2015 BUSINESS AND FINANCIAL REPORT

KEY ACCOMPLISHMENTS

Years ended December 31 (millions of dollars)	**2015**	2014
Revenues	**811.9**	798.0
(Loss) profit	**(19.2)**	115.6
Operating profit	**42.5**	115.6
Capital assets, net	**8,317.6**	5,658.8
Total assets	**12,321.7**	10,643.1
Long-term debt	**6,008.1**	6,240.5
Shareholder’s equity	**3,455.6**	2,722.0
Capital expenditures	**2,759.8**	2,018.3
Debt to capital	**64.6%**	69.3%

SAFETY: TO BE A SAFETY LEADER

- Zero lost-time injuries maintained in several areas.
- Implemented an enhanced field-level risk assessment process across all Muskrat Falls Project work sites.
- Lower Churchill Project hosted a full-day safety forum for the Project team, Nalcor Energy and contractors.

ENVIRONMENT: TO BE AN ENVIRONMENTAL LEADER

- Completed 100% of environmental leadership targets.
- Under the takeCHARGE partnership, Hydro and Newfoundland Power completed a Five-Year Conservation Plan: 2016-2020 and filed with the PUB.
- Residential and commercial energy conservation programs under takeCHARGE achieved 2.7 GWh of energy savings in 2015 in Hydro service areas.
- Environmental field monitoring and regulatory reporting for the Muskrat Falls Project conducted at more than 33 work sites.

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

- Hydro completed more than 2,900 key actions to help ensure the winter readiness of electricity infrastructure (including preventative and corrective maintenance, upgrades, inspections, testing and capital projects).
- Developed a framework for integrated account management for industrial and key commercial customers.
- Reached several key construction milestones for the Muskrat Falls Project, including completion of the spillway piers, manufacturing of the marine cables for the Strait of Belle Isle, and completion of right-of-way clearing and access road construction for the transmission line between Muskrat Falls and Churchill Falls.
- Released results of offshore resource assessment study for 2015 license round area, identifying potential 12 billion barrels of oil and 113 trillion cubic feet of gas.
- 99% of available recapture energy delivered to market.

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

- Successfully negotiated collective agreements between Newfoundland & Labrador Hydro and IBEW Local 1615.
- 120 clients of the Labrador Aboriginal Training Partnership gained employment with the Muskrat Falls Project - double the original 2015 target.
- Hydro, in partnership with Newfoundland Power, launched the Electricity Industry Newfoundland & Labrador project - an education and awareness program designed to attract new talent to the province's electricity industry.

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

- Employees volunteered more than 580 hours and helped raise more than $30,000 in support of 30+ local charities.

TABLE OF CONTENTS

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

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MESSAGE FROM THE CHAIR

As Chair of the Board of Directors for Nalcor Energy, I am pleased to present the company's annual business and financial report for 2015.

Nalcor is Newfoundland and Labrador's energy company. It is your energy company. Across the business, Nalcor employees take great pride in this, and it is thanks to their tireless efforts that the company continues on the path to make Newfoundland and Labrador an energy leader in Canada and North America. Nalcor was and is not immune to the global pressure on oil price and energy pricing through last year and continuing, and this impact was evident in 2015. Nevertheless, the company continues to build towards a strong and diversified future for the benefit of future generations.

Nalcor is entrusted with leading the development of our province's energy resources, today and into the future. The company continued this journey over the past year, guided by a clear vision and an unwavering commitment to safety. By actively maintaining and growing a large base of energy assets, the Board and Management are committed to ensuring that Nalcor is positioned to create value for Newfoundlanders and Labradorians over the long-term.

Nalcor continues to employ very robust, long-term planning as part of its asset management strategy, and is fortunate to have highly skilled and dedicated people who work to ensure the company's operations are based on sound industry standards and best practices.

Over the last decade, the value of assets under Nalcor's management has increased from approximately $2 billion to more than $12 billion to the end of 2015. The company continues to execute on all of its major projects, with capital expenditures totaling $2.8 billion in 2015.

With its existing projects combined with significant opportunities for growth in oil and gas and electricity, Nalcor will be a long-term value generator for our Shareholder, the Government of Newfoundland and Labrador, and the people of the province. Nalcor remains in a solid position for future expansion of its energy asset portfolio.

I want to thank the members of Boards of Directors for all Nalcor companies for their ongoing contributions. The Board continued to reinforce accountability and governance at Nalcor in 2015. They have remained focused on providing valuable oversight of the company, ensuring that it is operating efficiently, assuming appropriate levels of risk in its undertakings, and planning ahead. Nalcor is a tremendous asset to our province and the Board has confidence that the company is well-positioned to continue to build on achievements to date, work through cyclical and other challenges, and realize the vision of a strong economic future for successive generations of Newfoundlanders and Labradorians.

KEN MARSHALL
CHAIR, BOARD OF DIRECTORS

MESSAGE FROM THE CEO

Last year proved to be a year of significant achievement and challenge for Nalcor and the broader energy industry. We continued to make strategic capital investments and our asset base grew from $10.6 billion in 2014 to $12.3 billion in 2015. However while our business continues to grow year-over-year, certain factors adversely impacted our 2015 year-end results. Two notable impacts are persisting lower global oil prices and the outstanding final decision on Newfoundland and Labrador Hydro's (Hydro) general rate application which is still before the Board of Commissioners of Public Utilities (PUB).

Over the past 10 years, our focus and commitment has been, and continues to be, firmly on providing reliable electricity service to our customers, as well as developing growth opportunities in Oil and Gas, Energy Marketing, Bull Arm Fabrication and the development of Muskrat Falls. These businesses continue to build revenues and benefits for the long-term benefit of our province. Since 2004, Nalcor's asset base has grown from $2.2 billion to $12.3 billion and our capital structure has steadily improved. In just a few short years, our income producing assets are expected to produce net income in the range of $400-$500 million annually. Like other resource-oriented companies and jurisdictions, our 2015 financial performance has been influenced by global commodity prices; however, our solid financial foundation positions us to weather these challenges and the company remains well positioned for the future.

Despite recent low oil prices, offshore Newfoundland and Labrador remains poised for longer-term growth. Our skilled exploration team of geologists and geophysicists are driving one of the largest ongoing seismic programs in the world, with over 110,000 line kilometres of 2D seismic acquired since 2011, supplemented by 3D seismic, 3D electromagnetics, satellite slick collection and analysis, and a comprehensive Metocean study. The results of the province's first-ever scheduled land sale in November 2015 were reflective of this promising potential, with bids totalling $1.2 billion for parcels around the Flemish Pass.

At Hydro and Churchill Falls, our core electricity businesses, we continue our commitment to invest in our aging assets while balancing the need for cost control and increased reliability expectations on behalf of our customers. Nalcor implemented a comprehensive long-term asset management plan and in the past five years alone, upwards of $800 million has been invested towards reliability improvements for our customers. These continued investments are critical in order to reliably serve our customers today and tomorrow.

In addition to the ongoing investments to strengthen the electricity system, we have also taken steps that enhance the company's organizational structure. At Hydro, John MacIsaac was appointed President in 2015, as the business continues to evolve and focus on operational excellence.

Significant progress continued in 2015 on construction of the Muskrat Falls Project. Once the hydroelectric and transmission projects are complete, the Island of Newfoundland will be connected

MESSAGE FROM THE CEO

to the North American grid for the first time in our history, ensuring residents benefit from clean, renewable electricity, while improving system reliability. This is the right project to meet our province's energy needs. It provides Newfoundland and Labrador with energy independence and return on investment over the next 50 years and beyond to the people of the province.

