**(38.4)**	**1,030.6**	**2,267.8**
Profit for the year							
Other comprehensive income		**-**	**-**	**-**	**-**	**115.6**	**115.6**
Net change in fair value of available-for-sale financial instruments		**-**	**-**	**32.1**	**-**	**-**	**32.1**
Actuarial loss on employee benefit liability	**20**	**-**	**-**	**-**	**(17.9)**	**-**	**(17.9)**
Net change in fair value of cash flow hedge		**-**	**-**	**8.2**	**-**	**-**	**8.2**
Net change in fair value of financial instruments reclassified to profit or loss		**-**	**-**	**(11.1)**	**-**	**-**	**(11.1)**
Total comprehensive income (loss) for the year		**-**	**-**	**29.2**	**(17.9)**	**115.6**	**126.9**
Capital contributions	**21**	**-**	**327.3**	**-**	**-**	**-**	**327.3**
Balance at December 31, 2014		**122.5**	**1,469.1**	**40.5**	**(56.3)**	**1,146.2**	**2,722.0**
Balance at January 1, 2013		122.5	435.8	44.3	(46.3)	942.9	1,499.2
Profit for the year							
Other comprehensive income		-	-	-	-	87.7	87.7
Net change in fair value of available-for-sale financial instruments		-	-	(5.0)	-	-	(5.0)
Actuarial gain on employee benefit liability	20	-	-	-	7.9	-	7.9
Net change in fair value of cash flow hedge		-	-	(12.3)	-	-	(12.3)
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(15.7)	-	-	(15.7)
Total comprehensive (loss) income for the year		-	-	(33.0)	7.9	87.7	62.6
Capital contributions	21	-	706.0	-	-	-	706.0
Balance at December 31, 2013		122.5	1,141.8	11.3	(38.4)	1,030.6	2,267.8

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2014**	2013
Cash provided from (used in)			
Operating activities			
Profit for the year		**115.6**	87.7
Adjusted for items not involving a cash flow:			
Depreciation and depletion	8	**92.7**	89.9
Accretion	24	**5.4**	5.6
Amortization of deferred contributions	17	**(0.7)**	(0.7)
Employee benefits	20	**8.1**	6.5
Regulatory adjustments	10	**(66.3)**	57.1
Change in fair value of cash flow hedges		**-**	(12.3)
Gain on disposal of property, plant and equipment		**(0.6)**	(1.4)
Share of profit of joint arrangement		**(0.4)**	(0.4)
Other		**(2.9)**	1.6
		150.9	233.6
Changes in non-cash working capital balances	29	**128.9**	176.8
Net cash provided from operating activities		**279.8**	410.4
Investing activities			
Additions to property, plant and equipment		**(1,777.2)**	(985.4)
Additions to intangible assets	9	**(12.9)**	-
Increase in other long-term assets		**(20.8)**	(15.9)
(Increase) decrease in short-term investments		**(33.4)**	10.0
Decrease (increase) in sinking funds		**102.0**	(27.0)
Withdrawal of reserve fund	11	**16.4**	-
Decrease (increase) in long-term investments	12	**1,606.0**	(4,477.4)
Proceeds on disposal of property, plant and equipment		**3.3**	8.6
Net cash used in investing activities		**(116.6)**	(5,487.1)
Financing activities			
Issuance of long-term debt	14	**197.1**	5,001.3
Retirement of long-term debt	14	**(124.7)**	-
Increase in restricted cash		**(605.1)**	(525.5)
Issuance of Class B limited partnership units	15	**-**	67.7
Increase (decrease) in short-term borrowings		**12.0**	(84.0)
Decrease in long-term payable		**(8.1)**	(8.0)
Increase in contributed capital	21	**327.3**	706.0
Increase in deferred contributions	17	**5.2**	1.9
Increase (decrease) in deferred credits		**0.2**	(0.9)
Net cash (used in) provided from financing activities		**(196.1)**	5,158.5
Net (decrease) increase in cash and cash equivalents		**(32.9)**	81.8
Cash and cash equivalents, beginning of year		**93.7**	11.9
Cash and cash equivalents, end of year		**60.8**	93.7

Supplementary cash flow information (Note 29)

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) as a Crown corporation and its business includes the development, generation and sale of electricity, oil and gas, industrial fabrication and energy marketing. Nalcor's head office is located in St. John's, Newfoundland and Labrador.

1.1 SUBSIDIARIES

Nalcor holds interests in the following subsidiaries:

A 100.0% interest in Newfoundland and Labrador Hydro (Hydro) whose principal activity is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities.

A 100.0% interest in Nalcor Energy – Oil and Gas Inc. (Oil and Gas), a company with a broad mandate to engage in upstream and downstream sectors of the oil and gas industry including exploration, development, production, transportation and processing.

A 100.0% interest in Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication), an industrial fabrication site with 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.

A 100.0% interest in Muskrat Falls Corporation (Muskrat Falls), created to develop, construct, finance and operate the Muskrat Falls plant, an 824 megawatt (MW) hydroelectric generating facility in Labrador.

A 100.0% interest in Labrador Transmission Corporation (Transco), created to develop, construct, finance and operate transmission assets connecting the Muskrat Falls plant to the existing hydroelectric generating facility in Churchill Falls.

A limited partnership interest in Labrador-Island Link Limited Partnership (LIL LP), created to develop, construct, finance and operate the assets and property constituting the Labrador-Island Link (LIL), a transmission link to be constructed between the Muskrat Falls plant and the Newfoundland and Labrador Island Interconnected System. Labrador-Island Link Holding Corporation (LIL Holdco) holds 100.0% of the Class A limited partnership units.

A 100.0% interest in Labrador-Island Link General Partner Corporation (LIL GP) and LIL Holdco, created to control, manage and hold Nalcor's 65.0% interest in LIL LP.

A 100.0% interest in Labrador-Island Link Operating Corporation (LIL Opco), created to operate and maintain the LIL.

A 100.0% interest in Lower Churchill Management Corporation (LCMC), created to carry out the project development and management functions for Phase 1 of the Lower Churchill Project including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

A 100.0% interest in Nalcor Energy Marketing Corporation (Energy Marketing), a subsidiary established to market Nalcor's energy throughout North America. Energy Marketing was incorporated on March 24, 2014 and is expected to become fully operational on April 1, 2015.

Nalcor also holds a 100.0% interest in Gull Island Power Corporation (GIPCo) and a 51.0% interest in Lower Churchill Development Corporation (LCDC), both inactive.

1.2 INVESTMENTS IN JOINT ARRANGEMENTS

Nalcor holds a 65.8% beneficial interest (through Hydro) in Churchill Falls (Labrador) Corporation Limited (Churchill Falls), a joint operation that owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador with a rated capacity of 5,428 MW.

Nalcor also holds a 33.3% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation (Twin Falls), a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974.

1.3 VARIABLE INTEREST ENTITIES

Nalcor consolidates the results of variable interest entities (VIEs) in which it holds a financial interest and is the primary beneficiary. Nalcor has determined that it is the primary beneficiary of the LIL Construction Project Trust (Project Trust) and as a result has included the financial statements of the Project Trust in these annual audited consolidated financial statements. Nalcor has determined that it is not the primary beneficiary of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) Funding Trust or the Labrador-Island Link (LIL) Funding Trust and therefore the operations of these trusts are not reflected in these annual audited consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE AND BASIS OF MEASUREMENT

These annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Nalcor adopted International Financial Reporting Standards as of January 1, 2014, with the date of transition effective January 1, 2013. Nalcor has adopted accounting policies which are based on the IFRS applicable as at December 31, 2014, and includes individual IFRS, IAS, and interpretations made by the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Upon adoption, Nalcor followed the requirements of IFRS 1 - First time adoption of IFRS (IFRS 1) in its application of IFRS as disclosed in Note 31.

Previously, the annual audited consolidated financial statements of Nalcor were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). An explanation of how the transition to IFRS has affected the Company's financial position, financial performance and cash flows is provided in Note 31.

These annual audited consolidated financial statements have been prepared on a historical cost basis, except for financial assets 'at fair value through profit or loss' (at FVTPL), financial instruments used for hedging and 'available-for-sale' (AFS) financial assets which have been measured at fair value. The annual audited consolidated financial statements are presented in Canadian Dollars and all values rounded to the nearest million, except when otherwise noted. The annual audited consolidated financial statements were approved by the Board of Directors of Nalcor (the Board) on March 13, 2015.

2.2 BASIS OF CONSOLIDATION

The annual audited consolidated financial statements include the financial statements of Nalcor, its subsidiary companies and its share of investments in joint arrangements. In addition, the financial statements of all variable interest entities for which Nalcor has been determined the primary beneficiary are included in these annual audited consolidated financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

Effective June 18, 1999, Hydro, Churchill Falls, and Hydro-Québec entered into a Shareholders' Agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls.

Although Hydro holds a 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of a joint operation. Accordingly, Hydro has recognized its share of assets, liabilities and profit or loss in relation to its interest in Churchill Falls subsequent to the effective date of the Shareholders' Agreement.

Churchill Falls holds 33.3% of the equity share capital of Twin Falls. This investment is accounted for using the equity method.

Substantially all of Oil and Gas' activities are conducted jointly with others and accordingly these annual audited consolidated financial statements reflect only Nalcor's proportionate interest in such activities.

2.3 CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of amounts on deposit with a Canadian Schedule 1 Chartered bank, as well as highly liquid short-term investments with original maturities of three months or less at acquisition. Short-term investments with original maturities greater than three months and less than twelve months at acquisition are classified as short-term investments. The effective interest rate on these investments at December 31, 2014 ranged from 1.20% to 1.28% (2013 – 1.12% to 1.33%) per annum. Cash and cash equivalents are measured at cost which approximates fair value while short-term investments are measured at fair value.

2.4 TRADE AND OTHER RECEIVABLES

Trade and other receivables are classified as 'loans and receivables' and are measured at amortized cost using the effective interest method.

2.5 INVENTORIES

Inventories are carried at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring the inventories and bringing them to their existing condition and location. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.6 PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy as per Note 2.10. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Hydro

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Generation plant	
Hydroelectric	45 to 100 years
Thermal	35 to 65 years
Diesel	25 to 55 years
Transmission	
Lines	30 to 60 years
Terminal stations	40 to 55 years
Distribution system	30 to 65 years
Other assets	5 to 55 years

Hydroelectric generation plant includes the powerhouse, turbines, governors and generators, as well as water conveying and control structures, including dams, dikes, tailrace, penstock and intake structures. Thermal generation plant is comprised of the powerhouse, turbines and generators, boilers, oil storage tanks, stacks, and auxiliary systems. Diesel generation plant includes the buildings, engines, generators, switchgear, fuel storage and transfer systems, dikes and liners and cooling systems.

Transmission lines include the support structures, foundations and insulators associated with lines at voltages of 230, 138 and 69 kilovolt (kV). Terminal stations assets are used to step up voltages of electricity and to step down voltages for distribution. Distribution system assets include poles, transformers, insulators, and conductors.

Other assets include telecontrol, computer software, buildings, vehicles, furniture, tools and equipment which are carried at cost less accumulated amortization.

Churchill Falls

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Hydroelectric generation plant	45 to 100 years
Transmission and terminals	30 to 65 years
Service facilities and other	5 to 45 years

Hydro and Churchill Falls assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

Oil and Gas

(i) Development and Production Costs

Items of property, plant and equipment, which include petroleum and natural gas development and production assets, are carried at cost less accumulated depreciation and depletion. Development and production assets are grouped into cash-generating units (CGUs) for impairment testing.

Expenditures on the construction, installation or completion of infrastructure facilities such as processing facilities and the drilling of development wells, including unsuccessful development or delineation wells, are capitalized within property, plant and equipment, as long as it is technically feasible and economically viable to extract identified reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning costs and, for qualifying assets, borrowing costs. The purchase price or constructed cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Gains and losses on disposal of an item of property, plant and equipment, including petroleum and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recorded in other income and expense.

(ii) Subsequent Costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to Nalcor and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Routine repairs and maintenance costs are charged to profit or loss during the period in which they are incurred.

(iii) Depletion

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves, and considering estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate, with a specified degree of certainty, to be recoverable in future years from known reservoirs and which are considered commercially viable. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Such reserves may be considered commercially producible if Management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Lower Churchill Project

Since the assets associated with the Lower Churchill Project are under construction, there is no depreciation expensed until the assets are ready for use.

2.7 INTANGIBLE ASSETS

Intangible assets that are expected to generate future economic benefit and are measurable, including costs of technical services, studies and seismic acquisition are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

2.8 EXPLORATION AND EVALUATION ASSETS

Pre-license exploration and evaluation costs are recognized in profit or loss as incurred. Costs of exploring for and evaluating licensed petroleum and gas properties are capitalized and the resulting intangible exploration and evaluation assets are tested for impairment in accordance with IFRS 6 and IAS 36.

Exploration and evaluation costs related to each license/prospect are initially capitalized with "Exploration and Evaluation Assets". Such exploration and evaluation costs may include costs of license acquisition, technical services and studies, exploration drilling and testing, directly attributable overhead and administrative expenses and the projected costs of retiring the assets. General prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area are expensed directly to profit or loss as they are incurred.

Exploration and evaluation assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting an oil resource is considered to be determined. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proved reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved reserves have been discovered.

Upon determination of proved reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to property, plant and equipment.

2.9 INVESTMENT PROPERTY

Investment property is property held for the purpose of generating rental income or capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. As at December 31, 2014, investment property included the Bull Arm Fabrication site and facilities.

Investment property is recognized using the cost model and thus is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of investment property are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the investment property as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred. Investment property is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment, vehicles and office equipment	5 years
Buildings	18 years
Topsides module hall door	26 years
Visitor center	42 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. The carrying value of investment property is reviewed for impairment whenever events indicate that the carrying amounts of those assets may not be recoverable.

2.10 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting period, Nalcor reviews the carrying amounts of its non-financial assets, except for exploration and evaluation assets, to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment and also if there are indicators that suggest that the carrying amount exceeds the recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, Nalcor estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from non-financial assets.

Exploration and evaluation assets are allocated to the CGUs on a project basis when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their reclassification to property, plant and equipment.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

2.12 INVESTMENTS IN JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Nalcor has the power, directly or indirectly, to govern the financial and operating policies of another entity, so as to obtain benefits from its activities. A joint arrangement is either a joint operation or a joint venture.

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by Hydro and Hydro-Québec representatives on the Board of Directors of Churchill Falls. Although Hydro holds a 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of joint operators. Hydro accounts for this investment by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Hydro's joint operation, Churchill Falls, holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This investment is accounted for using the equity method. Under the equity method, the interest in the joint venture is carried in the Statements of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Statements of Profit and Comprehensive Income reflect the share of the profit or loss of the joint venture.

2.13 EMPLOYEE BENEFITS LIABILITY

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Nalcor to this plan are recognized as an expense when employees have rendered service entitling them to the contributions.

(ii) Other Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement.

The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being completed every three years and extrapolated at the end of each reporting period based on service and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Actuarial gains and losses on Nalcor's defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

The retirement benefit obligation recognized in the Statements of Financial Position represents the present value of the defined benefit obligation.

2.14 PROVISIONS

A provision is a liability of uncertain timing or amount. A provision is recognized if Nalcor has a present legal obligation or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each Statements of Financial Position date using the current discount rate.

2.15 DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL LIABILITIES

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to net finance and income expense. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset.

2.16 REVENUE RECOGNITION

Electricity Sales

Revenue from the sale of energy is recognized when Nalcor has transferred the significant risks and rewards of ownership to the buyer; recovery of the consideration is probable; and the amount of revenue can be reliably measured. Sales within the Province are primarily at rates approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), whereas export sales and sales to certain major industrial customers are either at rates under the terms of the applicable contracts, or at market rates.

Churchill Falls provides energy to three primary customers: Hydro-Québec, Hydro and Twin Falls.