Despite the challenges 2015 has brought us, Nalcor's financial position is stable with a strong balance-sheet and debt-to-equity position, and we continue our focus on long-term sustainability and accountability to the people of the province. We also understand and are impacted by the current fiscal reality facing Newfoundland and Labrador. We are managing the province's rich energy resources with the goal of maximizing value for the benefit of Newfoundlanders and Labradorians.

To achieve our long term vision, we must rely on the people who work hard to deliver on that vision. Our most valuable asset is our employees, Newfoundlanders and Labradorians, who are driving Nalcor into the future. They work every day in the best interest of our province and they are our families, friends and neighbours. They are the backbone of our company.

Our collective commitment to safety has never been stronger. The safety of our people is our top priority and it is the measure of success that matters most to everyone at Nalcor. It is core to our corporate culture and we continue to strive for continuous improvement in our safety culture company-wide.

ED MARTIN
PRESIDENT & CHIEF EXECUTIVE OFFICER


newfoundland labrador
hydro

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 systematically finding and quantifying Newfoundland and Labrador's oil and gas resource potential to maximize the benefit for the people of the province, while reducing risk and uncertainty for the global industry to facilitate new exploration investments.

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 resource portfolio. 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 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.

OUR COMMITMENT TO SAFETY

Nalcor is committed to providing safe working conditions for all its employees. Safety is Nalcor's number one goal and greatest responsibility. Families rely on us to ensure their loved ones make it home safely. The communities in which Nalcor operates have the right to assume our work is always undertaken with their safety in mind.

Nalcor has seen steady improvements in its safety performance over the last decade. Since 2005, there has been a 63 per cent reduction in the company's corporate all injury frequency rate and an 85 per cent reduction in the corporate lost-time injury frequency. The company is busier than it has ever been. There is an unprecedented amount of work in the field and there are many contractors on Nalcor's sites. Despite this, many areas have had sustained zero lost-time injuries over an extended period of time, including Hydro Generation which has gone more than 2,400 days since a lost-time injury and Churchill Falls with more than 1,100 days.

While these are significant accomplishments, we know that to achieve safety excellence we must remain focused. Last year was a reminder of why we must always take the time to be safe and to ensure the safety of those around us. Safety incidents increased from nine to 13, including three lost-time incidents – more serious incidents that prevent someone from returning to work for their next scheduled shift.

Nalcor’s safety culture rests on a foundation of open reporting. Employees continue to view reporting as important and as a result last year there was a 6 per cent increase in the number of commendations for safe behaviours and unsafe observations reported. Employees continue to be actively engaged in Nalcor's safety culture, with a 91 per cent participation rate in the 2015 Safety Culture Survey as well as through continued participation in the company’s safety culture action teams, Occupational Health and Safety Committees and other safety-focused initiatives.

In 2015, progress on Nalcor’s safety management system continued with the implementation of two programs that help reinforce safe worksites. The revised Contractor Safety Management Program outlines safety expectations and requirements for contractors completing work for Nalcor. A new, comprehensive Alcohol & Drug Program focuses on early identification of issues and ensuring employees have access to the tools and resources they need to address them, such as confidential assessment, counselling, treatment and aftercare services. Safety programs and communications aimed at enhancing contractor and public safety also progressed with significant emphasis placed on power line safety awareness. The Public Safety Campaign for Power Line Hazards, which promotes power line safety to the general public, heavy equipment operators and contractors, continued in 2015. This campaign is delivered in partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and Workplace NL. Nalcor’s safety journey is one of persistence and relentless commitment across the company and at all levels from front lines to the Board of Directors. As the company continues to move forward on its journey to safety excellence, it will embrace every opportunity for continuous improvement.

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

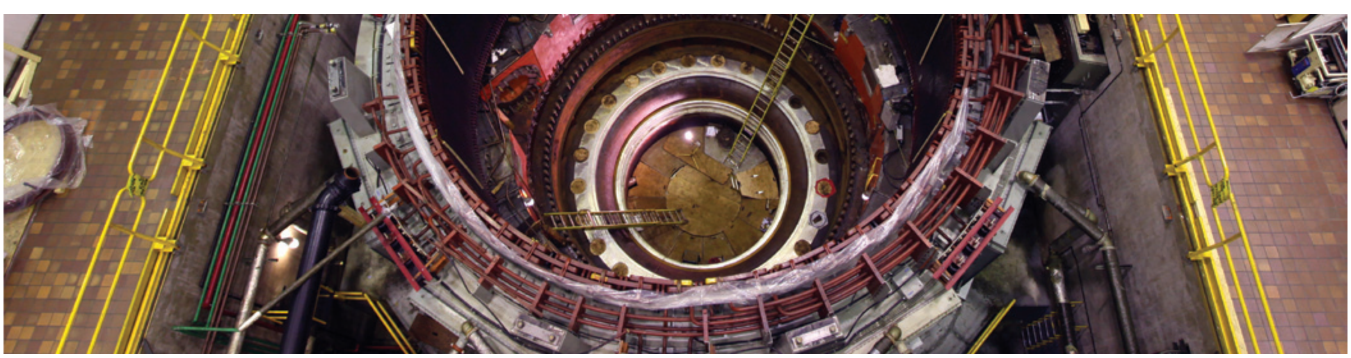
STEWARDS OF THE PROVINCE'S ELECTRICITY SYSTEM

Newfoundland and Labrador Hydro (Hydro) ensures that there is a safe, reliable and cost-effective electricity supply available to meet Newfoundland and Labrador's current demand and future growth. 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

Newfoundland and Labrador Hydro continues to work hard to manage electricity infrastructure to support reliability for customers. Electricity is Hydro's base business. Hydro, like most other North American utilities, is managing assets that are aging. This means that careful and strategic investment is required to ensure a safe and reliable supply of electricity. Hydro has an asset management strategy which has significantly expanded in recent years in terms of refurbishment and replacement and capital investment. In 2015, Hydro invested $125 million in capital improvements across the system.

Asset management continues to be a key focus area for the Churchill Falls Generating Station, a world-class facility that has been in place for more than 40 years and remains one of the largest underground generating plants in the world. The Churchill Falls asset renewal program continues to mature with eight of 11 underground transformers replaced or refurbished. As these valuable assets continue to age, a sustained level of capital investment is required to ensure longevity of the equipment. The long-term plan for Churchill Falls addresses these ongoing requirements so that these valuable electricity assets remain in safe and reliable operating condition well into the future.



COMMITTED TO RELIABILITY

Hydro is investing today for reliability tomorrow. An immediate priority is strengthening and reinforcing the resiliency of the system to meet the current and future needs of customers. In January 2015, a new 123.5MW combustion turbine plant in Holyrood was synchronized to the grid, adding important back up generation. In addition, work began last year on a project to add a new 230 kilovolt (kV) 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.

In the future, Nalcor will harness the province's hydroelectric potential with the development of the 824 MW hydroelectric 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 the province with enhanced system reliability and a path to markets to sell the province's surplus energy.

In 2016, the company continues to move forward with strategic and major capital investments focused on meeting customers' increasing electricity needs and improving reliability by updating and replacing aging infrastructure while moving from an isolated system to an interconnected system.

MANAGING OUR RESOURCES FOR GROWTH AND PROSPERITY

BUILDING THE FOUNDATION OF OUR ENERGY FUTURE

The Muskrat Falls Project includes an 824 MW hydroelectric generating facility, over 1,500 kilometres of transmission lines in the province, and the Maritime Link between 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 province.

Construction on all components of the project advanced significantly in 2015, with work underway between Churchill Falls and the Avalon Peninsula.

At Muskrat Falls, concrete placement for the spillway piers and separation wall was completed, and installation of the spillway gates began in preparation for river diversion in 2016. Construction also started on the north and south dams that will span the lower Churchill River.