A power contract with Hydro-Québec dated May 12, 1969 (the Power Contract) provides for the sale of a significant amount of the energy from Churchill Falls. The Power Contract has a 40-year term ending in 2016, which is followed by a Renewed Power Contract with Hydro-Québec for an additional 25 years. The rate is predetermined in the Power Contract and is presently 2.5426 mills per kWh. The rate during the term of the Renewed Power Contract is 2.0 mills per kWh.

Churchill Falls also recognizes revenue from Hydro-Québec under a Guaranteed Winter Availability Contract (GWAC) through 2041. The GWAC was signed with Hydro-Québec in 1998 and provides for the sale of 682 MW of guaranteed seasonal availability to Hydro-Québec during the months of November through March in each of the remaining years until 2041.

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, is tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than $1.0 million in which case it is recovered or refunded immediately. These long-term receivables or long-term payables are subject to interest at 7% per annum (2013 - 7%).

Under the Power Contract and Renewed Power Contract, Churchill Falls has the right to recall 300 MW (Recall Power). All of the Recall Power is sold by Churchill Falls to Hydro. Churchill Falls also provides 225 MW to Twin Falls.

Oil Sales

Revenue from the sale of crude oil is recognized when the amount of revenue can be reasonably measured, the significant risks and rewards of ownership have passed, Nalcor retains no continuing managerial involvement or control and collection is reasonably assured.

Revenue from properties in which Nalcor has an interest with other producers is recognized on the basis of Nalcor's net working interest of petroleum and natural gas produced. Under this method, crude oil produced below or above Nalcor's net working interest results in an under-lift or over-lift position. Under-lift or over-lift positions are measured at market value and recorded as an asset or liability respectively.

Lease Revenue

Lease revenue is recognized when services have been rendered, recovery of the consideration is probable, and the amount of revenue can be reliably measured.

Other Revenue

Revenue associated with the sale of geoscience data is recognized when the terms and conditions governing sales have been met, the amount of revenue can be reliably measured and recovery of the consideration is probable.

2.17 NET FINANCE INCOME AND EXPENSE

For all financial instruments measured at amortized cost and interest bearing financial assets classified as AFS, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

2.18 FOREIGN CURRENCIES

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Those foreign exchange gains and losses not included in regulatory deferrals are recorded in income as net finance income and expense.

2.19 INCOME TAXES

Nalcor is exempt from paying income taxes under Section 149(1) (d) of the Income Tax Act.

2.20 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized in the Consolidated Statements of Financial Position when Nalcor becomes a party to the contractual provisions of the instrument and are initially measured at fair value. Subsequent measurement is based on classification. Financial instruments are classified into the following specified categories: financial assets at FVTPL, AFS financial assets, 'loans and receivables', held-to-maturity investments, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Classification of Financial Instruments

Nalcor has classified each of its financial instruments into the following categories: financial assets at FVTPL, loans and receivables, AFS financial assets, held-to-maturity investments, financial instruments used for hedging and other financial liabilities.

Cash and cash equivalents	Loans and receivables
Short-term investments	AFS financial assets
Trade and other receivables	Loans and receivables
Derivative instruments	At FVTPL and financial instruments used for hedging
Sinking funds – investments in same Hydro issue	Held-to-maturity investments
Sinking funds – other investments	AFS financial assets
Long-term receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Short-term borrowings	Other financial liabilities
Long-term debt	Other financial liabilities
Long-term payables	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for financial instruments other than those financial assets classified as at FVTPL.

Financial Assets

(ii) Financial Assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that Nalcor manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with Nalcor's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in other income and expense. The net gain or loss incorporates any dividends or interest earned.

(iii) Loans and receivables

Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(iv) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Nalcor has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

(v) AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Financial Liabilities and Equity Instruments

(vi) Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

(vii) Financial Liabilities at FVTPL

A financial liability may be classified as at FVTPL if the contracted liability contains one or more embedded derivatives, and if the embedded derivative significantly modified the cash flows or if the embedded derivative is not closely related to the host liability. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from re-measurement recognized in profit or loss.

(viii) Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(ix) Derivative Instruments and Financial Instruments Used for Hedging

Derivative instruments are utilized by Nalcor to manage risk. Nalcor's policy is not to utilize derivative instruments for speculative purposes. Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging relationship.

Nalcor may choose to designate derivative instruments as hedges and apply hedge accounting if there is a high degree of correlation between the price movements in the derivative instruments and the hedged items. Nalcor formally documents all hedges and the related risk management objectives at the inception of the hedge. Derivative instruments that have been designated and qualify for hedge accounting are classified as either cash flow or fair value hedges.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair Value Hedges

The change in the fair value of an interest rate hedging derivative is recognized in the Statements of Profit and Comprehensive Income in net finance income and expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the Statements of Profit and Comprehensive Income in net finance income and expense.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the Statements of Profit and Comprehensive Income over the remaining term to maturity. Effective interest rate amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash Flow Hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in Other Comprehensive Income, while any ineffective portion is recognized immediately in profit or loss for the period.

Amounts recognized as Other Comprehensive Income are transferred to profit or loss for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.21 DERECOGNITION OF FINANCIAL INSTRUMENTS

Nalcor derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If Nalcor neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, its retained interest in the asset and any associated liability for amounts it may have to pay is recognized. If Nalcor retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes the collateralized borrowing for the proceeds received. Nalcor derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.22 IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the borrower, more probable than not, entering into bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Nalcor's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2.23 GOVERNMENT GRANTS

Government grants are recognized when there is reasonable assurance that Nalcor will comply with the associated conditions and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which Nalcor recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Nalcor should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Statements of Financial Position and transferred to the Statements of Profit and Comprehensive Income on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Nalcor with no future related costs are recognized in the Statements of Profit and Comprehensive Income in the period in which they become receivable.

2.24 REGULATORY DEFERRALS

Hydro’s revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2013 - 7.4%) +/- 15 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the annual audited consolidated financial statements are disclosed in Note 10.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the annual audited consolidated financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ materially from these estimates, including changes as a result of future decisions made by the PUB. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is reviewed if the revision affects only that period or future periods.

3.1 USE OF ESTIMATES

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Nalcor’s assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Nalcor. These useful lives are Management’s best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

(ii) Oil and Natural Gas Reserves

Oil and natural gas reserves are evaluated by independent reserve engineers. Reserve estimates are used in calculating depletion, impairment and decommissioning liabilities. Estimates of recoverable reserves are based upon variable factors and assumptions regarding historical production, production rates, ultimate reserve recovery, marketability of petroleum and natural gas, and timing and amount of future cash expenditures. Changes to these amounts could materially affect these calculations.

(iii) Decommissioning Liabilities

Nalcor recognizes a liability for the fair value of the future expenditures required to settle obligations associated with the retirement of property, plant and equipment. Decommissioning liabilities are recorded as a liability at fair value, with a corresponding increase to property, plant and equipment. Accretion of decommissioning liabilities is included in profit or loss through net finance income and expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(iv) Employee Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee benefits is accounted for on an accrual basis, and has been actuarially determined using the projected unit credit method prorated on service, and Management's best estimate of salary escalation, retirement ages of employees and expected health care costs.

(v) Revenue

In the absence of a signed agreement with Hydro-Québec relating to the Annual Energy Base (AEB), Churchill Falls continues to apply the terms of the previous agreement which expired August 31, 2012. Management continues to work to negotiate terms of a new agreement.

3.2 USE OF JUDGMENT

(i) Property, Plant and Equipment

Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.6. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor's property, plant and equipment.

(ii) Revenue

Management exercises judgment in estimating the value of electricity consumed by retail customers in the period, but billed subsequent to the end of the reporting period. Specifically, this involves an estimate of consumption for each retail customer, based on the customer's past consumption history.

When recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals are subject to a future PUB order. As such, there is a risk that some or all of the regulatory deferrals will not be approved by the PUB which could have a material impact on Hydro Regulated's profit or loss in the year the order is received.

(iii) Functional currency

Functional currency was determined by evaluating the primary economic environment in which Nalcor operates. As Nalcor enters into transactions in multiple currencies, judgment is used in determining the functional currency. Management considered factors regarding currency of sales, costs incurred, and operating and financing activities and determined the functional currency to be Canadian Dollars.

(iv) Consolidation

Management applies its judgment when determining whether to consolidate structured entities in accordance with the criteria outlined in IFRS 10. Management has determined that the Company should not consolidate the Funding Trust.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Nalcor has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation andAmortization[3]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[4] Effective for annual periods beginning on or after July 1, 2014, with earlier application permitted.

4.1 IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets; and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key Requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributed to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management anticipates that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.2 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until Management performs a detailed review.

4.3 AMENDMENTS TO IFRS 11 ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations IFRS 3 and other standards (i.e. IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operation is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Management does not anticipate that the application of these amendments to IFRS 11 will have a material impact on the Company's annual audited consolidated financial statements.

4.4 AMENDMENTS TO IAS 16 AND IAS 38 CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTIZATION

The amendments to IAS 16 prohibit entities from using revenue-based depreciation methods for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue, or
b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line methods for depreciation and amortization of its property, plant and equipment, and intangible assets respectively.
Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's annual audited consolidated financial statements.

4.5 AMENDMENTS TO IAS 19 DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or attribute them to the employees' periods of service using the projected unit credit method, whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

Management does not anticipate that the application of these amendments to IAS 19 will have a material impact on the Company's annual audited consolidated financial statements.

5. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Cash	**55.9**	87.1	11.9
Cash equivalents	**4.9**	6.6	-
	60.8	93.7	11.9

Restricted cash is held in accounts administered by a Collateral Agent for the sole purpose of funding construction costs related to Phase 1 of the Lower Churchill Project. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the LIL Project Finance Agreement and the MF/LTA Project Finance Agreement.

6. TRADE AND OTHER RECEIVABLES

The composition of trade and other receivables is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Trade receivables	**123.5**	129.3	125.5
Allowance for doubtful accounts	**(11.4)**	(9.6)	(9.3)
Due from related parties	**2.9**	2.5	1.6
Advances	**74.5**	-	-
Other receivables	**59.7**	27.6	6.9
	249.2	149.8	124.7

The following is an aged analysis of receivables, net of allowance for doubtful accounts:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
0-60 days	**173.3**	146.5	122.7
60+ days	**75.9**	3.3	2.0
	249.2	149.8	124.7

A reconciliation of the beginning and ending amount of allowance for doubtful accounts is as follows:

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Allowance for doubtful accounts at beginning of year	**(9.6)**	(9.3)
Amounts provided for during the year	**(1.9)**	(0.4)
Amounts written off as uncollectable	**0.1**	0.1
Allowance for doubtful accounts at end of year	**(11.4)**	(9.6)

7. INVENTORIES

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Number 6 fuel	**49.4**	30.8	20.6
Material and other	**36.9**	35.0	32.4
Diesel fuel	**4.4**	4.2	4.0
Other fuel	**4.1**	2.7	2.4
Construction aggregates	**2.3**	2.5	2.6
	97.1	75.2	62.0

The cost of inventories recognized as an expense during the year is $275.3 million (2013 - $196.3 million).

8. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Construction in Progress	Total
Cost						
Balance at January 1, 2013	1,425.5	610.2	405.6	175.9	659.6	3,276.8
Additions	-	-	188.0	0.1	849.3	1,037.4
Disposals	(7.0)	(1.6)	-	(1.5)	-	(10.1)
Transfers	60.5	54.2	-	25.4	(140.1)	-
Decommissioning liabilities and revisions	(2.0)	(0.6)	2.6	-	-	-
Other adjustments	0.2	0.1	-	-	-	0.3
Balance at December 31, 2013	**1,477.2**	**662.3**	**596.2**	**199.9**	**1,368.8**	**4,304.4**
Additions	**0.4**	**-**	**237.5**	**-**	**1,784.0**	**2,021.9**
Disposals	**(2.1)**	**(1.8)**	**-**	**(1.3)**	**-**	**(5.2)**
Transfers	**49.7**	**57.6**	**-**	**18.8**	**(126.0)**	**0.1**
Decommissioning liabilities and revisions	**2.2**	**(0.1)**	**5.5**	**-**	**-**	**7.6**
Balance at December 31, 2014	**1,527.4**	**718.0**	**839.2**	**217.4**	**3,026.8**	**6,328.8**
Depreciation and depletion						
Balance at January 1, 2013	301.1	81.0	49.5	42.8	-	474.4
Depreciation and depletion	33.8	18.3	25.1	12.7	-	89.9
Disposals	(1.9)	(0.4)	-	(0.6)	-	(2.9)
Other adjustments	0.2	0.1	-	0.1	-	0.4
Balance at December 31, 2013	**333.2**	**99.0**	**74.6**	**55.0**	**-**	**561.8**
Depreciation and depletion	**38.0**	**19.3**	**22.5**	**12.9**	**-**	**92.7**
Disposals	**(1.2)**	**(0.4)**	**-**	**(0.9)**	**-**	**(2.5)**
Other adjustments	**(0.5)**	**0.5**	**-**	**-**	**-**	**-**
Balance at December 31, 2014	**369.5**	**118.4**	**97.1**	**67.0**	**-**	**652.0**
Carrying value						
Balance at January 1, 2013	1,124.4	529.2	356.1	133.1	659.6	2,802.4
Balance at December 31, 2013	1,144.0	563.3	521.6	144.9	1,368.8	3,742.6
Balance at December 31, 2014	**1,157.9**	**599.6**	**742.1**	**150.4**	**3,026.8**	**5,676.8**

9. INTANGIBLE ASSETS

(millions of Canadian dollars)	**December 31 2014**	December 31 2013
Balance, beginning of year	**-**	-
Additions	**12.9**	-
Balance, end of year	**12.9**	-

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. At December 31, 2014, there was no amortization or impairment recognized on intangible assets.

10. REGULATORY DEFERRALS

	January 1 2013	Regulatory activity	December 31 2013	Regulatory activity	**December 31 2014**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals						
Foreign exchange losses	62.6	(2.1)	60.5	(2.1)	**58.4**	27.0
Foreign exchange on fuel	0.1	(0.1)	-	0.3	**0.3**	n/a
Deferred lease costs	-	-	-	3.7	**3.7**	n/a
2014 cost deferral	-	-	-	45.9	**45.9**	n/a
Fuel supply deferral	-	-	-	9.6	**9.6**	n/a
Deferred energy conservation costs	2.4	1.5	3.9	2.4	**6.3**	n/a
	65.1	(0.7)	64.4	59.8	**124.2**	
Regulatory liability deferrals						
Rate stabilization plan (RSP)	(201.7)	(52.1)	(253.8)	7.8	**(246.0)**	n/a
Insurance proceeds (net)	-	(4.3)	(4.3)	(1.3)	**(5.6)**	n/a
Deferred power purchase savings	(0.5)	-	(0.5)	-	**(0.5)**	12.5
	(202.2)	(56.4)	(258.6)	6.5	**(252.1)**	

10.1 REGULATORY ADJUSTMENTS RECORDED IN THE CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

(millions of Canadian dollars)	**2014**	2013
RSP amortization	**41.2**	58.9
Rural rate adjustment	**9.1**	11.4
RSP fuel deferral	**(76.1)**	(35.3)
RSP interest	**18.0**	17.1
Total RSP activity	**(7.8)**	52.1
2014 cost deferral	**(45.9)**	-
Fuel supply deferral	**(9.6)**	-
Amortization of deferred foreign exchange losses	**2.1**	2.1
Deferred foreign exchange on fuel	**(0.3)**	0.1
Deferred energy conservation costs	**(2.4)**	(1.5)
Insurance proceeds (net)	**1.3**	4.3
Deferred lease costs	**(3.7)**	-
	(66.3)	57.1

The following section describes Hydro’s regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit or loss for 2014 would have decreased by $66.3 million (2013 - $57.1 million increase).

10.2 RATE STABILIZATION PLAN (RSP)

The PUB ordered Hydro to implement a rate stabilization plan (RSP) which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

During 2014, Hydro recorded a net decrease in regulatory liabilities of $7.8 million (2013 - $52.1 million increase) resulting in an RSP ending balance for 2014 of $246.0 million (2013 - $253.8 million). Included in the balance is $75.6 million (2013 - $119.4 million) which is to be refunded in the following year, with the exception of hydraulic variations, which will be refunded at a rate of 25% of the outstanding balance at year end. The remaining portion of the RSP balance totaling $170.4 million (2013 - $134.4 million) has been set aside with $124.0 million (2013 - $115.3 million) to be refunded to Newfoundland Power's retail customers, $10.9 million (2013 - $10.9 million) to be used to phase in Island Industrial rate increases and $35.5 million (2013 - $8.2 million) subject to a future regulatory ruling.

10.3 DEFERRED FOREIGN EXCHANGE LOSSES

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2014, the amortization of $2.1 million (2013 - $2.1 million) reduced regulatory assets.

10.4 DEFERRED ENERGY CONSERVATION COSTS

The PUB ordered the deferral of costs associated with an electrical conservation program for residential, industrial, and commercial sectors. In 2014, Hydro recognized $2.4 million (2013 - $1.5 million) as a regulatory asset. Recovery of this balance will be addressed as part of Hydro's General Rate Application currently before the PUB.

10.5 DEFERRED PURCHASED POWER SAVINGS

In 1997, the Pub ordered Hydro to defer $1.1 million in benefits related to a reduced initial purchased power rate relating to interconnecting communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30-year period. The remaining unamortized savings in the amount of $0.5 million (2013 - $0.5 million) are deferred as a regulatory liability.

10.6 DEFERRED FOREIGN EXCHANGE ON FUEL

Hydro purchases a significant amount of fuel for the Holyrood Thermal Generating Station (HTGS) in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2014, Hydro recognized in regulatory assets, foreign exchange losses on fuel purchases of $0.3 million (2013 - $0.1 million gain).

10.7 INSURANCE PROCEEDS (NET OF AMORTIZATION)

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds against the capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2014, Hydro recorded an increase to regulatory liabilities related to insurance proceeds of $1.8 million (2013 - $4.5 million) and amortization of $0.5 million (2013 - $0.2 million) related to those assets.

10.8 DEFERRED LEASE COSTS

As per Order no. P.U. 28 (2013), Hydro received approval to defer lease costs associated with the 16 MW diesel plant and other necessary infrastructure to ensure black start capability at the HTGS. In 2014, Hydro recognized $3.7 million (2013 - $nil) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

10.9 FUEL SUPPLY DEFERRAL

Pursuant to Order no. P.U. 56 (2014), Hydro received approval to defer additional capacity related supply costs incurred during the three months ended March 31, 2014. In 2014, Hydro deferred $9.6 million (2013 - $nil) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

10.10 2014 COST DEFERRAL

As per Order no. P.U. 58 (2014), Hydro received approval to defer $45.9 million in relation to Hydro's proposed 2014 revenue requirement (2013 -$nil). Accordingly, these costs have been recognized as a regulatory asset. Recovery of this balance is subject to a future PUB Order.

11. OTHER LONG-TERM ASSETS

(millions of Canadian dollars)		**December 31 2014**	December 31 2013	January 1 2013
Long-term receivables	(a)	**37.2**	16.7	0.8
Long-term prepayments	(b)	**15.0**	9.6	-
Reserve fund	(c)	**34.2**	50.5	50.9
Sinking funds	(d)	**267.1**	237.9	302.8
		353.5	314.7	354.5

(a) As at December 31, 2014, long-term receivables include $36.9 million (2013 - $15.0 million) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. Of the $36.9 million, $33.2 million relates to the Muskrat Falls hydroelectric plant and is secured by a $33.2 million letter of credit from a Canadian Schedule 1 Chartered bank. The remaining $0.3 million (2013 - $1.7 million) includes the non-currentcurrent current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs.

(b) Long-term prepayments include prepaid insurance expenditures related to the Lower Churchill Project.

(c) In 2007, pursuant to the terms of the 1999 Shareholders' Agreement, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in each of 2010, 2011 and 2012. In October 2014, $23.4 million was withdrawn to fund a portion of 2014 capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five-year period with $5.84 million due in each of 2015, 2016 and 2017 and $2.92 million due in 2018 and 2019.

This fund must remain in place until the end of the Shareholders' Agreement in 2041. Any further amounts removed to fund capital expenditures must be replaced. Reserve fund holdings consist of securities issued by the Government of Canada, various provinces of Canada and Canadian Schedule 1 and 2 Chartered banks.

The reserve fund consists of the following:

(millions of Canadian dollars)	2014	2013
Balance, beginning of year	50.5	50.9
Net discount (premium)	0.3	-
Principal withdrawals	(15.4)	-
Earnings withdrawn	(1.0)	-
Mark-to-market adjustment	(0.2)	(0.4)
Balance, end of year	34.2	50.5

(d) As at December 31, 2014, sinking funds include $228.4 million (2013 - $267.6 million) related to repayment of Hydro's long-term debt and $40.2 million (2013 - $35.7 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA).

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Canadian Schedule 1 Chartered banks and have maturity dates ranging from 2017 to 2033.

Sinking fund investments in Hydro's debentures, which are intended to be held to maturity are deducted from debt while all other sinking fund investments are shown separately as assets on the consolidated Statement of Financial Position. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.52% to 9.12% (2013 - 1.17% to 9.86%.)

Nalcor's sinking funds are also held to fund the annual payments to the Innu Nation as required under the UCRA.

The sinking funds consist of the following:

(millions of Canadian dollars)	2014	2013
Balance, beginning of year	303.3	302.8
Contributions	8.3	8.4
Earnings	63.1	14.7
Disposals	(126.5)	(1.8)
Mark-to-market adjustment	21.2	(20.8)
Gain on sale of investments	(0.8)	-
Balance, end of year	268.6	303.3
Less: current portion	1.5	65.4
	267.1	237.9

Sinking fund instalments due for the next five years are as follows:

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Sinking fund instalments	8.1	8.1	6.7	6.7	6.7

12. LONG-TERM INVESTMENTS

As at December 31, 2014, long-term investments consist of structured deposit notes of $1,023.8 million (2013 - $1,807.3 million) related to Muskrat Falls, $224.8 million (2013 - $396.7 million) related to Labrador Transco and $1,622.8 million (2013 - $2,273.4 million) related to the LIL Partnership. These notes were acquired on December 20, 2013.

	December 31	December 31
(millions of Canadian dollars)	**2014**	2013
Long-term investments, beginning of year	**4,477.4**	-
Contributions	**-**	4,749.6
Redemptions	**(1,667.4)**	(274.5)
Earnings	**61.4**	2.3
Long-term investments, end of year	**2,871.4**	4,477.4

13. TRADE AND OTHER PAYABLES

The composition of trade and other payables is as follows:

	December 31	December 31	January 1
(millions of Canadian dollars)	**2014**	2013	2013
Trade payables	**553.0**	344.3	126.8
Accrued interest	**45.9**	37.9	0.3
Due to related parties	**0.8**	1.0	28.7
Rent and royalty payable	**3.1**	3.7	4.0
Other payables	**69.3**	24.8	21.2
	672.1	411.7	181.0

14. DEBT

14.1 SHORT-TERM BORROWINGS

During April 2014, Nalcor converted a $250.0 million (2013 - $250.0 million) unsecured demand operating credit facility with its banker to a $250.0 million committed revolving term credit facility, with a maturity date of January 31, 2016. There were no amounts drawn on this facility at December 31, 2014. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BA) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rates (LIBOR) Advances and letters of credit.

On September 18, 2014, Nalcor issued a $1.2 million USD irrevocable letter of credit to New York Independent System Operator Inc., relating to collateral required for Energy Marketing to participate in the New York energy markets. In October 2014, Nalcor issued a $1.3 million USD irrevocable letter of credit to ISO New England Inc., and a $0.2 million irrevocable letter of credit to the Independent Electricity System Operator. These letters relate to collateral required for Energy Marketing to participate in the New England and Ontario energy markets, respectively. In November 2014, Nalcor issued a $1.0 million irrevocable letter of credit to Hydro-Québec relating to collateral requirements for Hydro-Québec transmission customers. These letters are in addition to the three other irrevocable letters of credit drawn at December 31, 2014. Two letters were issued to the Newfoundland Labrador Offshore Petroleum Board, and one was issued to Newfoundland Transshipment Ltd. These letters totaled $4.8 million and relate to Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities.

In October 2014, Nalcor's Board of Directors approved an unconditional and irrevocable guarantee for a $20.0 million demand operating credit facility for Energy Marketing. In November 2014, Energy Marketing’s Board of Directors approved the guarantee and authorized Energy Marketing to obtain a $20.0 million demand operating facility from its banker. At December 31, 2014, the bank had yet to advance the $20.0 million demand operating facility. In the interim, the Board agreed to provide up to $2.0 million in financial support to Energy Marketing.

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at December 31, 2014, there were no amounts drawn on this facility (2013 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs and Letters of Credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and Letters of Credit. The facility also provides coverage for overdrafts on Hydro's bank accounts. At December 31, 2014 Hydro had one letter of credit outstanding in the amount of $0.3 million (2013 - $0.3 million). This letter was issued to Department of Fisheries and Oceans as a performance guarantee in relation to the Fish Habitat Compensation Program.

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at December 31, 2014, there were no amounts drawn on this facility (2013 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and BAs and borrowings in USD may take the form of Base Rate Advances. Churchill Falls has issued three irrevocable letters of credit, totaling $2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

Oil and Gas maintains a $5.0 million CAD or USD unsecured credit facility. There were no amounts drawn on this facility at December 31, 2014 (2013 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and Letters of Credit. Borrowings in USD may take the form of Base Rate Advances and Letters of Credit. The facility also provides coverage for overdrafts on Oil and Gas's bank accounts. At December 31, 2014, Oil and Gas had no letters of credit outstanding (2013 - $0.3 million).

LCMC maintains a $50.0 million unsecured revolving credit facility with its parent, Nalcor. At December 31, 2014, there was $3.6 million (2013 – nil) outstanding on this facility. Borrowings may take the form of Prime Rate Advances.

Short-term borrowings consist of promissory notes in Hydro totalling $53.0 million (2013 - $41.0 million).

14.2 LONG-TERM DEBT

(millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**December 31 2014**	December 31 2013	January 1 2013
Hydro							
V*	0.3	10.50	1989	2014	**0.3**	125.0	124.8
X*	150.0	10.25	1992	2017	**149.7**	149.5	149.4
Y*	300.0	8.40	1996	2026	**294.3**	294.0	293.8
AB*	300.0	6.65	2001	2031	**305.9**	306.1	306.3
AD*	125.0	5.70	2003	2033	**123.7**	123.7	123.7
AE	225.0	4.30	2006	2016	**224.6**	224.4	224.2
AF	200.0	3.60	2014	2045	**197.1**	-	-
LIL LP							
Tranche A	725.0	3.76	2013	2033	**725.3**	725.3	-
Tranche B	600.0	3.86	2013	2045	**600.1**	600.1	-
Tranche C	1,075.0	3.85	2013	2053	**1,075.2**	1,075.2	-
Labrador Transco/Muskrat Falls							
Tranche A	650.0	3.63	2013	2029	**650.2**	650.3	-
Tranche B	675.0	3.83	2013	2037	**675.1**	675.1	-
Tranche C	1,275.0	3.86	2013	2048	**1,275.3**	1,275.3	-
Total debentures	6,300.3				**6,296.8**	6,224.0	1,222.2
Less: Sinking fund investments in own debentures					**47.9**	93.9	88.1
					6,248.9	6,130.1	1,134.1
Less: payments due within one year					**8.4**	82.2	8.2
Total debentures					**6,240.5**	6,047.9	1,125.9

* Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. The fee for 2014 was $3.7 million (2013 - $3.7 million).

On September 15, 2014, Hydro raised new long-term debt through the sale of $200.0 million of Series AF debentures to its underwriting syndicate. The debentures mature on December 31, 2045 with a coupon of 3.6% paid semi-annually.

On November 29, 2013, the Project Trust entered into the IT Project Finance Agreement (IT PFA) with the Labrador- Island Link Funding Trust (LIL Funding Trust). Under the terms and conditions of the IT PFA, the LIL Funding Trust agreed to provide a non-revolving credit facility in the amount of $2.4 billion available in three tranches (Tranches A, B and C) to the Project Trust, which itself proceeded to on-lend this amount to the Partnership under the terms of the LIL Project Finance Agreement (LIL PFA). The purpose of the LIL Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Government of Canada and to on-lend the proceeds to the Project Trust. The proceeds of the facility are to be used exclusively for the construction of the LIL.

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance to the Project Trust of $2.4 billion. Under the terms of the IT PFA, the $2.4 billion advance is held in an account administered by a collateral agent with a portion of the funds invested in structured deposits notes. The LIL LP draws funds from this account on a monthly basis in accordance with procedures set out in the LIL PFA.

As security for these debt obligations, the LIL LP has granted to the collateral agent first ranking liens on all present and future assets relating to the Lower Churchill Project. On the date of the release of the final funding request from the collateral agent, sinking funds are required to be set up for each of the three tranches to be held in a sinking fund account administered by the collateral agent.

On November 29, 2013, Muskrat Falls and Transco entered into the MF/LTA Project Finance Agreement (MF/LTA PFA) with the MF/LTA Funding Trust. Under the terms and conditions of the MF/LTA PFA, the MF/LTA Funding Trust agreed to provide a non-revolving credit facility in the amount of $2.6 billion available in three tranches (Tranches A, B and C). The purpose of the MF/LTA Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Government of Canada and to on-lend the proceeds to Muskrat Falls and Transco. Muskrat Falls and Transco are both jointly and severally liable for the full amount of the credit facility.

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance of $2.6 billion. Under the terms of the MF/LTA PFA, the $2.6 billion advance is held in an account administered by the collateral agent with a portion of the funds invested in structured deposits notes. Muskrat Falls and Transco draw funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA PFA. Although Muskrat Falls and Transco are jointly and severally liable for the $2.6 billion, only the project ratable share for each, 82% and 18% respectively, is recognized as long-term debt.

As security for these debt obligations, Muskrat Falls and Transco have granted to the collateral agent first ranking liens on all present and future assets. On the date of the release of the final funding requests from the collateral agent, sinking funds are required to be set up for each of the three tranches to be held in an account administered by the collateral agent.

The role of the collateral agent is to act on behalf of the lending parties, including the LIL Funding Trust, the MF/LTA Funding Trust and the Government of Canada. The collateral agent oversees the lending and security arrangements, the various project accounts and compliance with the covenants.

Required repayments of long-term debt over the next five years will be as follows:

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Long-term debt repayment	0.3	225.0	150.0	-	-

15. CLASS B LIMITED PARTNERSHIP UNITS

The Class B limited partnership units issued represent Emera Incorporated’s (Emera) interest in LIL LP. The Class B limited partnership units have certain rights and obligations, including mandatory distributions, that result in the classification of these units as financial liabilities.

The partnership units are measured at amortized cost using the effective interest method. The return on the units is classified as net finance income and expense and capitalized as non-cash additions to property, plant and equipment.

In 2013, the Class B limited partnership units were issued to Emera NL in return for cash contributions of $67.7 million to the Class B partnership account. The components of the change in balances in the Class B limited partnership unit are as follows:

(millions of Canadian dollars)	Units	December 31 2014	Units	December 31 2013
Class B limited partnership units, beginning of year	**25**	**73.0**	-	-
Units issued	**-**	**-**	25	67.7
Accrued interest	**-**	**6.4**	-	5.3
Class B limited partnership units, end of year	**25**	**79.4**	25	73.0

16. DEFERRED CREDITS

Deferred credits consist of funding from the Province, deferred energy sales from Emera and deferred lease revenue.