For transmission line work between Muskrat Falls and Churchill Falls, all access road construction and right-of-way clearing was completed. More than 85 per cent of transmission towers were erected and close to 70 per cent of all conductor (wire) stringing for the approximately 500 kilometre transmission line was completed by the end of the year.

Construction on the 1,100 kilometre Labrador-Island Link advanced in Labrador and on the island throughout 2015. In Labrador, over 90 per cent of access road construction and right-of-way clearing was completed, more than half of all tower foundations were installed, and approximately 20 per cent of towers were erected. On the island, half of all access road construction and clearing activities for the transmission line right-of-way was completed in 2015, and installation of tower foundations began on the Northern Peninsula.

For the Strait of Belle Isle marine cable crossing, manufacturing of the marine cables was completed. Land cables that will connect the submarine cables to the overhead transmission line from Muskrat Falls to Soldiers Pond, were also installed on both sides of the Strait.

These advances in construction also generated significant contributions to the provincial economy through employment and business benefits. In 2015, employment peaked at more than 5,500 people and approximately 85 per cent of those workers were residents of Newfoundland and Labrador. Since the start of construction more than $1.1 billion in wages has been paid to workers from the province. An estimated $9 million is returned to the provincial economy each week from project construction, with over $1 billion to Newfoundland and Labrador-based businesses since construction began.

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.

2015 was a year of managing challenges relating to oil prices, but despite these challenges offshore Newfoundland and Labrador is poised for growth.

Through its exploration strategy, Nalcor is focused on systematically finding and quantifying Newfoundland and Labrador’s oil and gas resource potential to maximize the benefit for the people of the province, while reducing risk and uncertainty for the global industry to facilitate new exploration investments.

With the support of the Government of Newfoundland and Labrador, since 2011, Nalcor has been the driving force behind one of the most comprehensive offshore oil and gas geoscience programs in the world. In 2015, a total of 28,000 line kilometres of 2D multi-client seismic data was acquired with global partners TGS and Petroleum Geo-Services, bringing the five year total to over 110,000 line kilometres.

In 2015, Nalcor along with its global seismic partners acquired 4,600 square kilometres of 3D multi-client seismic data – 3D seismic data that for the first time in the history of Newfoundland and Labrador’s offshore will be available to the global oil and gas industry in advance of an upcoming license round.

The results of the first regional Metocean study for the province were also released in 2015. The study, an 80,000 page report released through the online Nalcor Exploration Strategy System, is a comprehensive analysis of the metocean conditions, including winds, waves, currents, fog, vessel icing, pack ice, icebergs and ice islands and the influence of environmental changes on such conditions for Newfoundland and Labrador’s offshore area. The study, undertaken in partnership with C-CORE, will assist the industry in making future exploration and development decisions in the province's offshore.

In October 2015, Nalcor in partnership with the Government of Newfoundland and Labrador announced the results of a resource assessment study for the Flemish Pass – the 2015 license round area. The scientific study, led by Nalcor with independent resource analysis from Beicip Franlab in Paris, France, determined that the in place oil and gas resource potential for the 2015 license round area was 12 billion barrels of oil and 113 trillion cubic feet of gas. This marked the first time in the province’s history that the people of Newfoundland and Labrador had scientific insight into the oil and gas resource potential of an area in advance of the close of a land sale. To ensure maximum value is attained for the people of the province, resource assessment studies for future license round areas will be carried out and the results will be shared with the people of the province and the global oil and gas industry prior to the closing of the bid rounds.

The 2015 license round results were announced in November, with a record total bid of $1.2 billion of exploration investment on seven of the 11 blocks on offer in the Flemish Pass basin. In addition to existing companies previously active in the Newfoundland and Labrador offshore, three new companies made successful bids: BP, BG Group and Nexen. The positive results of the 2015 license round, which occurred at a challenging time for the global oil and gas industry, are an early outcome of Nalcor's exploration strategy.

In late 2015, the 2016 resource assessment was initiated over the West Orphan Basin containing the parcels of landed included in the 2016 license round. The resource assessment will be completed and issued publically in mid-2016 prior to the license round closing in November 2016.

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 offshore oil and gas resources for generations to come.

In 2015, significant milestones were achieved in the province's offshore projects. In June, first oil was achieved from the South White Rose Extension satellite field. The Hibernia South Extension installation of the Unit Ben Nevis-Avalon Subsea infrastructure was successfully completed and in September, a water injector well and its associated producer well began producing at a gross rate of approximately 18,000 barrels per day. The Hebron Project continued work on the Gravity Base Structure at the Bull Arm deepwater site, while several topsides modules, including the flare boom, Drilling Support Module and Derrick Equipment Set were delivered to the Bull Arm assembly pier, beginning the first stages integration.

As an equity owner, Nalcor played a key role in developing the Basin Wide Transportation and Shipping System (BWTTS). The BWTTS was developed by all the interest holders in the offshore Newfoundland and Labrador oil production projects to schedule and transport crude oil from offshore to Newfoundland Transshipment Limited facilities or other discharge ports. It is a long-term, cost-efficient transportation and transshipment approach that is scalable for changes in production from existing projects and supports the introduction of new parties and projects in offshore Newfoundland and Labrador. The BWTTS has a 15-year term which commenced in June 2015.

BUILDING OPPORTUNITIES AT BULL ARM

The Bull Arm Fabrication site is a world-class facility spanning over 6,300 acres with capabilities for aluminum and steel fabrication, concrete construction, outfitting installation, at-shore hook-up and deepwater commissioning.

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 Gravity Base Structure (GBS), fabrication of the living quarters and GBS and topsides installation and integration activities. First oil from the Hebron Project is expected late 2017. In late 2015, the Hebron GBS structure was brought to its final height of 121 metres and several large topsides modules, including the flare boom, Drilling Support Module and Derrick Equipment Set were delivered to site in preparation for integration.

Last year, Bull Arm Fabrication continued its successful leasing arrangement with the Hebron Project, while continuing to advance its long-term strategy for the site post Hebron. In 2015, close to $1.4 million in site upgrades were completed, including upgrades to the topsides power system. Since the arrival of ExxonMobil Canada Properties in 2011, over $40 million has been invested in site upgrades and infrastructure refurbishment. These investments ensure that the assets are in good condition to support the site's long-term operation.

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.

POSITIONING THE PROVINCE FOR ENERGY MARKETING SUCCESS

Nalcor's Energy Marketing company continues to leverage the province's surplus energy to deliver safe, reliable electricity to markets in eastern Canada and the United States.

In 2015, the Energy Marketing division concluded its contract with a third-party energy marketer and completed its transition to full-scale, in-house electricity trading, with fully functional front, middle and back office operations. Nalcor Energy Marketing now performs the analytics, trading and scheduling functions required to export electricity to key markets.

Approximately 1.6 terawatt hours of surplus hydroelectric power was sold to customers in export energy markets in 2015, generating revenues of $51.9 million. Total revenues were approximately 27 per cent above the New York market benchmark and, in all, 99 per cent of available recapture energy was delivered to market in 2015.

24/7 Trading

Energy markets never sleep. Demands across North America are constant and, unlike the commodity markets and trading floors on Wall Street that break at the end of each day, electricity scheduling and trading happens around the clock, seven days a week.

That's how Nalcor's trading desk in St. John's operates. Even in the wee hours, Nalcor's Energy Schedulers are busy tracking demand in eastern Canada and the U.S. and completing energy trades to sell the province's surplus energy into Boston, New York and other markets.

"On an hour-by-hour basis, we're looking for opportunities to sell the province's excess electricity safely and reliably to outside markets that are in need of energy," says Erin McCormack, Team Lead, Energy Scheduling. "We have to monitor demand and energy prices in target markets, and mitigate risks in order to optimize the return for the energy we sell. Our province has an exciting energy future, and it's great to be a part of that."

COMMITTED TO ENVIRONMENTAL STEWARDSHIP

As Nalcor leads the development of Newfoundland and Labrador's energy resources, the company remains dedicated to following environmentally-sound practices.

Nalcor achieved 100 per cent of its environmental targets in 2015, including ISO 14001 Certified Environmental Management Systems (EMS) initiatives for Hydro and Churchill Falls, and further progress was made to implement environmental management systems throughout all of the company's lines of business.

Hydro continued to deliver a portfolio of customer energy efficiency programs under the takeCHARGE brand. The takeCHARGE program, a joint initiative with Newfoundland Power, promotes energy efficiency to residential and business customers across the province, and provides supports to reduce electricity usage and costs through information, tools, and rebate programs. Hydro continued to focus on specific assistance and incentives to its business customers in isolated regions. As well, Hydro also continued to deliver its highly successful energy saving programs for customers living in isolated and coastal communities (served by diesel generation) through the direct installation of energy saving products. In 2015, Hydro's takeCHARGE programs helped its customers reduce electricity use by 2,706 megawatt hours.

As part of the future planning process, in 2015 a Conservation and Demand Management study was completed to identify the achievable, cost-effective, electric energy efficiency and demand management potential in the province. This study was used to inform the Five-Year Conservation Plan: 2016-2020. Through the takeCHARGE brand, Hydro will continue to provide customer energy efficiency programming according to this five-year plan.

The company has long been an active partner in the ongoing development of the salmon run on the Exploits River. Last year, environmental staff completed field studies and consulted closely with the federal Department of Fisheries and Oceans to safeguard the journey of migrating salmon around a breached dam on the Exploits River. Hydro successfully transported approximately 24,000 fish around Goodyear's Dam during the 2015 salmon run to ensure their safe passage.

Last July, Hydro submitted its environmental assessment for the proposed route of the new transmission line between Bay d'Espoir and Western Avalon, marking a significant milestone for the project. The document was registered with the provincial government's

Department of Environment and Conservation as an undertaking under the Environmental Protection Act. The environmental assessment identifies the potential environmental and socio-economic effects of proposed projects to help inform planning and decision-making. The process included a series of consultations and open houses with communities and key stakeholders along the proposed route. Several months were spent in the field analyzing a wide range of environmental and technical aspects of the project.

Environmental management on the Muskrat Falls Project continued in 2015 as construction on the project progressed to more than 33 work locations across the province. In addition, 21 environmental effects monitoring plans for the generation and transmission components have been implemented to ensure that commitments and conditions of the project's environmental assessments are met.

Mission Accomplished - Keeping Salmon Safe in Central Newfoundland

When Goodyear's Dam on the Exploits River in central Newfoundland sustained extensive damage from heavy ice over the 2014-15 winter, Hydro teamed up with key partners to ensure salmon were able to successfully migrate upstream.

As repairs were being made, Hydro took a lead role in the operation to trap and transport approximately 24,000 salmon around the breached dam by truck during the annual summer run – without losing a single fish. Hydro's Environment team worked with an independent fish biologist, provincial and federal environment regulators, and the local Environment Resources Management Association (ERMA) to oversee the fish transfer operation.

Every precaution was taken to assist the fish in a safe journey. And it was a very labour-intensive effort. In mid-July, the fish were caught in the fishway area in Grand Falls and transported by truck about six kilometres upstream to bypass Goodyear's Dam. About 30-40 fish were trucked at a time, under continuous monitoring. Weather conditions were considered, temperatures were measured, the tank water was kept aerated and the fish were eventually released safely through a pipe attachment to avoid overhandling.

It took roughly 700 trips to transport all the fish.

After the dam repairs were complete, 10 salmon were tagged with radio telemetry and released back in the river to track and ensure that the fish were able to get through the fishway and back on their natural migration pattern.

The operation was a complete success and exemplifies Hydro's commitment to environmental responsibility.

HERE FOR OUR COMMUNITIES

Giving back to communities in Newfoundland and Labrador is a priority for Nalcor Energy. Our employees are the driving force behind many of the community successes the company has had in 2015.

Through volunteer initiatives within the company, Nalcor employees have volunteered more than 580 hours and have helped to raise over $30,000 in support of more than 30 local charities throughout the province through employee giving and company matching donations.

In 2015, Nalcor refreshed its Community Investment Program to include some new and exciting changes that align with the company's vision, goals and values. The focus of the program includes supporting anti-bullying and child and youth leadership initiatives, along with Science, Technology, Engineering and Math education, children's health and safety, diversity and inclusion, and the environment.

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

Through these new focus areas, Nalcor is partnering with other great organizations and causes, such as Ronald McDonald House NL, Rainbow Riders, the Newfoundland and Labrador Environmental Industries Association, Easter Seals, Choices for Youth, Kids Eat Smart, the Heart and Stroke Foundation, Women in Resource Development, The Learning Partnership and the Canadian Red Cross.

Community Investment

The Canadian Red Cross and Nalcor have entered into a three-year partnership to develop youth leadership in Newfoundland and Labrador. This new partnership is a natural fit as both organizations share many of the same core values.

This partnership began with the launch of a peer facilitator training program called "Beyond the Hurt" – an acclaimed, award-winning Red Cross educational program for bullying and harassment prevention in schools. Teachers were trained in a two-day workshop for the purpose of delivering their training to a select group of grade 6-12 students in their schools. These students will then educate their peers on the important issues of bullying and harassment prevention. It is anticipated that similar training programs will be delivered throughout the province as a result of this partnership.

"We are very excited and grateful for the new partnership with Nalcor Energy," says Anna Power, Provincial Manager at Canadian Red Cross. "Our organization has a long history of providing prevention education programs, but we cannot deliver them province-wide without the support required to ensure success."

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2015

TABLE OF CONTENTS

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; energy marketing; and, industrial fabrication site management. Nalcor's legal structure as at December 31, 2015 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
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
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51% owned subsidiary of Hydro (inactive)

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 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 Newfoundland and Labrador.
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 and conducts exploration in Newfoundland and Labrador.
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 Transmission Assets, 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, shared services, business development activities and certain development projects not yet sanctioned, including Phase 2 of the Lower Churchill Project (Gull Island).

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 7, 2016. The Board of Directors 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 Nalcor's annual audited consolidated financial statements for the year ended December 31, 2015.

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.

All financial information is reported in Canadian dollars (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-generally accepted accounting principles (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, which are 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

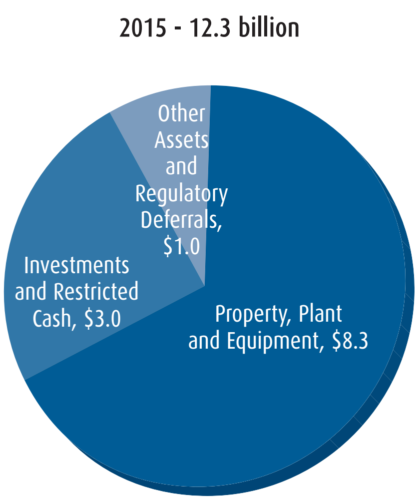
Key profit drivers vary across each of Nalcor's seven business segments as there is a combination of regulated operations, operations with long-term and medium-term supply contracts and operations in markets where revenues are driven entirely by commodity prices (electricity and oil). In addition to the effect that oil prices have on Oil and Gas' operations, Oil and Gas may incur impairment expenses and future reversal of such expenses due to the nature of oil price fluctuations. Any impairment expense or reversal of such expense is reflected in Nalcor's results, and can lead to large fluctuations in profit or loss between financial reporting periods. Also, in the case of the Oil and Gas segment, cash flow and results of operations are significantly influenced by oil production levels in offshore developments

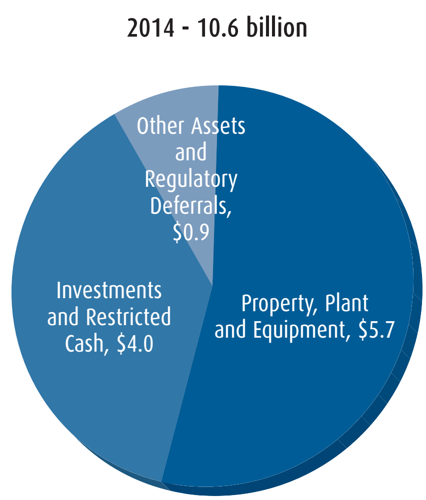
in which Nalcor holds equity interests. As a result, it is necessary to consider the underlying key profit drivers and performance of each business segment to understand Nalcor's consolidated performance.