(millions of Canadian dollars)	Hydro Wind Credits	Oil and Gas Program Funding	Deferred Energy Sales	Other	Total
Balance at January 1, 2013	1.9	4.8	45.0	0.5	52.2
Additions	-	1.5	46.7	1.4	49.6
Amortization	(1.2)	(2.1)	-	(0.5)	(3.8)
Balance at December 31, 2013	**0.7**	**4.2**	**91.7**	**1.4**	**98.0**
Additions	**-**	**1.1**	**238.3**	**0.1**	**239.5**
Amortization	**-**	**(1.0)**	**-**	**-**	**(1.0)**
	0.7	**4.3**	**330.0**	**1.5**	**336.5**
Less: current portion	**(0.7)**	**(1.2)**	**-**	**(1.5)**	**(3.4)**
Deferred credits, end of year	**-**	**3.1**	**330.0**	**-**	**333.1**

Hydro has received funding from the Province for wind feasibility studies in Labrador. Oil and Gas has received funding from the Province for oil and gas exploration initiatives. Funding related to studies and programs is amortized to income directly against the related expenditures as the costs are incurred.

In July 2012, Nalcor entered into agreements with Emera related to Phase 1 of the Lower Churchill Project. Under these agreements, Emera is constructing the Maritime Link in exchange for the provision of power and energy by Nalcor for a 35 year period. Nalcor has recorded deferred revenue of $330.0 million (2013 - $91.7 million) which equals the construction costs, capitalized borrowing costs and deferred financing costs to date incurred by Emera. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as a component of property, plant and equipment under construction.

17. DEFERRED CONTRIBUTIONS

Nalcor has received contributions in aid of construction of property, plant and equipment. These contributions are deferred and amortized to other revenue over the life of the related item of property, plant and equipment.

(millions of Canadian dollars)	December 31 2014	December 31 2013
Deferred contributions, beginning of year	11.3	10.1
Additions	5.2	1.9
Amortization	(0.7)	(0.7)
	15.8	11.3
Less: current portion	(0.8)	(0.6)
Deferred contributions, end of year	15.0	10.7

18. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generating Station, disposal of Polychlorinated Biphenyls (PCB's) and decommissioning liabilities resulting from its 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 years ended December 31, 2014 and December 31, 2013 are as follows:

(millions of Canadian dollars)	December 31 2014	December 31 2013
Decommissioning liabilities, beginning of year	33.9	33.0
Liabilities incurred	5.9	-
Liabilities settled	-	(0.3)
Accretion	1.3	1.2
Revisions	2.1	-
Decommissioning liabilities, end of year	43.2	33.9
Less: current portion	(1.1)	(0.9)
Decommissioning liabilities, end of year	42.1	33.0

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2014 are $32.1 million (2013 - $32.1 million). Payments to settle the liabilities are expected to occur between 2020 and 2024. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.6% (2013 – 3.6%). Hydro has recorded $25.8 million (2013 - $22.7 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2014 are $2.5 million (2013 - $2.5 million). Payments to settle the liabilities are expected to occur between 2015 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at the Company's credit adjusted risk free rate of 2.8 to 4.6% (2013 - 3.8 to 5.5%). Hydro has recorded $2.2 million (2013 - $2.2 million) related to PCB obligations.

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 at December 31, 2014 are $30.5 million (2013 - $14.5 million). Payments to settle the liabilities are expected to occur between 2015 and 2032. 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 5.6% (2013 - 4.5% to 5.9%).

A significant number of Nalcor's assets include generation plants, transmission assets and distribution systems. These assets can continue to run indefinitely with ongoing maintenance activities. As it is expected that Nalcor's assets will be used for an indefinite period, no removal date can be determined and consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is required to remove, a decommissioning liability for those assets will be recognized at that time.

19. LONG-TERM PAYABLES

The long-term payables consist of a payable to the Innu Nation under the UCRA, a payable to the Innu Nation under the Impact and Benefits Agreement (IBA), a payable to Hydro-Québec related to AEB and a payable related to the Hebron Oil and Gas project.

(millions of Canadian dollars)	2014	2013
Balance, beginning of year	86.5	90.5
Payments	(8.1)	(8.1)
Additions and revisions	-	0.2
Accretion	3.8	3.9
	82.2	86.5
Less: current portion	(8.2)	(8.2)
Balance, end of year	74.0	78.3

Under the UCRA, Nalcor is required to pay to the Innu Nation $2.0 million annually, escalating by 2.5% annually until 2014. Currently, $2.2 million (2013 - $2.2 million) of the amount is current and is recorded in accounts payable and accrued liabilities. Nalcor has sinking funds in the amount of $40.2 million (2013 - $35.7 million) to fund these future obligations.

Under the IBA, Nalcor is required to make annual payments to the Innu Nation that commenced on sanction of the Muskrat Falls hydroelectric plant. The Muskrat Falls hydroelectric plant was sanctioned in December 2012 and the first IBA payment was made at that time. The IBA requires annual payments of $5.0 million escalating by the annual consumer price index from sanction until first commercial power. The present value of the payments using a discount rate of 3.7% is $33.5 million (2013 - $36.8 million). The current portion of the payable at December 31, 2014 is $5.0 million (2013 - $5.0 million).

In September 2012, the joint venture partners in the Hebron project executed the Benefits Agreement Drilling Equipment Set (DES) Settlement Agreement. This Agreement allowed the Hebron partners to adjust the Hebron Benefits Agreement such that the Hebron Project DES could be constructed at a geographic location outside of Newfoundland and Labrador in exchange for a one-time payment to the Province. The total payment was agreed to be $150.0 million payable on June 30, 2016. Nalcor's proportionate 4.9% share of the undiscounted payment will be $7.3 million. The payment is recorded at the present value using a discount rate of 2.6%.

The long-term payable to Hydro-Québec as at December 31, 2014 is the accumulation of differences between energy delivered and the AEB billed during the four-year period from September 1, 2008 to August 31, 2012. Monthly repayments commenced in September 2012 and will terminate on August 31, 2016. The current portion of $1.0 million (2013 - $1.0 million) is included in accounts payable and accrued liabilities. The long-term portion is $0.7 million (2013 - $1.6 million).

20. EMPLOYEE FUTURE BENEFITS

20.1 PENSION PLAN

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $7.8 million (2013 - $7.3 million) are expensed as incurred.

20.2 OTHER BENEFITS

Nalcor 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 2014, cash payments to beneficiaries for its unfunded other employee future benefits were $2.7 million (2013 - $3.2 million). An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2014. The next actuarial valuation will be performed at December 31, 2015.

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Accrued benefit obligation		
Balance at beginning of year	**118.5**	119.9
Current service cost	**4.7**	5.0
Interest cost	**6.1**	4.7
Benefits paid	**(2.7)**	(3.2)
Actuarial loss (gain)	**17.9**	(7.9)
Balance at end of year	**144.5**	118.5

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Component of benefit cost		
Current service cost	**4.7**	5.0
Interest cost	**6.1**	4.7
Total benefit expense for the year	**10.8**	9.7

The significant actuarial assumptions used in measuring the accrued benefit obligations and benefit expensesare as follows:

	2014	2013
Discount rate - benefit cost	**5.00%**	4.00%
Discount rate - accrued benefit obligation	**4.20%**	5.00%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2014	2013
Initial health care expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2020**	2020

A 1% change in assumed health care trend rates would have had the following effects:

Increase (millions of Canadian dollars)	2014	2013
Current service and interest cost	**2.4**	2.5
Accrued benefit obligation	**30.9**	22.4

Decrease (millions of Canadian dollars)	2014	2013
Current service and interest cost	**(1.7)**	(1.7)
Accrued benefit obligation	**(23.1)**	(17.1)

21. SHAREHOLDER'S EQUITY

21.1 SHARE CAPITAL

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Common shares of par value $1 each			
Authorized - unlimited			
Issued and outstanding - 122,500,000	**122.5**	122.5	122.5

21.2 SHAREHOLDER CONTRIBUTIONS

(millions of Canadian dollars)	**December 31 2014**	December 31 2013	January 1 2013
Total contributed capital	**1,469.1**	1,141.8	435.8

On February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust (the Trust) with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the Power Contract. During 2014, the Trust contributed $0.2 million (2013 - $1.7 million).

In addition, during 2014, the Province contributed capital in the amount of $327.1 million (2013 - $704.3 million) in relation to Nalcor's capital investments.

22. REVENUE

For the year ended December 31 (millions of Canadian dollars)	2014	2013
Electricity sales	670.4	661.9
GWAC revenue	21.1	21.2
Oil sales	73.9	75.5
Royalties	(9.8)	(3.3)
Total energy sales	755.6	755.3
Lease revenue	17.8	16.6
Government funding	1.0	2.2
Preferred dividends	2.7	3.2
Other	19.0	7.6
Total other revenue	40.5	29.6

23. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	2014	2013
Salaries and benefits expense	125.7	113.3
Transmission rental	20.4	20.5
Maintenance and materials	37.2	29.8
Oil and gas production costs	11.3	9.2
Professional services	26.2	17.9
Travel and transportation	9.4	8.7
Other operating costs	17.3	12.6
	247.5	212.0

24. NET FINANCE INCOME AND EXPENSE

For the year ended December 31 (millions of Canadian dollars)	2014	2013
Finance income		
Interest on investments	61.5	2.4
Interest on sinking fund	17.1	20.7
Interest on restricted cash	8.7	1.3
Interest on reserve fund	1.3	1.5
Other interest income	2.5	0.9
	91.1	26.8
Finance costs		
Long-term debt	276.1	99.7
Class B Limited Partnership Units	6.4	5.3
Foreign exchange loss	4.7	0.3
Debt guarantee fee	3.7	3.7
Accretion	5.4	5.6
Other	-	0.8
	296.3	115.4
Interest capitalized during construction	(133.2)	(14.8)
	163.1	100.6
Net finance income and expense	72.0	73.8

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

25.1 FAIR VALUE

The estimated fair values of financial instruments as at December 31, 2014 and 2013 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Nalcor might receive or incur in actual market transactions.

As a significant number of Nalcor'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 Nalcor 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 measurements during the years ended December 31, 2014 and 2013.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
(millions of Canadian dollars)		**December 31, 2014**		December 31, 2013		January 1, 2013	
Financial assets							
Cash and cash equivalents	1	**57.7**	**57.7**	93.7	93.7	11.9	11.9
Restricted cash	1	**1,133.7**	**1,133.7**	525.5	525.5	-	-
Short-term investments	1	**34.4**	**34.4**	1.0	1.0	11.0	11.0
Trade and other receivables	1	**249.2**	**249.2**	149.8	149.8	124.7	124.7
Derivative assets	2	**11.8**	**11.8**	0.2	0.2	0.1	0.1
Sinking funds - investments in same Hydro issue	2	**47.9**	**62.3**	93.9	105.1	88.1	107.3
Sinking funds - other investments	2	**268.6**	**268.6**	303.3	303.3	302.8	302.8
Long-term investments	2	**2,871.4**	**2,872.4**	4,477.4	4,476.2	-	-
Reserve fund	2	**34.2**	**34.2**	50.5	50.5	50.9	50.9
Long-term receivables	2	**37.2**	**37.2**	16.7	16.8	0.8	0.8
Financial liabilities							
Short-term borrowings	1	**53.0**	**53.0**	41.0	41.0	125.0	125.0
Trade and other payables	1	**672.1**	**672.1**	411.7	411.7	181.0	181.0
Derivative liabilities	2	**1.6**	**1.6**	1.5	1.5	-	-
Long-term debt (including amount due within one year before sinking funds)	2	**6,296.8**	**7,626.7**	6,224.0	6,626.6	1,222.2	1,668.6
Class B limited partnership units	3	**79.4**	**79.4**	73.0	73.0	-	-
Long-term payables	2	**74.0**	**86.3**	78.3	83.2	82.4	82.6

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

25.2 RISK MANAGEMENT

Nalcor 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 Nalcor's expected future cash flows.

Credit Risk

Nalcor's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on cash and cash equivalents, short-term investments, long-term investments and derivative assets as well as from the sale of electricity to customers, including the associated accounts receivable, is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Consolidated Statements of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is considered to be minimal, as Nalcor's cash deposits are held by a Canadian Schedule 1 Chartered bank with a rating of A+ (Standard and Poor's). Credit risk on restricted cash is considered to be minimal, as Nalcor's restricted cash deposits are held by a Canadian Schedule 1 Chartered bank with a rating of AA- (Standard and Poor's). Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by the Federal and Provincial governments, as well as BAs and term deposits issued by Canadian Schedule 1 Chartered banks.

Credit exposure on Nalcor's sinking funds is limited by restricting the holdings to long-term debt instruments issued by the Government of Canada or any province of Canada, crown corporations and Canadian Schedule 1 Chartered banks. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the remainder of the sinking funds portfolio:

	Issuer Credit Rating	Fair Value of Portfolio %	Issuer Credit Rating	Fair Value of Portfolio %
	2014		2013	
Provincial Governments	**AA- to AAA**	**5.49%**	AA- to AAA	3.29%
Provincial Governments	**A -to A+**	**40.86%**	A- to A+	38.31%
Provincially Owned Utilities	**AA- to AAA**	**22.57%**	AA- to AAA	16.47%
Provincially Owned Utilities	**A- to A+**	**29.10%**	A- to A+	39.09%
Canadian Schedule 1 Bank	**AA- to AAA**	**-**	AA- to AAA	0.98%
Canadian Schedule 1 Bank	**A- to A+**	**1.98%**	A- to A+	1.86%
Provincially Owned Utilities	**BBB+**	**-**	BBB+	-
		100.00%		100.00%

Credit exposure on the reserve fund is mitigated by adhering to an investment policy which restricts the holdings to long-term debt instruments issued or guaranteed by the Government of Canada or any province of Canada. Investments in the long-term debt instruments of Canadian banks are also permitted, provided the bank is rated A or higher by Standard and Poor's. With the exception of the Government of Canada, holdings of any one issuer are limited to 10.0% of the total principal amount of the portfolio. The following credit risk table provides information on credit exposures according to issuer type and credit rating for the reserve fund:

	Issuer Credit Rating	Fair Value of Portfolio %	Issuer Credit Rating	Fair Value of Portfolio %
	2014		2013	
Provincial Governments	**AA- to AAA**	**-**	AA- to AAA	8.94%
Canadian Schedule 1 or 2 Banks	**AA- to AAA**	**9.14%**	AA- to AAA	16.70%
Provincial Governments	**A- to A+**	**29.28%**	A- to A+	21.25%
Provincially Owned Utilities	**AA- to AAA**	**2.10%**	AA- to AAA	9.09%
Provincially Owned Utilities	**A- to A+**	**9.15%**	A- to A+	6.06%
Canadian Schedule 1 Bank	**A- to A+**	**50.33%**	A- to A+	37.96%
		100.00%		100.00%

Credit exposure on Nalcor's long-term investments is considered to be limited as the structured deposit notes are held by a Canadian Schedule 1 Chartered bank with a rating of AA- (Standard and Poor's). The following credit risk table provides information on credit exposures according to issuer type and credit rating for the long-term investments:

	Issuer Credit Rating	Fair Value of Portfolio %	Issuer Credit Rating	Fair Value of Portfolio %
	2014		2013	
Schedule 1 Canadian Banks	**AA-**	**100.00%**	AA-	100.00%

Credit exposure on derivative assets is limited by the Financial Risk Management Policy, which restricts available counterparties for hedge transactions to Canadian Schedule 1 Chartered banks and Federally Chartered US banks.

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized at December 31, 2014.

<u>Liquidity Risk</u>

Nalcor is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations and an operating credit facility which Nalcor maintains with its banker. During April 2014, Nalcor converted its $250.0 million (2013 - $250.0 million) unsecured demand operating credit facility to a $250.0 million committed revolving term credit facility, with a maturity date of January 31, 2016. There were no amounts drawn on this facility at December 31, 2014 (2013 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $50.0 million (2013 - $50.0 million) unsecured demand operating credit facility. Oil and Gas and Churchill Falls also maintain demand operating facilities of $5.0 million (2013 - $5.0 million) and $10.0 million (2013 - $10.0 million), respectively. Churchill Falls maintains a $16.0 million minimum cash balance.

Liquidity risk for Muskrat Falls and Transco is considered to be minimal, as both companies can access the funds drawn down from the Muskrat/LTA construction facility for the payment of construction costs as well as interest payments. The LIL LP has access to the funds drawn down from the LIL construction facility for the payment of construction costs as well as interest payments.

Long-term liquidity risk for Nalcor is managed by the issuance of a portfolio of debentures with maturity dates ranging from 2016 to 2045. Sinking funds have been established for these issues, with the exception of the issues maturing in 2016 and 2045. For Churchill Falls, long-term liquidity risk is managed by maintenance of the reserve fund in accordance with the June 1999 Shareholders' Agreement and a dividend management policy that meets long-term liquidity requirements associated with Churchill Falls' capital expenditure program.

The following are contractual maturities of Nalcor's financial liabilities, including principal and interest as at December 31, 2014:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	672.1	-	-	-	672.1
Short-term borrowings	53.0	-	-	-	53.0
Long-term debt	8.4	385.3	13.3	5,893.3	6,300.3
Interest	275.0	530.1	499.9	5,136.2	6,441.2
Class B partnership units	-	-	73.2	6.2	79.4
Long-term payables	-	28.5	20.4	38.4	87.3
	1,008.5	943.9	606.8	11,074.1	13,633.3

Market Risk

In the course of carrying out its operating, financing and investing activities, Nalcor 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 Nalcor has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for diesel fuel, electricity, No. 6 fuel and oil. These exposures are addressed as part of the Financial Risk Management Strategy.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available-for-sale, which includes Nalcor's cash and cash equivalents, short-term investments, sinking funds and reserve fund. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on net income and other comprehensive income associated with cash and cash equivalents, debt and short-term debt was negligible throughout 2014 due to the short time period to maturity.

The table below shows the impact of a 50 basis point change in interest rates on profit and other comprehensive income associated with the sinking funds, reserve fund, long-term investments and short-term investments at the Statement of Financial Position date:

	Other Comprehensive Income	
(millions of Canadian dollars)	0.5% decrease	0.5% increase
Interest on sinking funds	16.3	(10.0)
Interest on reserve fund	0.8	0.1
	17.1	(9.9)

The impact of interest rates on the expected future cash outflows related to short-term debt, which includes promissory notes and banker's acceptances issued under Nalcor's credit lines and long-term debt, are managed within the corporate financing strategy, whereby floating rate debt exposures and interest rate scenarios are forecast and evaluated. A diversified portfolio of fixed and floating rate debt is maintained and managed with a view to an acceptable risk profile. Key quantitative parameters for interest rate risk management includes the percentage of floating rate debt in the total debt portfolio, coupled with an examination of the weighted average term to maturity of the entire debt portfolio. By setting clear guidelines in respect to these quantitative parameters, Nalcor attempts to minimize the likelihood of a material impact on net income resulting from an unexpected change in interest rates.

Foreign Currency and Commodity Exposure

Nalcor's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, USD denominated electricity sales, rental revenues and the sale of crude oil. For the purchase of No.6 fuel oil, these risks are mitigated through the operation of the RSP. Exposures to USD denominated electricity sales are addressed in accordance with the Board-approved Financial Risk Management Policy. Tactics include the use of forward rate agreements and fixed price commodity swaps.

During 2014, total electricity sales denominated in USD were $56.4 million (2013 - $54.7 million). In 2014, Hydro mitigated foreign exchange risk on these sales through the use of foreign currency forward contracts. In December of 2013, Hydro entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $38.5 million USD to hedge foreign exchange risk on a portion of Hydro's planned USD electricity sales for the year. These contracts had an average exchange rate of $1.08 CAD per USD. In December 2013, Hydro also entered into a series of 12 electricity price forward contracts with a notional value of $14.2 million USD. The average price of these contracts was USD $38.74 per MWh (On Peak) and USD $28.42 per MWh (Off Peak). During 2014, $2.2 million losses from these derivative contracts was recognized in other income and expense (2013 - $0.2 million loss).

In December of 2014, Hydro entered into a series of 12 electricity price forward contracts with a notional value of $32.5 million USD. The average price of these contracts was USD $43.60 per MWh (On Peak) and USD $30.10 per MWh (Off Peak). As at December 31, 2014, the fair value of the derivative asset was $2.7 million (2013 - $0.2 million) and the derivative liability was $0.2 million (2013 - $0.4 million) as presented on the Statement of Financial Position. During 2014, $2.6 million in unrealized gains from these contracts was included in other income and expense (2013 - $nil).

In December of 2014, Energy Marketing entered into a series of twelve monthly foreign exchange forward contracts with a notional value of $41.8 million USD to hedge foreign exchange risk on a portion of planned USD electricity sales to the end of 2015. These contracts have an average exchange rate of $1.14 CAD per USD. At December 31, 2014, $0.9 million losses from these derivative contracts were recognized in other income and expense. The related electricity price forward contracts for 2015 were entered into by Hydro, as Energy Marketing does not yet have the required International Swaps and Derivatives Association (ISDA) Master Agreements in place with its banks.

During 2014, total oil sales denominated in USD were $67.1 million (2013 - $73.0 million). While Oil and Gas had exposure to fluctuations in the USD/CAD exchange rate on those sales, a significant portion of Oil and Gas' planned capital expenditures for 2014 were denominated in USD, which mitigated this exposure. Furthermore, in December 2013, Oil and Gas entered into a series of 12 commodity price swap contracts USD to mitigate commodity price exposure on energy sales. These contracts had a notional value of USD $31.9 million and provided an average fixed price of $106.75 per barrel on approximately 36.0% of estimated production for 2014. During 2014, $3.0 million in gains from these contracts were included in other income and expense (2013 - $0.8 million loss).

On October 31, 2014, Oil and Gas entered into a series of 12 commodity price swaps to mitigate commodity price exposure in 2015. These contracts have a notional value of $22.6 million USD and provide an average fixed price of $87.44 USD per barrel on 26% of the budgeted production for 2015. During 2014, $7.8 million in unrealized gains from these contracts was included in other comprehensive income (2013 - $nil).

During 2014, total rental revenues at Bull Arm Fabrication denominated in USD were $16.1 million (2013 - $16.1 million). In January 2014, Bull Arm Fabrication entered into a total of 11 forward contracts with a notional value of US $11.7 million to mitigate USD/CAD currency exposure on a portion of its USD denominated lease revenues. These contracts provided Bull Arm Fabrication with an average fixed exchange rate of $1.09 CAD per USD. Combined with the hedges in place as of December 31, 2013, 94% of the expected USD lease revenue for 2014 was hedged, at a weighted average fixed exchange rate of $1.07 CAD per USD. During 2014, $0.3 million in gains from these contracts was included in other income and expense (2013 - $0.3 million loss).

In December 2014, Bull Arm Fabrication entered into a total of 12 forward contracts with a notional value of US $18.2 million, with settlement dates ranging from February 3, 2015 to January 4, 2016. These forward contracts mitigate USD/CAD currency exposure on 92% of expected USD lease revenues for 2015 with an average fixed exchange rate of $1.14 USD per CAD, and one month of expected lease revenue for 2016, with a fixed exchange rate of $1.15 CAD per USD. During 2014, $0.4 million in unrealized losses from these contracts was included in other comprehensive income (2013 - $nil).

25.3 HEDGE ACCOUNTING

In December 2013, Muskrat Falls entered into nine bond forward contracts totaling $2.0 billion to hedge the interest rate risk on its long-term debt issue. These contracts were designated as part of a cash flow hedging relationship and the resulting loss of $14.1 million was recorded as $12.3 million in other comprehensive income with $1.8 million of ineffectiveness recognized immediately in other income and expense. The loss recorded in other comprehensive income will be recognized in profit or loss over the same period as the related debt instruments which mature between 2029 and 2048.

26. RELATED PARTY TRANSACTIONS

Nalcor 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 Nalcor transacts are as follows:

Related Party	Relationship
The Province	100% shareholder of Nalcor Energy
Churchill Falls	Joint arrangement of Hydro
Twin Falls	Joint venture of Churchill Falls
The Churchill Falls (Labrador) Corporation Trust	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
PUB	Agency of the Province

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

(a) Hydro has received funding from the Province for wind feasibility studies in Labrador. As at December 31, 2014, $0.7 million (2013 - $0.7 million) has been recorded in deferred credits.

(b) Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and applications costs. During 2014, Hydro incurred $3.1 million (2013 - $0.6 million) in costs related to the PUB of which $2.4 million (2013 - $0.2 million) was included in accounts payable and accrued liabilities.

(c) The debt guarantee fee for 2014 was $3.7 million (2013 - $3.7 million). It was paid in advance to the Province in March 2014.

(d) Under the terms of the Lease and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes, as defined in the Lease, and an annual royalty of $0.50 per horsepower year generated, as defined in the Lease. At December 31, 2014, $4.7 million (2013 - $5.6 million) was payable to the Province.

(e) As at December 31, 2014, Hydro has purchased $27.9 million (2013 - $29.6 million) of power generated from assets related to Exploits, which are held by the Province.

(f) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, $4.8 million (2013 - $3.8 million) has been received and $0.2 million (2013 - $0.8 million) has been accrued as receivable from the Trust.

(g) As a result of a sub-lease between Churchill Falls and Twin Falls, certain rights were suspended by Churchill Falls effective June 30, 1974 with the result that Churchill Falls diverted the flow of water from the Twin Falls plant and used the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls was required to deliver to Twin Falls, during the unexpired term of the sub-lease, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls was obliged to purchase this power for an amount equal to the average annual cost of operating the Twin Falls plant for the five year period ended March 31, 1974. In addition, Twin Falls was required to pay annually to Churchill Falls a rental amounting to $305,000 and $1.40 per installed horsepower. Twin Falls also paid to Churchill Falls an annual royalty of $0.50 per horsepower year generated, as defined, all calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. The sub-lease expired December 31, 2014.

(h) Total funding received under the Petroleum Exploration Enhancement Program (PEEP) was $4.5 million over five years. There was no funding provided in 2014 or 2013. Included in deferred credits at year end is a balance of $1.2 million (2013 - $1.6 million) in respect of funding received.

(i) Total funding received under the Offshore Geoscience Data Project (OGDP) was $14.3 million over four years. In 2014, funding of $0.5 million was received from the Province (2013 - $1.5 million). Included in deferred credits at year end is a balance of $2.5 million (2013 - $2.6 million) in respect of funding received.

26.1 KEY MANAGEMENT PERSONNEL

Compensation for key Management personnel, which Nalcor defines as its executives who have the primary authority and responsibility in planning, directing and controlling the activities of the entity, includes compensation for senior executives. Salaries and employee benefits include base salaries, performance contract payments, vehicle allowances and contributions to employee benefit plans. Post-employment benefits include contributions to the Province's Public Service Pension Plan.

For the year ended December 31 (millions of Canadian dollars)	**2014**	2013
Salaries and employee benefits	**3.4**	3.2
Post-employment benefits	**0.2**	0.2
	3.6	3.4

27. COMMITMENTS AND CONTINGENCIES

(a) Nalcor has received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although the outcome of such matters cannot be predicted with certainty, Management believes that Nalcor'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 its financial position.

(b) Outstanding commitments for capital projects total approximately $3,740.7 million as at December 31, 2014 (2013 - $2,424.6 million).

(c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	In-service Date	Term
Hydroelectric	175 kW	1988	Continual
Hydroelectric	3 MW	1995	25 years
Hydroelectric	4 MW	1998	25 years
Hydroelectric	300 MW	1998	43 years
Hydroelectric	225 MW	2015	25.5 years
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	300 kW	2010	Continual
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years

Estimated payments due in each of the next five years are as follows:

(millions of Canadian dollars)	2015	2016	2017	2018	2019
Power purchases	70.5	71.0	71.0	72.0	72.8

(d) Hydro has issued one irrevocable letter of credit to the Department of Fisheries and Oceans in the amount of $0.3 million as a performance guarantee in relation to the Fish Habitat Compensation Agreement.

(e) Hydro has entered into power sales agreements with third parties. To facilitate market access, Hydro had entered into a transmission service agreement with Hydro-Québec TransEnergie which concludes in 2024.

The transmission rental payments for the next five years are estimated to be as follows:

2015	$ 19.8 million
2016	$ 20.0 million
2017	$ 20.2 million
2018	$ 20.4 million
2019	$ 20.6 million

(f) Hydro has received Phase I funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency (ACOA) in relation to a wind-hydrogen-diesel research development project in the community of Ramea. In 2014, Hydro entered into a new funding agreement for Phase II of the project for $2.3 million. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2014 there have been no commercial implementations.

(g) In 2014, Hydro entered into three Capacity Assistance Agreements, one with Vale Newfoundland & Labrador Limited (Vale) and two with Corner Brook Pulp and Paper Limited (CBPP) for the purchase of relief up to 15.8 MW, 60 MW and 30 MW, respectively, during the winter period. The supply period defined in the agreements is from December 1 to March 31 of each year, concluding March 2018. Payment for services will be dependent on the successful provision of capacity assistance for the winter period by Vale and CBPP.

(h) In 2014, Hydro entered into a six-month lease with Twin Falls Power Corporation Limited and Wabush Resources Inc. to access a terminal station located on land owned by Wabush Mines. This lease is for a six-month period beginning in January 2015.

(i) On February 23, 2010, Churchill Falls filed a motion against Hydro-Québec in Québec Superior Court. The motion was seeking a modification to the pricing terms of the 1969 Power Contract as of November 30, 2009. On July 24, 2014, Churchill Falls received judgment from the Québec Superior Court which ruled against Churchill Falls. Churchill Falls is appealing the decision and on August 26, 2014 filed an Inscription in Appeal with the Québec Court of Appeal.

(j) In July 2013, Hydro-Québec filed a Motion for Declaratory Judgment (the Motion) in Québec Superior Court relating to the interpretation of the 1969 Power Contract between Churchill Falls and Hydro-Québec and the clarification of certain terms and obligations of the parties under the Renewed Power Contract with Hydro-Québec, which commences in 2016. Churchill Falls has filed a Defense to the Motion and the trial is scheduled to take place in the fall of 2015.

(k) Oil and Gas has the following capital and operating commitments as a result of its joint venture partnerships in the Hebron, Hibernia Southern Extension and White Rose projects:

2015	$112.1 million
2016	$ 75.6 million
2017	$ 22.6 million
2018	$ 3.8 million
2019	$ 3.5 million

28. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continued delivery of safe and reliable service to its customers. Nalcor also requires access to capital to fund its various development activities relating to Oil and Gas and the Lower Churchill Project. Therefore, Nalcor's primary objective when managing capital is to ensure ready access to capital at a reasonable cost, to minimize its cost of capital within the confines of established risk parameters, and to safeguard Nalcor's ability to continue as a going concern.

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and short-term borrowings) and equity (share capital, contributed capital, reserves and retained earnings).

A summary of the consolidated capital structure is outlined below:

	December 31		December 31		January 1	
(millions of Canadian dollars)	**2014**		2013		2013	
Debt						
Long-term debt	**6,240.5**		6,047.9		1,125.9	
Short-term borrowings	**53.0**		41.0		125.0	
Current portion of long-term debt	**8.4**		82.2		8.2	
Sinking funds	**(268.6)**		(303.3)		(302.8)	
	6,033.3	**68.9%**	5,867.8	72.1%	956.3	38.9%
Equity						
Share capital	**122.5**		122.5		122.5	
Shareholder contributions	**1,469.1**		1,141.8		435.8	
Reserves	**(15.8)**		(27.1)		(2.0)	
Retained earnings	**1,146.2**		1,030.6		942.9	
	2,722.0	**31.1%**	2,267.8	27.9%	1,499.2	61.1%
Total Debt and Equity	**8,755.3**	**100.0%**	8,135.6	100.0%	2,455.5	100.0%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2014, Nalcor was in compliance with these covenants.

28.1 HYDRO

Hydro's approach to capital management encompasses various factors including monitoring the percentage of floating rate debt in the total debt portfolio, the weighted average term to maturity of its overall debt portfolio, its percentage of debt to debt plus equity and its interest coverage.

For the regulated portion of Hydro's operations, Management targets a capital structure comprised of 75% debt and 25% equity, a ratio which Management believes to be optimal with respect to its cost of capital. This capital structure is maintained by a combination of dividend policy, contributed equity and debt issuance. The issuance of any new debt with a term greater than one year requires prior approval of the PUB.