Nalcor profitability is also impacted by exchange rate fluctuations for a number of foreign currencies, the most significant being the CAD/United States Dollar (USD) exchange rate. Nearly all revenue generated by the Oil and Gas, Energy Marketing and Bull Arm business segments are denominated in USD. Volatility is partially mitigated through USD hedging. However, in general, any fluctuations in the USD exchange rate have a direct impact on Nalcor's profit. Various expenses and capital expenditures and other balance sheet items include amounts denominated in USD, particularly Hydro's fuel purchases for the Holyrood Thermal Generating Station (HTGS). Cost variances for these fuel purchases as a result of exchange rate fluctuations are captured in the Rate Stabilization Plan (RSP) and do not impact Nalcor's profit. The exchange rate has experienced significant movement in 2015 as compared to 2014. The average exchange rate for 2015 was $1.26 CAD/USD as compared to $1.11 CAD/USD for 2014.

Statement of Financial Position

Total Assets and Regulatory Deferrals





Nalcor's total assets and regulatory deferrals as at December 31, 2015 were $12.3 billion, an increase of $1.7 billion from December 31, 2014. The composition of the Company's assets as at December 31, 2015 included property, plant and equipment of $8.3 billion (2014 - $5.7 billion), investments and restricted cash from the proceeds of the Lower Churchill Project financing of $3.0 billion (2014 - $4.0 billion), and other assets totaling $1.0 billion (2014 - $0.9 billion). The change in assets during 2015 was primarily the result of capital expenditures related to the Lower Churchill Project, offset by a reduction in property, plant and equipment related to a reduction in the carrying value of WRX.

Total Liabilities, Equity and Regulatory Deferrals

Total liabilities increased by $867.1 million primarily due to a $329.0 million increase in Maritime Link costs incurred and paid for by a subsidiary of Emera Inc. that are included in Nalcor's Consolidated Statement of Financial Position. Trade and other payables increased by $325.0 million as a result of increased capital expenditures, Class B limited partnership unit liabilities increased by $128.0 million as a result of contributions and accrued interest, and decommissioning liabilities increased $59.8 million over 2014.

Equity has increased by $733.6 million, resulting primarily from the receipt of equity contributions of $734.7 million from the Government of Newfoundland and Labrador (the Shareholder) offset by decreased retained earnings during the year of $19.2 million.

Further details on changes in the Consolidated Statement of Financial Position are included in Section 3 – Consolidated Financial Highlights.

Capital

2015 capital expenditures of $2.8 billion are higher than 2014 by $0.8 billion. The increase relates primarily to an increase in Lower Churchill Project capital expenditures of $0.8 billion. Additional details on Nalcor's capital expenditures are provided in Section 5 – Liquidity and Capital Resources.

2015 (Loss) Profit

Nalcor's 2015 loss was $19.2 million, which represents a decrease in profit of $134.8 million over 2014, primarily due to an impairment expense of $61.7 million related to Oil and Gas, a reduction in Hydro regulatory deferrals, lower oil production, lower commodity prices and higher fuel and operating costs. Nalcor's 2015 operating profit, excluding the impairment expense in Oil and Gas, was $42.5 million, a year-over-year decrease of $73.1 million from 2014.

Hydro Regulated's loss was $28.8 million, which represents a decrease in profit of $46.4 million over 2014, primarily due to a change in regulatory deferrals approved by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB), as well as higher costs associated with gas turbine fuel, operating costs, depreciation, and net finance (income) expense. The increase in losses for the year was partially offset by the implementation of new interim electricity rates effective July 1, 2015, along with higher electricity demand.

Churchill Falls' profit increased by $24.1 million for the year compared with 2014 as a result of increased revenue from additional energy sales to Hydro related to a new Power Purchase Agreement (PPA) effective Jan 2, 2015 for the sale of up to 225 MW of power produced by the Churchill Falls Generating Station (the 2015 Hydro PPA), partially offset by increased operating costs. Increased GWAC revenue earned in Q1 2015 also contributed to the revenue increase.

Oil and Gas' loss was $48.5 million, a decrease in profit of $85.6 million over 2014, primarily due to an impairment expense of $61.7 million related to WRX, resulting from lower forecasted Dated Brent prices. Oil and Gas' operating profit, excluding impairment expense, was $23.9 million lower in 2015 compared to 2014. Factors contributing to the decrease include a decrease in Dated Brent price, a decrease in production volumes, an increase in production costs, partially offset by a decrease in depletion and an increase in other income due to favourable performance of commodity hedges.

Energy Marketing's profit decreased by $15.5 million for the year compared with 2014 primarily due to a decrease in the price of export market sales and increased operating costs related to professional fees. The decrease in export market sales is partially offset by an increase in other income due to favourable performance of commodity hedge contracts.

Bull Arm Fabrication's profit decreased by $0.4 million for the year compared with 2014 due to increased operating costs associated with development of the marketing plan and long-term strategy.

Q4 2015 (Loss) Profit

Nalcor's Q4 2015 profit was $110.0 million lower than the same period in 2014, primarily due to the impairment related to Oil and Gas, a reduction in Hydro regulatory deferrals, lower commodity prices and an increase in fuel and operating costs. Nalcor's Q4 2015 operating profit, excluding the impairment expense related to Oil and Gas, was $22.2 million, a year-over-year decrease of $48.3 milion.

Hydro Regulated's profit decreased by $41.3 million in Q4 2015 as compared to the same period in 2014 primarily due to an unfavourable variance related to regulatory cost deferrals approved by the PUB as well as higher costs associated with gas turbine fuel, operating costs, depreciation, other (income) expense and net finance (income) expense. The decrease in profit for the quarter was partially offset by the implementation of new interim electricity rates effective July 1, 2015, along with higher electricity demand.

Churchill Falls' profit increased by $3.9 million in Q4 2015 compared with the same period in 2014 as a result of increased revenue from additional energy sales to Hydro related to the 2015 Hydro PPA, partially offset by increased operating costs.

Oil and Gas' profit decreased by $63.3 million for the quarter compared with the same period in 2014 primarily due to the $61.7 million WRX impairment expense. Oil and Gas' operating profit, excluding the WRX impairment expense, was $7.5 million due to a decrease in Dated Brent price, partially offset by an increase in production volumes and favourable foreign exchange gains. Oil and Gas' Q4 2015 operating profit was also positively impacted by a decrease in production costs, an increase in other income due to favourable performance of commodity hedges, and an increase in other revenue due to seismic data sales, partially offset by an increase in depreciation and depletion.

Energy Marketing's profit decreased by $3.0 million for the quarter compared with the same period in 2014 primarily due to an increase in operating costs largely related to increased professional fees.

Bull Arm Fabrication's profit decreased by $1.0 million for the quarter compared with the same period in 2014 as the prior year reflected a gain on a financial adjustment related to the transfer of ownership of the Bull Arm site from the Province to Nalcor in 2009.