Legislation stipulates that the total of the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million. There was $53.0 million outstanding as at December 31, 2014 (2013 - $41.0 million). Issuance of long-term and short-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both long and short-term debt, to $1.6 billion at any point in time.

28.2 OIL AND GAS

Oil and Gas' objective when managing capital is to maintain its ability to fund operating costs and expenditures related to development and production assets, on a timely basis. Oil and Gas maintains an unsecured demand credit facility, which is used to finance operations in the short-term. Long-term capital includes share capital, shareholder contributions and retained earnings. Oil and Gas' future requirements for capital are expected to increase, as construction begins on new development assets. During this time, it is expected that Oil and Gas' cash from operations will be sufficient to fund a portion of its capital needs. Additional requirements will be funded entirely through shareholder contributions.

28.3 BULL ARM

Bull Arm Fabrication's objective when managing capital is to maintain its ability to continue as a going concern. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Prior to January 2009, net earnings received were payable to the Province. From January 2009 to December 2012, earnings were retained by Bull Arm Fabrication. In 2013, Bull Arm Fabrication implemented its Board approved dividend policy of paying dividends to Nalcor when cash balances exceed $1.0 million, an amount which would provide coverage for approximately 12 months of operating expenses assuming no cash inflows.

28.4 CHURCHILL FALLS

Churchill Falls' objective when managing capital is to maintain its ability to continue as a going concern. Churchill Falls' requirements for capital in the future are expected to increase, coincident with the aging of the plant and related infrastructure and the execution of the long-term asset management plan. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing the level of dividend payments is a key aspect of ensuring the availability of funding to maintain the plant and infrastructure.

At present, the capital position of Churchill Falls is comprised entirely of equity capital (issued capital, shareholder contributions, reserves and retained earnings). The capital structure is adjusted through the amount of dividends paid to shareholders.

28.5 MUSKRAT FALLS

Long-term capital includes long-term debt, share capital, contributed capital and retained earnings. Muskrat Falls' objectives when managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Muskrat Falls hydroelectric plant. Muskrat Falls' future requirements for capital are expected to continue to increase commensurate with progress on construction. During this time, proceeds from the construction facility and contributed capital will be sufficient to fund the development of the Muskrat Falls hydroelectric plant.

28.6 TRANSCO

Long-term capital includes long-term debt, share capital, contributed capital and retained earnings. Transco's objectives when managing capital are to maintain its ability to continue as a going concern and to ensure timely payment of its contractual obligations as they relate to the construction of the Labrador Transmission Assets. Transco's future requirements for capital are expected to continue to increase commensurate with progress on the construction. During this time, proceeds from the construction facility and contributed capital will be sufficient to fund the development of the Labrador Transmission Assets.

28.7 LIL LP

The capital position of the LIL LP is comprised of partner capital (issued units, cash calls and retained earnings) and long-term debt. The capital structure is adjusted through distributions paid to Limited Partners.

The LIL LP's objective when managing capital is to maintain its ability to continue as a going concern and fund the construction of the LIL. The LIL LP's requirements for capital in the future are expected to increase, coincident with the development of the LIL. The focus of the capital management policy is to provide flexibility to ensure cash continues to be available to satisfy capital requirements. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to proceed with the development of the LIL

29. SUPPLEMENTARY CASH FLOW INFORMATION

(millions of Canadian dollars)	**2014**	2013
Trade and other receivables	**(99.4)**	(25.1)
Prepayments	**(10.2)**	(15.6)
Inventories	**(21.9)**	(13.2)
Trade and other payables	**260.4**	230.7
Changes in non-cash working capital balances	**128.9**	176.8
Interest received	**35.8**	3.4
Interest paid	**272.2**	91.6

30. SEGMENT INFORMATION

Nalcor operates in seven business segments. Hydro regulated activities encompasses sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec, Hydro and industrial customers in Labrador. Oil and Gas activities include exploration, development, production, transportation and processing sectors of the oil and gas industry. Energy Marketing includes the sale of electricity to markets outside the province and other non-regulated electricity sales. Corporate and other activities encompass development activities including Phase 2 of the Lower Churchill Project and corporate activities. Phase 1 of the Lower Churchill Project includes investments in the Muskrat Falls hydroelectric plant, the Labrador-Island Link and the Labrador Transmission Assets. Bull Arm Fabrication consists of an industrial fabrication site which is leased for major construction of development projects. The segments' accounting policies are the same as those described in Note 2 of these consolidated financial statements. The designation of segments has been based on a combination of regulatory status and Management accountability. The segments' accounting policies are the same as those previously described in Note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm Fabrication	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter-Segment	Total
	For the year ended December 31, 2014								
Revenue									
Energy sales	**549.4**	**71.9**	**64.1**	**74.1**	**-**	**-**	**0.1**	**(4.0)**	**755.6**
Other revenue	**2.2**	**1.0**	**15.3**	**1.5**	**17.8**	**-**	**-**	**2.7**	**40.5**
	551.6	**72.9**	**79.4**	**75.6**	**17.8**	**-**	**0.1**	**(1.3)**	**796.1**
Expenses									
Fuels	**(268.1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(268.1)**
Power purchased	**(63.8)**	**-**	**-**	**(8.5)**	**-**	**-**	**-**	**4.0**	**(68.3)**
Operating costs	**(139.1)**	**(41.4)**	**(21.6)**	**(27.6)**	**(1.0)**	**(2.3)**	**(14.5)**	**-**	**(247.5)**
Depreciation and depletion	**(56.0)**	**(13.8)**	**(22.5)**	**-**	**-**	**-**	**(0.4)**	**-**	**(92.7)**
Exploration and evaluation	**-**	**-**	**(1.2)**	**-**	**-**	**-**	**-**	**-**	**(1.2)**
Net finance income and expense	**(74.2)**	**1.2**	**-**	**(1.0)**	**(0.6)**	**(0.1)**	**2.7**	**-**	**(72.0)**
Other income and expense	**0.9**	**(1.8)**	**3.0**	**(0.5)**	**1.1**	**-**	**(0.1)**	**-**	**2.6**
Share of profit of joint venture	**-**	**0.4**	**-**	**-**	**-**	**-**	**-**	**-**	**0.4**
Preferred dividends	**-**	**2.7**	**-**	**-**	**-**	**-**	**-**	**(2.7)**	**-**
(Loss) profit before regulatory adjustments	**(48.7)**	**20.2**	**37.1**	**38.0**	**17.3**	**(2.4)**	**(12.2)**	**-**	**49.3**
Regulatory adjustments	**66.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**66.3**
Profit (loss) for the year	**17.6**	**20.2**	**37.1**	**38.0**	**17.3**	**(2.4)**	**(12.2)**	**-**	**115.6**
Capital expenditures*	**208.5**	**33.0**	**237.5**	**1.4**	**-**	**1,536.7**	**4.8**	**-**	**2,021.9**
Total assets	**2,159.3**	**498.2**	**800.9**	**8.3**	**3.7**	**6,555.6**	**625.2**	**(8.1)**	**10,643.1**

* Capital expenditures include non-cash additions of $238.3 million related to the Maritime Link and $6.4 million related to Class B Limited Partnership Unit accrued interest.

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm Fabrication	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter-Segment	Total
	For the year ended December 31, 2013								
Revenue									
Energy sales	543.1	75.6	72.2	68.2	-	-	0.3	(4.1)	755.3
Other revenue	2.5	1.0	6.1	-	16.6	-	0.2	3.2	29.6
	545.6	76.6	78.3	68.2	16.6	-	0.5	(0.9)	784.9
Expenses									
Fuels	(190.9)	-	-	-	-	-	-	-	(190.9)
Power purchased	(59.4)	-	-	(7.7)	-	-	-	4.1	(63.0)
Operating costs	(113.0)	(41.3)	(19.1)	(26.7)	(0.9)	(0.2)	(10.8)	-	(212.0)
Depreciation and depletion	(51.3)	(13.0)	(25.1)	-	(0.1)	-	(0.4)	-	(89.9)
Exploration and evaluation	-	-	(7.4)	-	-	-	-	-	(7.4)
Net finance income and expense	(74.3)	1.5	0.3	(0.3)	0.1	-	(1.1)	-	(73.8)
Other income and expense	0.9	(1.3)	(0.8)	(0.2)	(0.2)	(1.8)	(0.1)	-	(3.5)
Share of profit of joint venture	-	0.4	-	-	-	-	-	-	0.4
Preferred dividends	-	3.2	-	-	-	-	-	(3.2)	-
Profit (loss) before regulatory adjustments	57.6	26.1	26.2	33.3	15.5	(2.0)	(11.9)	-	144.8
Regulatory adjustments	(57.1)	-	-	-	-	-	-	-	(57.1)
Profit (loss) for the year	0.5	26.1	26.2	33.3	15.5	(2.0)	(11.9)	-	87.7
Capital expenditures	86.6	32.5	184.7	0.4	-	726.7	6.5	-	1,037.4
Total assets	1,959.6	486.0	548.3	6.6	3.6	6,080.9	447.6	(8.9)	9,523.7

* Capital expenditures include non-cash additions of $46.7 million related to the Maritime Link and $5.3 million related to Class B Limited Partnership Unit accrued interest.

31. EXPLANATION OF TRANSITION TO IFRS

Nalcor adopted IFRS as of January 1, 2014, with the date of transition effective January 1, 2013. Prior to the adoption of IFRS, Nalcor prepared its annual audited consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

These annual audited consolidated financial statements have been prepared with the accounting policies described in Note 2 and in accordance with the existing IFRS with an effective date of December 31, 2014. Related comparatives have also been prepared under IFRS effective at January 1, 2013. In preparing its opening IFRS Statement of Financial Position, Nalcor has adjusted amounts reported previously in financial statements prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected Nalcor's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany the tables.

IFRS 1 sets out the guidance for first time adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the date of transition unless certain exceptions are applied.

The following mandatory IFRS exceptions were applied at the transition date:

<u>Estimates</u>
Hindsight was not used to create or revise estimates. The estimates previously made by Nalcor under GAAP are consistent with their applications under IFRS.

<u>Classification and Measurement of Financial Assets</u>
Nalcor has not retroactively applied the derecognition requirements in IFRS 9 occurring on or after the transition date.

The following optional IFRS exceptions were applied at the transition date:

<u>Property, plant and equipment – deemed cost</u>
Prior to transition to IFRS, the carrying amount of property, plant and equipment included amounts that were determined through rate regulated guidance. On transition to IFRS, Nalcor's subsidiary, Hydro, elected to use the carrying amount of property, plant and equipment as the deemed cost at January 1, 2013. The decommissioning liabilities are not exempt from IFRS 1 and were adjusted to reflect their IFRS cost.

<u>Borrowing Costs</u>
Nalcor's subsidiary, Hydro, has elected to apply the transitional exemption allowing the borrowing costs to be capitalized prospectively from the date of transition.

31.1 RECONCILIATION OF EQUITY

(millions of Canadian dollars)	Notes	January 1, 2013 Previous GAAP	Effect of Transition to IFRS	IFRS	December 31, 2013 Previous GAAP	Effect of Transition to IFRS	IFRS
ASSETS							
Current assets							
Cash and cash equivalents	a	12.1	(0.2)	11.9	94.0	(0.3)	93.7
Restricted cash		-	-	-	525.5	-	525.5
Short-term investments	a	11.5	(0.5)	11.0	1.7	(0.7)	1.0
Trade and other receivables	a	125.0	(0.3)	124.7	150.2	(0.4)	149.8
Current portion of regulatory assets	i	2.2	(2.2)	-	2.2	(2.2)	-
Current portion of sinking funds		-	-	-	65.4	-	65.4
Prepayments		5.6	-	5.6	11.6	-	11.6
Inventories	i	62.1	(0.1)	62.0	75.2	-	75.2
Derivative assets		0.1	-	0.1	0.2	-	0.2
Total current assets		218.6	(3.3)	215.3	926.0	(3.6)	922.4
Non-current assets							
Property, plant and equipment	a,b,c,d,e,f,g,i	2,435.0	367.4	2,802.4	3,204.3	538.3	3,742.6
Petroleum and natural gas properties	b,d,e	376.0	(376.0)	-	552.6	(552.6)	-
Investment property	b,c	-	1.1	1.1	-	1.1	1.1
Regulatory assets	i	62.8	(62.8)	-	62.2	(62.2)	-
Other long-term assets		354.5	-	354.5	314.7	-	314.7
Investment in joint arrangement	a	-	0.7	0.7	-	1.1	1.1
Long-term investments		-	-	-	4,477.4	-	4,477.4
Total non-current assets		3,228.3	(69.6)	3,158.7	8,611.2	(74.3)	8,536.9
Total assets		3,446.9	(72.9)	3,374.0	9,537.2	(77.9)	9,459.3
Regulatory deferrals	i	-	65.1	65.1	-	64.4	64.4
Total assets and regulatory deferrals		3,446.9	(7.8)	3,439.1	9,537.2	(13.5)	9,523.7

		January 1, 2013			December 31, 2013		
(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS	Previous GAAP	Effect of Transition to IFRS	IFRS
LIABILITIES AND EQUITY							
Current liabilities							
Short-term borrowings		125.0	-	125.0	41.0	-	41.0
Trade and other payables	a	181.1	(0.1)	181.0	411.7	-	411.7
Current portion of long-term debt		8.2	-	8.2	82.2	-	82.2
Current portion of regulatory liabilities	i	169.0	(169.0)	-	214.0	(214.0)	-
Current portion of other liabilities	a,f	8.6	(0.1)	8.5	5.8	0.2	6.0
Derivative liabilities		-	-	-	1.5	-	1.5
Total current liabilities		491.9	(169.2)	322.7	756.2	(213.8)	542.4
Non-current liabilities							
Long-term debt		1,125.9	-	1,125.9	6,047.9	-	6,047.9
Class B partnership units		-	-	-	73.0	-	73.0
Regulatory liabilities	b,i	33.2	(33.2)	-	40.3	(40.3)	-
Deferred credits		45.0	-	45.0	93.5	-	93.5
Deferred contributions	b,f	-	9.9	9.9	-	10.7	10.7
Decommissioning liabilities	a,b,g	30.0	1.9	31.9	33.1	(0.1)	33.0
Employee benefits liability	h	73.6	46.3	119.9	81.4	37.1	118.5
Long-term payables		82.4	-	82.4	78.3	-	78.3
Total non-current liabilities		1,390.1	24.9	1,415.0	6,447.5	7.4	6,454.9
Total liabilities		1,882.0	(144.3)	1,737.7	7,203.7	(206.4)	6,997.3
Shareholder’s Equity							
Share capital		122.5	-	122.5	122.5	-	122.5
Shareholder contributions		435.8	-	435.8	1,141.8	-	1,141.8
Reserves	a,h	43.6	(45.6)	(2.0)	10.6	(37.7)	(27.1)
Retained earnings	b,d,e,h	963.0	(20.1)	942.9	1,058.6	(28.0)	1,030.6
Total equity		1,564.9	(65.7)	1,499.2	2,333.5	(65.7)	2,267.8
Total liabilities and equity		3,446.9	(210.0)	3,236.9	9,537.2	(272.1)	9,265.1
Regulatory deferrals	i	-	202.2	202.2	-	258.6	258.6
Total liabilities, equity and regulatory deferrals		3,446.9	(7.8)	3,439.1	9,537.2	(13.5)	9,523.7

31.2 RECONCILIATION OF PROFIT AND COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013

(millions of Canadian dollars)	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS
Energy sales	a	756.0	(0.7)	755.3
Other revenue	a, f	28.8	0.8	29.6
Revenue		**784.8**	**0.1**	**784.9**
Fuels		(190.9)	-	(190.9)
Power purchased	a	(63.2)	0.2	(63.0)
Operating costs	a,h	(215.4)	3.4	(212.0)
Depreciation and depletion	a,b,d,e,f,g,i	(87.7)	(2.2)	(89.9)
Exploration and evaluation	d	-	(7.4)	(7.4)
Net finance income and expense	b,g	(72.5)	(1.3)	(73.8)
Other income and expense	a	(3.9)	0.4	(3.5)
Share of profit of joint venture	a	-	0.4	0.4
Profit for the year, before regulatory adjustments		**151.2**	**(6.4)**	**144.8**
Regulatory adjustments	h,i	(55.6)	(1.5)	(57.1)
Profit for the year, before regulatory adjustments		**95.6**	**(7.9)**	**87.7**
Other comprehensive income:				
Net change in fair value of available for sale financial instruments		(5.0)	-	(5.0)
Net change in fair value of derivatives designated as cash flow hedges		(12.3)	-	(12.3)
Net change in fair value of financial instruments reclassified to profit or loss		(15.7)	-	(15.7)
Net change in fair value of employee benefit liability	h	-	7.9	7.9
Total comprehensive income for the year		**62.6**	**-**	**62.6**

31.3 RECONCILIATION OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2013

(millions of Canadian dollars)	Previous GAAP	Effect of Transition to IFRS	IFRS
Cash provided by (used in):			
Operating activities	441.3	(30.9)	410.4
Investing activities	(5,516.0)	28.9	(5,487.1)
Financing activities	5,156.6	1.9	5,158.5
Net increase in cash and cash equivalents	81.9	(0.1)	81.8

31.4 NOTES TO THE RECONCILIATION

(a) Accounting for Joint Arrangements

Under GAAP, Nalcor accounted for its interests in subsidiaries in which it has joint control using proportionate consolidation. IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. Hydro has determined that Churchill Falls is a joint operation and therefore accounts for the investment by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Churchill Falls holds 33.33% of the equity share capital of Twin Falls and is a party with other shareholders in a participation agreement which gives Churchill Falls joint control of Twin Falls. This arrangement is a joint venture and is accounted for using the equity method under IFRS 11, but was previously proportionately consolidated under GAAP. Under the equity method, the interest in the joint venture is carried in the Statements of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Statements of Profit and Comprehensive Income reflect the share of the profit or loss of the joint venture.