RECENT DEVELOPMENTS

HYDRO REGULATED

Hydro Regulated is regulated by the PUB and operates under 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, Hydro is also entitled to a just and reasonable return on rate base in accordance with Section 80 of the Public Utilities Act.

General Rate Application

Hydro filed a General Rate Application (GRA) in July 2013, using a 2013 test year, requesting a rate adjustment effective January 1, 2014. Due to the length of time the GRA process required and the delay in obtaining a rate change, Hydro decided in June 2014 to file an amended application. On November 10, 2014, Hydro filed an amended GRA based on 2014 and 2015 test years. The amended GRA filing requested new rates for Industrial Customers (IC) effective January 1, 2015 and the remainder of customer rates effective February 1, 2015. The filing also proposed a mechanism to provide interim earnings relief to Hydro, effective January 1, 2015, until a final regulatory decision could be obtained on the GRA. Approval of this application would have enabled Hydro to recover its costs and provide an opportunity to attain a reasonable return on rate base for 2015. On December 24, 2014, the PUB approved interim rates for Labrador IC, effective January 1, 2015, but indicated it was unable to make a determination of proposed interim rates for Island IC and also expressed the view that interim rates for Newfoundland Power (NP) customers should be determined at the same time as the Island IC rates. The PUB directed Hydro to file another interim rate application setting out proposals for interim rates for these customers, to be effective March 1, 2015. Hydro complied and filed another interim rate application on January 28, 2015, proposing a rate decrease for the majority of customers, effective March 1, 2015. A schedule was set by the PUB with final submissions on February 20, 2015. Hydro supported this schedule in an effort to implement the proposed rate decrease for the majority of customers by March 1, 2015. During the process, NP stated it did not support the interim rates application. Without support from NP, implementation of the proposed rate decrease of 6.3% to customers of NP was not attainable for March 1, 2015. Additionally, two requests for extensions were requested by interveners and were subsequently granted by the PUB. Hydro filed its final submission on February 25, 2015. On March 5, 2015, the PUB submitted additional Requests for Information (RFIs) related to this application which initiated another process of responses to RFIs, additional submissions from interveners and required Hydro to file an additional final submission on March 30, 2015.

On May 11, 2015, the PUB approved certain aspects of Hydro's interim rates application, effective July 1, 2015. However, the PUB approval was below Hydro's request, resulting in Hydro forecasting a deficiency of approximately $44.0 million in profit for 2015, primarily the result of the PUB ordered implementation date of July 1, 2015, as opposed to Hydro's request of March 1, 2015. As a result of the interim rates order not providing Hydro an opportunity to earn a fair and reasonable return in 2015, Hydro filed an application on July 10, 2015 with the PUB for a 2015 Cost Deferral in the amount of $20.0 million to be recovered from customers when the final rates from the GRA are established. This would have provided Hydro with an opportunity to recover approximately 70% of the forecasted profit deficiency only, while awaiting the final GRA order which was anticipated to be before the end of 2015. As the GRA hearing continued, it became apparent that a final GRA order from the PUB would not occur before the end of 2015. Therefore, on November 12, 2015, Hydro filed an amended 2015 Cost Deferral application for approximately $60.0 million. Hydro amended the 2015 Cost Deferral application to reflect 100% recovery of the forecasted 2015 profit deficiency, recovery of supply costs as proposed in the GRA, and approval of several other items included in its GRA.

On December 22, 2015, the PUB issued an order approving deferral of approximately $30.0 million. This represented a portion of the revenue shortfall, RSP interest and other items in accordance with the GRA settlement agreement[1]. The deferral of 2015 supply costs, incurred by Hydro, for the provision of service to customers in 2015 were not approved.

The public hearing of Hydro's GRA concluded at the end of November, 2015. Final arguments were filed at the end of January, 2016 and Hydro is now awaiting the PUB's final GRA order.

While Hydro's GRA application is justified, regulatory risk remains until the PUB provides its final GRA order which is anticipated in the first half of 2016. As a result of Hydro not receiving full regulatory approval of its cost deferral application, which included the deferral of certain 2015 supply costs, Hydro incurred a loss of $28.8 million for the twelve months ended December 31, 2015.

Prudence Review

On January 30, 2015, the PUB informed Hydro that they would be conducting a "prudence" review of certain Hydro expenditures. This review was included as part of the PUB's review of Hydro's GRA. The PUB engaged Liberty Consulting (Liberty) to provide assistance relating to this review. The review addressed issues that were initially part of an investigation and hearing into supply issues and power outages on the Island Interconnected system (the Supply Outage Inquiry), as well as the outstanding rate base and cost recovery requests. There are approximately $156.5 million in capital projects, the largest being cost recovery of the 123 MW combustion turbine located adjacent to the HTGS, and approximately $55.6 million relating to 2014 cost deferrals which the PUB approved establishing in 2014, but for which cost recovery is subject to this prudence review. The review commenced in March and Liberty issued its report on July 6, 2015. Rebuttal evidence was then filed by Hydro. The portion of Hydro's GRA hearing relating to prudence issues commenced October 27, 2015. Final determination on this prudence review and related cost recovery will form part of the PUB's final order on Hydro's GRA with the final argument filed in January, 2016. While Hydro believes the costs subject to this review were prudently disbursed and justified, regulatory risk remains until the PUB provides its final GRA order which is anticipated in the first half of 2016.

[1] Prior to the start of the GRA hearing, a settlement agreement was reached between Hydro and its intervenors.

Other Regulatory Activity

In March, 2015, the Phase I Hearing on reliability of the Island Interconnected power system up to the time of the Labrador and Island Interconnection in 2017 was held with presentations from both the public and utilities. The PUB's report on Phase I of the Supply Outage Inquiry has not yet been issued. Phase II of the hearing continues with a schedule issued for the proceedings and a hearing set for September, 2016.

Hydro's annual capital budget application for 2016 was filed on July 31, 2015, totaling approximately $184.0 million. This application was approved by the PUB on December 2, 2015.

In April 2014, the PUB's April 2014 ruling on the matter of the RSP payout was appealed to the Supreme Court of Appeal. On February 19, 2015, the appeal was heard and on May 6, 2015, the Court of Appeal concluded that the PUB's decision related to the RSP payout was unreasonable and, accordingly, the PUB's decision was overturned. The Court ordered the refund in the form of a rebate to be made to NP's customers and to Hydro's island grid customers. Hydro is currently working with NP on a planned approach for the disposition of the RSP surplus. Hydro is anticipating payment of the refund sometime in 2016, but the final payment schedule has not yet been approved by the PUB.

Hydro filed a supplemental application for repairs to a power transformer required to service a major IC and received approval for this project on November 17, 2015. The application requests that the costs of this project be recovered from the IC over the life of the asset. Hydro also filed a supplemental application related to a Hardwoods Gas Turbine engine refurbishment that was approved by the PUB on October 1, 2015. An application for the purchase of 12 MW of diesel generation was submitted on November 20, 2015. This application will be amended in early 2016 with additional supporting information on the purchase of these units. Hydro filed an application in February, 2016 to provide recovery of additional 2016 fuel costs resulting from increased operation of the combustion turbines to maintain reliable service.

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 a power contract with Hydro-Québec dated May 12, 1969 (the 1969 Power Contract) and a Renewal Contract commencing September 1, 2016 and expiring August 31, 2041 between Churchill Falls and Hydro-Québec (the Renewal Contract). 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. The appeal is scheduled to be heard in April, 2016.

In July 2013, Hydro-Québec filed a Motion for Declaratory Judgment 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. The trial took place in the fall of 2015 and the Court has not yet issued its decision.

The arrangements under which Churchill Falls supplied the former 225 MW Twinco Block to Twin Falls expired on December 31, 2014. As a result, the 2015 Hydro PPA was signed between Churchill Falls and Hydro for the sale of up to 225 MW of power produced by the Churchill Falls Generating Station.

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. An interim sub-lease agreement was 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. The term of the interim sub-lease has been extended to June 30, 2016.

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

In Q4 2015, the province of Newfoundland and Labrador, supported with work by Nalcor, completed the first license round under the new scheduled land tenure system, which resulted in a record $1.2 billion CAD in bids and seven of eleven parcels awarded. This was preceded by an announcement in Q3 2015 that the "in place" oil and gas resource potential is 12 billion barrels of oil and 113 trillion cubic feet of gas for the 2015 license round area in offshore Newfoundland and Labrador.

The results from a multi-client license agreement between Nalcor and MG3 for a seabed coring and slick capturing survey over upcoming license round areas of Newfoundland and Labrador's offshore was completed during Q4 2015. Nalcor, in partnership with TGS-NOPEC Geophysical Company and Petroleum Geo-Services also completed 28,000 line kilometres of seismic data to bring the five year total to 113,000 line kilometres. Additionally, the first multi-client 3D seismic project in Newfoundland and Labrador history acquired in advance of a license round was completed.

The White Rose partners continue to evaluate options for the WRX Project, including both subsea and wellhead platform concepts. A two-year drilling contract has been executed to use the Henry Goodrich drill rig, with 2017 drill locations currently being assessed.

Drilling of the fourth oil producer at Hibernia South Extension (HSE) was completed during Q4 2015 and water injection support for an existing well occurred in Q1 2016.

Continued progress on the Hebron project has been made towards a 2017 tow of the Hebron Gravity Based Structure (GBS) to the field. The Derrick Equipment Set arrived at the Bull Arm Fabrication site during Q4 2015 for integration with the Drilling Support Module.

ENERGY MARKETING

Energy Marketing's activities focused on driving profitability through market optimization activities, increasing market access and securing additional transmission rights to take advantage of market price opportunities. Energy Marketing successfully delivered energy to new bilateral counterparties during Q4 2015 and achieved profitable returns despite multiple market outages.

Effective October 1, 2015, Energy Marketing entered into a PPA with Hydro which allows for the purchase of available recapture energy from Hydro for resale by Energy Marketing in export markets. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009.

Gains realized on commodity hedges outweighed losses realized on foreign exchange hedges. Financial transmission rights provided positive returns improving profit despite lower average market prices.

BULL ARM

In preparation for the conclusion of the Hebron project, Bull Arm is in the process of developing an Expression of Interest to assess and quantify the opportunities for the site post-Hebron.

LOWER CHURCHILL PROJECT

On September 29, 2015, Nalcor provided an updated capital cost forecast for the Muskrat Falls Generation Facility, Labrador Transmission Assets and Labrador-Island Link components of the Lower Churchill Project. Market cost pressures, construction design changes that will improve long-term system reliability and operations and increased project management requirements resulted in an updated capital cost estimate for the Lower Churchill Project of $7.65 billion as compared to the $6.99 billion estimate provided in June 2014.

During the construction period, it is estimated that $9.0 million dollars is returned to the provincial economy each week through wages and business opportunities. With work advancing at more than 100 locations across the province and around the globe, the Lower Churchill Project has made significant construction progress throughout 2015. Major highlights include the following:

Muskrat Falls Generation Facility

- Completion of all infrastructure buildings at the Muskrat Falls site, including the administration buildings and the sports complex was achieved during 2015.

- Completion of the concrete placement for the spillway piers was achieved on September 30, with more than 48,000 cubic metres of concrete poured for the structure by Astaldi Canada (Astaldi). Astaldi also completed the separation wall, made significant progress on the centre transition dams, and continued progress on concrete placement and activity in the powerhouse.
- The contract for North Spur stabilization work was awarded to Gilbert Newfoundland and Labrador Contracting Limited which has subsequently completed the upstream cut-off wall and is advancing well on both the upstream and downstream slope stabilization scopes. Geotechnical conditions are proving to be favourable.
- Continued progress on the manufacturing of the gates, turbines and generators was achieved by Andritz Hydro Canada (Andritz). By the end of 2015, manufacturing related to the gates was 70% complete and the turbines and generators were 60% complete. Andritz also commenced work on the installation of spillway gates in preparation for the river diversion in 2016.
- The contract for the construction of the North and South Dams was awarded to Bernard Pennecon Limited Partnership and work commenced on the cofferdam that will close and divert the river in 2016.

Labrador-Island Link

- Significant progress was made on the High Voltage direct current transmission line. By the end of 2015, approximately 91% of the right-of-way and access was cleared, 19% of the towers were erected, 61% of the towers were assembled, 53% of the foundations were installed and 10% of the conductor wire was strung in Labrador. On the island, 50% of the right-of-way and access was cleared and the first tower foundation was installed in December by Valard Construction (Valard).
- Following almost three years of manufacturing, the last of the three subsea marine cables for the Strait of Belle Isle has been completed.
- Seven land cable reels in Shoal Cove and Forteau were received and installed.
- Quarrying of approximately 450,000 tonnes of rock, to be used for the rock berm which protects the subsea marine cable, has been completed. The quayside, that will be used to load the rock-laying vessel, has also been completed.
- Construction of grounding sites at Dowden's Point and L'Anse au Diable was awarded to H. J. O'Connell Construction, and was completed in October, 2015.
- Civil construction works is well underway on the synchronous condenser facilities located at Soldiers Pond.
- Manufacturing of four power transformer units for Soldiers Pond was completed and delivered.

Labrador Transmission Assets

- Significant progress was made on the High Voltage alternating current (HVac) transmission construction and tower erection between Muskrat Falls and Churchill Falls. By the end of 2015, of the 1,263 towers to be installed on the transmission line, 99% of the foundations were installed, 95% of the towers were assembled, 85% were erected and 68% of conductor stringing was completed by Valard Construction.
- Civil construction work is well underway on the switchyard sites located at Churchill Falls and Muskrat Falls.
- Manufacturing of power transformers (seven units for Churchill Falls and two units for Muskrat Falls) was completed and delivered to their respective sites.

SECTION 3: CONSOLIDATED FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF (LOSS) PROFIT AND COMPREHENSIVE INCOME HIGHLIGHTS

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2015**	2014	Variance	**2015**	2014	Variance
Revenue	**219.4**	208.2	11.2	**811.9**	798.0	13.9
Fuels	**54.9**	64.4	9.5	**192.8**	268.1	75.3
Power purchased	**15.6**	15.9	0.3	**62.8**	68.3	5.5
Operating costs	**73.1**	68.6	(4.5)	**278.9**	248.7	(30.2)
Depreciation, depletion, amortization and impairment	**90.4**	22.6	(67.8)	**159.2**	92.7	(66.5)
Exploration and evaluation	**0.1**	0.3	0.2	**1.0**	1.2	0.2
Net finance (income) expense	**19.0**	12.6	(6.4)	**73.5**	67.3	(6.2)
Other (income) expense	**4.8**	(5.7)	(10.5)	**3.1**	2.8	(0.3)
Share of loss (profit) of joint arrangement	**0.2**	(0.1)	(0.3)	**0.3**	(0.4)	(0.7)
(Loss) profit before regulatory adjustments	**(38.7)**	29.6	(68.3)	**40.3**	49.3	(9.0)
Regulatory adjustments	**0.8**	(40.9)	(41.7)	**59.5**	(66.3)	(125.8)
(Loss) profit for the period	**(39.5)**	70.5	(110.0)	**(19.2)**	115.6	(134.8)
Other comprehensive income (loss) for the period	**18.5**	(1.2)	19.7	**18.1**	11.3	6.8
Total comprehensive (loss) income for the period	**(21.0)**	69.3	(90.3)	**(1.1)**	126.9	(128.0)

Non-GAAP Operating Profit Disclosure

Reconciliation of Nalcor's (loss) profit to operating profit for the three and twelve months ended December 31, 2015 is as follows:

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2015**	2014	Variance	**2015**	2014	Variance
(Loss) profit for the period	**(39.5)**	70.5	(110.0)	**(19.2)**	115.6	(134.8)
Impairment of property, plant and equipment	**61.7**	-	61.7	**61.7**	-	61.7
Operating profit for the period	**22.2**	70.5	(48.3)	**42.5**	115.6	(73.1)

Revenue

The increase in revenue for the quarter and for the year as compared with the same period in 2014 is primarily due to increased energy sales in Hydro Regulated, Churchill Falls, and Energy Marketing which was offset by a decrease in Oil and Gas revenue due to decreased production and a lower Average Dated Brent price per barrel.