(b) Property, Plant and Equipment

Regulated Hydro

Prior to transition to IFRS, the carrying amount of property, plant and equipment included amounts that were determined through rate regulated guidance. On transition to IFRS, Hydro has elected to use the carrying amount of property, plant and equipment at its deemed cost at January 1, 2013.

Other Property, Plant and Equipment

Under GAAP, Nalcor allocated the cost of an item of property, plant and equipment to significant separable components only when practicable. IAS 16 requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item be depreciated separately. Nalcor also reviewed replacement of major components to determine if assets replaced prior to the end of their useful life required derecognition under IFRS.

A reconciliation of the property, plant and equipment is as follows:

(millions of Canadian dollars)	December 31 2013	January 1 2013
Property, plant and equipment as reported under Canadian GAAP	3,204.3	2,435.0
Remove Twin Falls' property, plant and equipment	(0.1)	(0.1)
Reclassify Churchill Falls' contributions in aid of construction	9.7	10.1
Reclassify Hydro contributions in aid of construction	1.6	-
Reclassify insurance proceeds to regulatory deferrals	4.3	-
Revision of Hydro decommissioning liabilities	0.1	2.1
Revision of Oil & Gas decommissioning liabilities	(0.2)	(0.2)
Remove capitalized overhead	(1.6)	(1.6)
Revision of depletion policy	5.4	9.3
Remove pre-license exploration costs	(12.1)	(4.7)
Impairment of exploration and evaluation assets	(25.2)	(25.2)
Reclassify petroleum and natural gas properties	552.6	376.0
Reclassify investment property	(1.1)	(1.1)
Other property, plant and equipment adjustments	4.9	2.8
Property, plant and equipment as reported under IFRS	3,742.6	2,802.4

(c) Investment Property

Under GAAP, property held for the purpose of generating rental income or capital appreciation was included in property, plant and equipment. Under IFRS, such property is classified as investment property.

(d) Exploration and Evaluation Expenditures and Petroleum and Natural Gas Properties

Under GAAP, Nalcor employed the full cost method of accounting whereby all costs related to the acquisition, exploration for and development of petroleum and natural gas assets were capitalized. Under IFRS, pre-license exploration and evaluation costs are recognized in the Statements of Profit and Comprehensive Income as incurred. On January 1, 2013, upon transition to IFRS, $4.7 million of pre-license exploration and evaluation costs were recorded in retained earnings. As at December 31, 2013, the amount recorded in retained earnings was $12.1 million. Under IFRS, Nalcor recognized $7.4 million associated with exploration programs in exploration and evaluation expense for the year ended December 31, 2013.

In addition, exploration and evaluation assets are classified separately from property, plant and equipment subject to depletion and depreciation. Under GAAP, exploration and evaluation assets subject to impairment are included in the calculation of depletion. Under IFRS, such impaired exploration and evaluation assets are included in profit or loss in the period in which the impairment occurs. On January 1, 2013, upon transition to IFRS, $25.2 million of exploration and evaluation assets were determined to be impaired and were recorded in retained earnings.

(e) Depletion

Under Canadian GAAP, depletion of petroleum and natural gas properties was determined using cash flows and reserve estimates based on proved reserves. Under IFRS, entities may select to determine depletion using either proved reserves or proved and probable reserves. Nalcor has selected a policy of calculating depletion using cash flows and reserve estimates based on proved and probable reserves. On January 1, 2013, the selected policy resulted in a decrease in accumulated depletion of $9.3 million. As at December 31 2013, the policy change resulted in a decrease in accumulated depletion of $5.4 million. The selected policy resulted in an increase of $3.9 million in depletion for the year ended December 31, 2013.

(f) Contributions in Aid of Construction

Under GAAP, Nalcor recorded contributions in aid of construction as a reduction to the carrying value of property, plant and equipment. IFRIC 18 and IAS 18 requires contributions to be recorded as revenue with the unearned portion recorded as deferred contributions and amortized to profit or loss as earned.

(g) Decommissioning Liabilities

Under GAAP, decommissioning liabilities were measured based upon the estimated futures cash flows required to settle the obligation, discounted using the credit-adjusted risk-free rate upon recognition. Subsequent measurement reflected changes to estimated timing and amount of cash flows, but not changes to the discount rate. Under IFRS, decommissioning liabilities are measured using a discount rate reflecting risks specific to the liability. Subsequent measurement reflects changes in the estimated timing and amount of cash flows as well as changes to reflect market interest rates. The change resulted in an increase in decommissioning liabilities of $1.9 million on transition to IFRS at January 1, 2013. As at December 31, 2013, this resulted in a decrease of $0.1 million in decommissioning liabilities and a corresponding increase in property, plant and equipment.

Under GAAP, $1.3 million of accretion costs were presented in depreciation expense for the twelve months ended December 31, 2013. Under IFRS, accretion has been reclassified as net finance income and expense.

(h) Employee Benefits

Adoption of IAS 19 resulted in an increase in the employee benefit liability as at January 1, 2013 of $46.3 million and a corresponding decrease in equity of $46.3 million.

In addition, for the year ended December 31, 2013, adoption of the amended IAS 19 also resulted in a decrease in operating costs of $3.0 million. For the year ended December 31, 2013, adoption of the amended IAS 19 resulted in an increase in the employee benefit liability of $37.0 million, an increase in retained earnings of $0.7 million, and a decrease in reserves of $37.7 million.

(i) Regulatory deferrals

Under GAAP, Nalcor included certain regulatory deferrals in inventories and property, plant and equipment. IFRS 14 requires that all regulatory assets and liabilities be disclosed separately in the Statement of Financial Position. As a result, Nalcor reclassified $0.1 million from inventories to regulatory deferrals at January 1, 2013, and reclassified $4.3 million from property, plant and equipment to regulatory deferrals at December 31, 2013.

Due to uncertainties surrounding the timing of the reversal of regulatory deferral balances, IFRS 14 does not require classification of such balances between current and non-current.

32. SUBSEQUENT EVENTS

On March 2, 2015, Nalcor increased the irrevocable letter of credit issued to New York Independent System Operator Inc. from $1.2 million USD to $2.6 million USD.

On March 17, 2015, Oil and Gas entered into a series of 8 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.

Subsequent to December 31, 2014, LIL LP entered into new capital commitments totaling $55.4 million.

33. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the basis of presentation adopted during the current reporting period.

FINANCIAL STATISTICS

*Years ended December 31 (millions of Canadian dollars) **	**2014**	2013	2012	2011	2010
OPERATING RESULTS					
Revenue					
Energy sales	**755.6**	755.3	710.4	700.0	588.8
Other	**40.5**	29.6	15.7	14.1	13.3
	796.1	784.9	726.1	714.1	602.1
Expenses					
Fuels and power purchased	**336.4**	253.9	243.2	207.8	184.8
Operating costs	**247.5**	212.0	206.9	200.1	181.9
Depreciation and depletion	**92.7**	89.9	79.3	85.2	67.5
Exploration and evaluation expense	**1.2**	7.4	-	-	-
Net finance income and expense	**72.0**	73.8	73.6	70.9	87.1
Other income and expense	**(2.6)**	3.5	0.4	(2.8)	3.3
Share of profit in joint arrangement	**(0.4)**	(0.4)	-	-	-
Regulatory adjustments	**(66.3)**	57.1	30.0	24.1	-
	680.5	697.2	633.4	585.3	524.6
Net Income	**115.6**	87.7	92.7	128.8	77.5
Contributions to net income					
Regulated Electricity	**17.6**	0.5	17.1	23.1	6.5
Energy Marketing	**38.0**	33.3	21.2	47.1	53.4
Churchill Falls	**20.2**	26.1	28.3	24.4	26.8
Oil and Gas	**37.1**	26.2	32.7	39.1	(2.5)
Bull Arm Fabrication	**17.3**	15.5	4.2	3.7	1.1
Phase 1 Lower Churchill Project	**(2.4)**	(2.0)	-	-	-
Corporate and Other Activities	**(12.2)**	(11.9)	(10.8)	(8.6)	(7.8)
FINANCIAL POSITION					
Total current assets	**1,601.8**	922.4	218.6	270.5	227.3
Total current liabilities	**740.4**	542.4	508.9	313.4	282.1
Net working capital	**861.4**	380.0	(290.3)	(42.9)	(54.8)
Property, plant and equipment	**6,328.8**	4,304.4	3,384.3	2,873.8	3,313.9
Accumulated depreciation and depletion	**652.0**	561.8	573.3	460.1	1,076.0
Property, plant and equipment, net	**5,676.8**	3,742.6	2,811.0	2,413.7	2,237.9
Long-term portion of sinking funds	**267.1**	237.9	302.8	247.0	208.4
Long-term investments	**2,871.4**	4,477.4	-	-	-
Regulatory deferrals (net)	**(127.9)**	(194.2)	-	-	-
Other assets	**101.8**	79.0	114.5	110.6	131.2
Long-term debt	**6,240.5**	6,047.9	1,125.9	1,131.5	1,136.7
Other liabilities	**688.1**	665.6	247.2	167.2	120.6
Shareholder's equity	**2,722.0**	2,267.8	1,564.9	1,429.7	1,265.4
CAPITAL EXPENDITURES	**2,021.9**	1,037.4	449.4	253.9	196.3

* Financial statistics for the years ended 2012 and prior have been reported in accordance with Canadian generally accepted accounting principles and have not been restated to reflect International Financial Reporting Standards transitional adjustments. However, certain of these comparative figures have been reclassified to conform with the basis of presentation adopted during 2014.

OPERATING STATISTICS

Years ended December 31	**2014**	2013	2012	2011	2010
INSTALLED GENERATING CAPACITY (rated megawatts)					
Churchill Falls	**5,428**	5,428	5,428	5,428	5,428
Twin Falls	**225**	225	225	225	225
Hydro - Hydraulic					
Hydraulic	**956**	939	939	939	939
Thermal	**617**	617	617	632	640
Diesel	**64**	53	52	55	58
Menihek	**19**	19	19	19	19
Total	**7,309**	7,281	7,280	7,298	7,309
ELECTRIC ENERGY GENERATED, NET (gigawatt hours GWh)					
Churchill Falls	**32,192**	34,536	35,661	33,321	33,781
Hydro					
Hydraulic	**4,658**	4,688	4,595	4,512	4,274
Thermal	**1,316**	956	851	873	792
Diesel	**54**	49	45	49	43
Menihek	**48**	45	43	42	37
Total	**38,268**	40,274	41,195	38,797	38,927
ELECTRIC ENERGY SALES (GWh)					
Churchill Falls Export	**27,568**	29,787	30,805	28,569	28,966
Hydro					
Utility	**5,852**	5,606	5,359	5,317	5,016
Rural	**1,089**	1,017	998	949	884
Industrial	**519**	556	607	491	729
Export	**1,545**	1,514	1,559	1,594	1,457
Menihek Export	**45**	44	42	42	37
Twin Falls Industrial	**1,607**	1,683	1,740	1,715	1,772
Total	**38,225**	40,207	41,110	38,677	38,861
TRANSMISSION LINES (kilometres)					
Churchill Falls	**1,079**	1,079	1,079	1,079	1,079
NL Hydro	**3,743**	3,743	3,743	3,742	3,742
Menihek	**39**	39	39	39	39
Total	**4,861**	4,861	4,861	4,860	4,860
PEAK ELECTRICITY DEMAND (megawatts)					
Churchill Falls	**5,620**	5,658	5,671	5,635	5,604
Hydro System	**1,535**	1,501	1,385	1,399	1,305
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
White Rose Growth Lands	**1.52**	1.59	1.20	1.81	0.51
Hibernia Southern Extension	**0.29**	0.21	0.44	0.38	-
Remaining Reserves (Proven and Probable) (Millions BOE)					
White Rose Growth Lands	**3.63**	4.50	3.84	4.15	4.77
Hibernia Southern Extension	**25.10**	21.35	20.52	18.18	17.95
Hebron	**33.17**	33.17	31.80	30.38	-
STAFFING LEVELS					
Full-time equivalents	**1,394**	1,334	1,305	1,290	1,263

NALCOR ENERGY EXECUTIVE LEADERSHIP TEAM (AT DEC. 31, 2014)

Ed Martin
President & Chief Executive Officer

Derrick Sturge
Vice President
Finance & Chief Financial Officer

Gilbert Bennett
Vice President
Lower Churchill Project

Dawn Dalley
Vice President
Corporate Relations & Customer Service

Robert Henderson
Vice President
Newfoundland and Labrador Hydro

Paul Humphries
Vice President
System Operations and Planning

Jim Keating
Vice President
Oil and Gas

Chris Kieley
Vice President
Strategic Planning & Business Development

John MacIsaac
Vice President
Project Execution & Technical Services

Gerard McDonald
Vice President
Human Resources & Organizational Effectiveness (on secondment)

Michael Roberts
Vice President (Acting)
Human Resources
& Organizational Effectiveness

NALCOR ENERGY BOARD OF DIRECTORS (AT DEC. 31, 2014)

Ken Marshall (Chairperson) [1, 2]
President - Atlantic Region
Rogers Communications

Leo Abbass [3, 4]
Corporate Director

Erin Breen [4]
Partner, Simmons + Partners Defence

Ed Martin
President & CEO
Nalcor Energy

Tom Clift [1, 2, 3, 4]
Professor
Faculty of Business Administration
Memorial University of Newfoundland and Labrador

Gerald Shortall [1, 2, 3]
Chartered Accountant
Corporate Director

[1] Compensation Committee [2] Audit Committee [3] Corporate Governance Committee [4] Safety, Health, Environment and Community Committee

NALCOR ENERGY OFFICERS (AT DEC. 31, 2014)

Ken Marshall
Chairperson

Ed Martin
President & Chief Executive Officer

Derrick Sturge
Vice President
Finance & Chief Financial Officer

Gilbert Bennett
Vice President
Lower Churchill Project

Dawn Dalley
Vice President
Corporate Relations & Customer Service

Robert Henderson
Vice President
Newfoundland and Labrador Hydro

Paul Humphries
Vice President
System Operations and Planning

Jim Keating
Vice President
Oil and Gas

Chris Kieley
Vice President
Strategic Planning
& Business Development

John MacIsaac
Vice President
Project Execution & Technical Services

Gerard McDonald
Vice President
Human Resources & Organizational Effectiveness

Wayne Chamberlain
General Counsel
& Corporate Secretary

Peter Hickman
Assistant Corporate Secretary

Robert Hull
General Manager, Finance

Auburn Warren
General Manager, Commercial, Treasury and Risk

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

In 2014, Nalcor Energy's Board of Directors was comprised of six members, including the Chair of the Board and the President and CEO of Nalcor Energy. The Board, chaired by Ken Marshall in 2014, has four active committees: Audit, Corporate Governance, Compensation and Safety, Health, Environment and Community.

The principal functions of the Board include:

(a) developing Nalcor's approach to corporate governance;
(b) reviewing and approving the business, financial, strategic and other plans to enable Nalcor to execute its strategy;
(c) adopting processes for monitoring the company's progress toward its strategic and operational goals;
(d) approving the audited financial statements and Management's Discussion and Analysis;
(e) ensuring that Management has a process for identifying the principal business risks;
(f) overseeing the integrity of the internal control systems;
(g) ensuring that Nalcor has processes for operating within applicable laws and regulations;
(h) ensuring the company has a compensation philosophy and framework;
(i) ensuring a process is in place to measure the performance of senior executives of Nalcor;
(j) ensuring Management creates a culture of integrity throughout the organization; and
(k) ensuring that succession plans are in place for senior Management, including the President and CEO.

The Nalcor Board met 7 times in 2014, in addition to Committee meetings. Director attendance at Board and Committee meetings in 2014:

Directors	Board of Directors	Audit	Corporate Governance	Compensation	Safety, Health, Environment and Community
Number of Meetings Held	7	4	1	4	2
Leo Abbass[1]	7		1		
Erin Breen	5				2
Tom Clift	6	3	1	4	2
Allan Hawkins[2]	4				1
Ken Marshall[3]	7	4		4	
Ed Martin	7				
Gerry Shortall	7	4	1	1	
Terry Styles[4]				1	

[1] Leo Abbass was appointed to the Safety, Health, Environment and Community Committee effective November 28, 2014.
[2] Allan Hawkins resigned effective October 16, 2014.
[3] Ken Marshall was appointed Acting Chair effective March 14, 2014; he was appointed Chair effective November 4, 2014.
[4] Terry Styles resigned effective February 28, 2014.

CORPORATE GOVERNANCE

Nalcor has the following subsidiary companies, each with its own Boards of Directors (listed as at Dec. 31, 2014).*

NEWFOUNDLAND AND LABRADOR HYDRO

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Leo Abbass
Corporate Director

Erin Breen
Partner, Simmons + Partners Defence

Tom Clift
Professor, Faculty of Business Administration, Memorial University of Newfoundland and Labrador

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Gerald Shortall
Chartered Accountant

CHURCHILL FALLS (LABRADOR) CORPORATION LIMITED

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Richard Cacchione
President, Hydro-Québec Production

Jim Keating
Vice President, Nalcor Energy Oil and Gas Inc.

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Marie-Jose Nadeau
Executive Vice President Corporate Affairs and Secretary General, Hydro-Québec

Gerald Shortall
Chartered Accountant

Bob Warr
Managing Director, Nor-Lab Limited

NALCOR ENERGY – OIL & GAS INC.

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Gilbert Dalton
Chartered Accountant

Justin Ladha
Vice President, KMK Capital Inc.

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Gerald Shortall
Chartered Accountant

NALCOR ENERGY – BULL ARM FABRICATION INC.

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Leo Abbass
Corporate Director

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Mike Mulrooney [5]
Production Coordinator, Suncor Energy, East Coast Offshore

Gerald Shortall
Chartered Accountant

[5] Resigned effective March 13, 2015

TWIN FALLS POWER CORPORATION LIMITED

Chris Kieley
Vice President, Strategic Planning & Business Development, Nalcor Energy

Van Alexopoulos
Director, Commercial Services, Iron Ore Company of Canada

Tony Beiting [6]
Mine Controller, Bloom Lake-ECIO

Oral Burry, Manager
Long Term Planning and Asset Management, CF(L)Co.

Wayne Chamberlain
General Counsel and Corporate Secretary, Nalcor Energy

Maurice McClure
General Manager, Financial Planning and Cost Management, Iron Ore Company of Canada

Gerard McDonald
Vice President, Human Resources and Organizational Effectiveness, Nalcor Energy

Tolaver Rapp [7]
Director, Global Energy Procurement, Cliffs Natural Resources

Derrick Sturge
Vice President and Chief Financial Officer, Nalcor Energy

[6] Resigned effective January 30, 2015, [7] Resigned effective February 23, 2015

LOWER CHURCHILL MANAGEMENT CORPORATION

Ed Martin, Chairperson
President and Chief Executive Officer, Nalcor Energy

Gilbert Bennett
Vice President, Lower Churchill Project

Gerard McDonald
Vice President, Human Resources and Organizational Effectiveness, Nalcor Energy

June Perry
President and CEO, Pilot Communications

Donna Stone
Investment Advisor, CIBC Wood Gundy

Derrick Sturge
Vice President and Chief Financial Officer, Nalcor Energy

LABRADOR-ISLAND LINK GENERAL PARTNER CORPORATION (GENERAL PARTNER OF LABRADOR-ISLAND LINK LIMITED PARTNERSHIP)

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Libby Burnham
Lawyer

Ron Ellsworth
Business Person

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Gerald Shortall
Chartered Accountant

LABRADOR-ISLAND LINK HOLDING CORPORATION

Tom Clift, Chairperson
Professor, Faculty of Business Administration, Memorial University of Newfoundland and Labrador

Erin Breen
Partner, Simmons+ Partners Defence

Sheila Kelly-Blackmore
Business Person

Derrick Sturge
Vice President, Finance and Chief Financial Officer, Nalcor Energy

CORPORATE GOVERNANCE

LABRADOR-ISLAND LINK OPERATING CORPORATION

Gerald Shortall, Chairperson
Chartered Accountant

Leo Abbass
Corporate Director

Chris Loomis
Professor of Pharmacology, School of Pharmacy and Faculty of Medicine, Memorial University of Newfoundland and Labrador

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Desmond Whalen
Medical Student, Faculty of Medicine, Memorial University of Newfoundland and Labrador

LABRADOR TRANSMISSION CORPORATION

Ed Martin, Chairperson
President and Chief Executive Officer, Nalcor Energy

Gilbert Bennett
Vice President, Lower Churchill Project

Ann Marie Hann
President, Coal Association of Canada

Paul Humphries
Vice President, System Operations and Planning, Nalcor Energy

Derrick Sturge
Vice President, Finance and Chief Financial Officer, Nalcor Energy

Chris Woodford
Architect, Woodford Sheppard Architecture

MUSKRAT FALLS CORPORATION

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Richard Daw
Chartered Accountant

Ed Martin
President and Chief Executive Officer, Nalcor Energy

John Quaicoe
Professor, Faculty of Engineering and Applied Science
Memorial University of Newfoundland and Labrador

Gerald Shortall
Chartered Accountant

NALCOR ENERGY MARKETING CORPORATION

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Dennis Clarke
Lawyer, McInnes Cooper

Tom Clift
Professor, Faculty of Business Administration
Memorial University of Newfoundland and Labrador

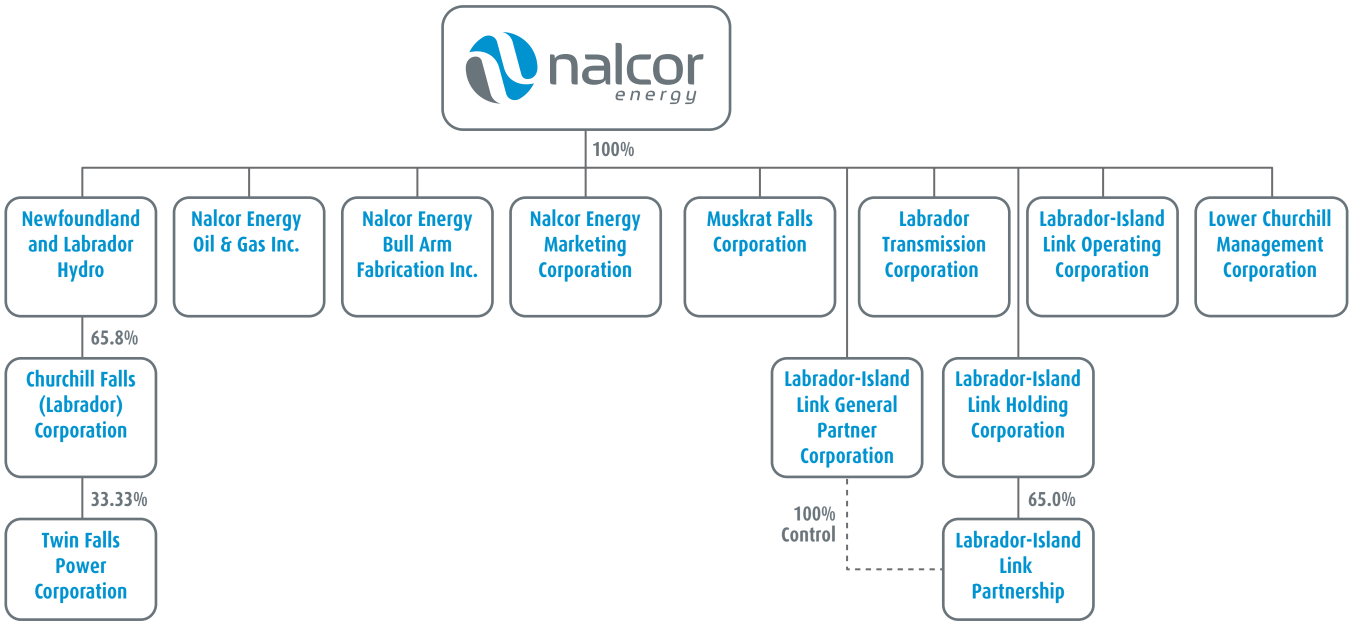
John Green
Lawyer, McInnes Cooper

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Gerald Shortall
Chartered Accountant

* Excludes currently inactive legal entities Gull Island Power Company Limited and Lower Churchill Development Corporation Limited

NALCOR'S LEGAL ENTITY STRUCTURE



AUDIT COMMITTEE

In 2014, the Audit Committee was comprised of three independent directors. All members of the Committee are required to have a basic understanding of finance and accounting and be able to read and understand financial statements, and at least one member of the Committee shall have accounting or related financial management expertise at a level of sophistication similar to that of Nalcor. In 2014, the Committee was comprised of Gerald Shortall (Chair), Ken Marshall and Tom Clift[8].

[8] Terrance Styles resigned effective February 28, 2014. Tom Clift was appointed to the Audit Committee effective March 21, 2014.

The Audit Committee's primary duties and responsibilities are to:

(a) monitor the integrity of Nalcor's financial statements, financial reporting process and systems of internal controls;
(b) identify and monitor the management of the principal risks that could impact the financial reporting of the company;
(c) appoint, approve compensation and monitor the independence and performance of the external auditors;
(d) provide oversight over the internal audit function;
(e) monitor the compliance with legal and regulatory requirements; and
(f) facilitate communication among the external auditors, Nalcor's Internal Audit Department, Management and the Board.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors. Subject to Board approval, the Audit Committee may retain, at Nalcor's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties.

The Committee regularly meets separately with the external auditor and Nalcor's Internal Audit Department and Management. The Committee also regularly meets in-camera with only the Committee members present.

CORPORATE GOVERNANCE COMMITTEE

In 2014, the Corporate Governance Committee consisted of three directors as determined by the Board, all of whom were independent. In 2014 the Committee was comprised of: Tom Clift (Chair), Leo Abbass and Gerald Shortall. The Corporate Governance Committee is responsible for:

(a) developing governance principles for Nalcor and its subsidiaries that are consistent with high standards of corporate governance;
(b) reviewing and recommending a process for director orientation and assessment; and
(c) oversight of the company's enterprise risk management activities.

COMPENSATION COMMITTEE

In 2014, the Compensation Committee was comprised of three members, all of whom were independent directors. The Committee provides oversight of all compensation and human resources issues for Nalcor and its subsidiaries. In 2014 the Committee was comprised of: Ken Marshall (Chair), Gerald Shortall [9] and Tom Clift. The primary responsibilities of the Committee are to:

(a) undertake an annual performance review of the President and CEO;
(b) review and assess Nalcor's succession planning policies and practices;
(c) establish and maintain a compensation philosophy and framework;
(d) review and assess compensation and benefit policies and programs;
(e) review collective bargaining mandates and any proposed tentative settlements; and
(f) review performance management practices and procedures.

[9] Terrance Styles resigned effective February 28, 2014. Allan Hawkins was appointed effective June 26, 2014 and resigned effective October 16, 2014. Gerald Shortall was appointed to the Compensation Committee effective November 13, 2014.

Subject to the approval of the Board of Directors, the Committee may engage outside legal and technical specialists to assist the Committee in the discharge of their duties and responsibilities.

SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

In 2014, the Safety, Health, Environment and Community Committee consisted of three members as determined by the Board, all of whom were independent directors. In 2014 the Committee was comprised of: Tom Clift (Chair), Erin Breen and Allan Hawkins[10]. The Safety, Health, Environment and Community Committee's primary responsibilities include:

(a) reviewing and reporting to the Board of Directors on the company's maintenance of safety, environment and health policies, procedures and practices;
(b) reviewing with Management whether the company's safety, environment and health policies are effectively implemented and in compliance with statutory and regulatory requirements;
(c) reviewing the findings of reports arising from internal and external audits and assessments of safety, environment and health issues, together with Management's response;
(d) reviewing with Management the impact of proposed legislation in matters of safety, environment and health on the operations of the company; and
(e) reviewing with Management and making recommendations to the Board of Directors as appropriate on the company's safety, environment and health policies and procedures and any other matters relating to the safety, environment and health that it considers relevant.

[10] Allan Hawkins resigned effective October 16, 2014. Leo Abbass was appointed to the Safety, Health, Environment and Community Committee effective November 28, 2014.

INDEPENDENCE

Nalcor Energy has a Director Independence Policy consisting of:

(a) a majority of the Board of Directors, including the Board chair, shall be independent;

(b) all the members of the Board's Committees shall be independent;

(c) directors have a responsibility to discuss any potential conflicts that might impact their independence with the Board chair or the chair of the Corporate Governance Committee; and

(d) if directors do not satisfy the Independence criteria, they should not participate in any discussion or voting relating to such matters.

POLICY ON INDEPENDENCE OF EXTERNAL AUDITORS

Nalcor Energy has an Auditor Independence Policy that governs all aspects of Nalcor's relationship with the external auditor, including:

(a) establishing a process for determining whether various audit and other services provided by the external auditor affects their independence;

(b) identifying the services that the external auditor may and may not provide to Nalcor;

(c) pre-approving all services to be provided by the external auditor to the company;

(d) establishing a process for hiring current or former personnel of the external auditor in a financial oversight role to ensure auditor independence is maintained.

EXTERNAL AUDITOR'S FEES

The external auditor of Nalcor and its subsidiaries is Deloitte LLP. Deloitte has been the external auditor since 2003. Professional fees incurred in 2014 in connection with audit and audit-related services were $913,865 (2013 - $1,058,000) and fees related to non-audit services were $251,391 (2013 - $38,000).

ENERGY PORTFOLIO

LEGEND

- Hydroelectric Generation Station
- Thermal Plant/Combustion Turbine
- Diesel Plant
- Wind Generation
- Offshore Oil Projects
- Industrial Fabrication Site
- Diesel Plant operated on behalf of Mushuau Innu First Nation

* OPERATED UNDER LICENCE FROM THE GOVERNMENT OF NEWFOUNDLAND AND LABRADOR

PPA POWER PURCHASE AGREEMENT