Fuels

The decrease in fuel costs for the quarter and for the year was primarily due to lower prices for No. 6 fuel. The majority of this variance is offset through the RSP in the regulatory adjustments line.

Power purchased

The decrease in power purchased for the year was primarily due to lower capacity assistance purchases, partially offset by higher co-generation purchases.

Operating costs

The increase in operating costs for the quarter was primarily due to higher costs related to increased regulatory activity combined with higher backup diesel generation rental costs, rental and royalties related to Churchill Falls and higher professional fees. The increase in operating costs for the year was primarily due to higher salaries and benefits related costs, additional maintenance work, regulatory activity, increased Oil and Gas production costs and normal inflationary increases.

Depreciation, depletion, amortization and impairment

The increase in depreciation, depletion, amortization and impairment for the quarter and for the year is primarily due to an impairment expense in Oil and Gas related to WRX. Other contributors to the increase include higher depreciation in Hydro and Churchill Falls as a result of continued increased capital investment, partially offset by lower depletion due to reduced levels of production in Oil and Gas.

Net finance (income) expense

The unfavourable variance in net finance (income) expense for the quarter was primarily due to lower capitalized interest costs and increased accretion. The unfavourable variance for the year was primarily due to a reduction in interest revenue associated with the retirement of sinking funds related to a 2014 debt retirement, lower capitalized interest, increased accretion and an increase in the government debt guarantee fee in 2015. This variance is partially offset by lower costs associated with long-term debt.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter and for the year was primarily due to higher costs related to the disposal of assets, customer settlement costs, lower insurance proceeds and unfavourable foreign exchange rates.

Regulatory adjustments

Regulatory adjustments resulted in an additional expense for the quarter and for the year due to a reduction in deferred fuel costs, partially offset by a decrease in RSP amortization, both resulting from the normal operation of the RSP. Also contributing to the increase in expense was the change in regulatory cost deferrals approved by the PUB. The PUB approved cost deferrals in 2014 and 2015 as an interim measure until final rates relating to Hydro’s GRA is approved.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

Significant changes in the Consolidated Statement of Financial Position between December 31, 2015 and December 31, 2014 include:

(millions of dollars) **ASSETS**	Increase (Decrease)	Explanation
Cash and cash equivalents	87.7	See Section 5 - Liquidity and Capital Resources Section.
Restricted cash	705.7	Increased due to LCP funding activity from cash held in accounts administered by the Collateral Agent. The balance of these accounts vary on a monthly basis as cash is drawn down to fund construction costs and replenished with monthly funding requests.
Short-term investments	(763.8)	Decreased due to lower redemptions of structured deposit notes related to LCP maturing within one year as well as maturities in Nalcor and Churchill Falls investments.
Trade and other receivables	21.7	Increased due to an increase in trade receivables related to timing of payments and increased current advances.
Inventories	(19.2)	Decreased primarily due to decreased prices and volumes of No. 6 fuel in Hydro.
Prepayments	(2.3)	Decreased due to prepayment of a large vendor invoice at the end of 2014 which did not occur in 2015.
Derivative assets	(2.7)	Decreased primarily due to settlement of 2015 commodity swaps in Oil and Gas.
Property, plant and equipment	2,658.8	Increased primarily due to capital expenditures, less depreciation and depletion, offset by a reduction in the carrying value of WRX.
Intangible assets	25.3	Increased due to the acquisition of seismic data and computer software, less amortization.
Investment in joint venture	(0.3)	Decreased investment in joint venture of Churchill Falls due to decreased net assets in Twin Falls.
Other long-term assets	(27.3)	Decreased primarily due to LCP related advances becoming current during the year, partially offset by sinking fund additions in Hydro.
Long-term investments	(1,025.2)	Decreased as a result of amounts maturing within one year.

LIABILITIES AND EQUITY		
Short-term borrowings	44.0	Increased due to additional promissory notes in Hydro based on funding requirements.
Trade and other payables	325.0	Increased largely due to capital accruals related to construction costs for LCP.
Long-term debt including current portion	(7.4)	Decreased primarily as a result of Hydro's sinking fund investments in own debt.
Class B limited partnership units	128.0	Increased due to contributions and accrued interest on the Class B limited partnership units.
Deferred credits (current and long-term)	337.8	Increased primarily due to deferred energy sales related to the Maritime Link. See Note 16 – annual audited consolidated financial statements for the year ended December 31, 2015.
Deferred contributions (current and long-term)	(3.1)	Decreased due to additions, adjustments and amortization for the year.
Decommissioning liabilities (current and long-term)	59.8	Increased due to revisions to Oil and Gas decommissioning liabilities related primarily to Hebron, and less significant revisions related to HSE and WRX.
Long-term payables	(11.4)	Decreased primarily due to Oil and Gas balances owing to the Province related to the Drilling Equipment Set (DES) Settlement Agreement becoming current during the year.
Employee benefits liability	(9.2)	Decreased due to actuarial gains partially offset by current service and interest costs.
Shareholder contributions	734.7	Increased primarily due to Oil and Gas and LCP equity injections from the Province.
Retained earnings	(19.2)	Decreased due to losses incurred during the year.
Regulatory deferrals	(57.8)	Variance mainly due to RSP amortization, RSP fuel deferrals, RSP interest and the Rural Rate adjustment.

SECTION 4: SEGMENTED RESULTS AND ANALYSIS

The following presents an overview of the Company's profit for the three and twelve months ended December 31, 2015, by business segment, in comparison to the three and twelve months ended December 31, 2014. This discussion should be read in conjunction with Note 31 of the annual audited consolidated financial statements for the year ended December 31, 2015:

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2015**	2014	Variance	**2015**	2014	Variance
Hydro Regulated	**3.6**	44.9	(41.3)	**(28.8)**	17.6	(46.4)
Churchill Falls	**14.4**	10.5	3.9	**44.3**	20.2	24.1
Oil and Gas	**(54.2)**	9.1	(63.3)	**(48.5)**	37.1	(85.6)
Energy Marketing	**0.5**	3.5	(3.0)	**22.5**	38.0	(15.5)
Bull Arm Fabrication	**4.1**	5.1	(1.0)	**16.9**	17.3	(0.4)
Phase 1 Lower Churchill Project	**(2.7)**	(1.8)	(0.9)	**(3.2)**	(2.4)	(0.8)
Corporate and Other Activities	**(4.8)**	(0.8)	(4.0)	**(21.9)**	(12.2)	(9.7)
Inter-segment	**(0.4)**	-	(0.4)	**(0.5)**	-	(0.5)
(Loss) profit for the period	**(39.5)**	70.5	(110.0)	**(19.2)**	115.6	(134.8)

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 profit from variations in the HTGS fuel costs. Fuel costs at the HTGS 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 the first half of 2015 were determined during Hydro's last GRA which was based on a 2007 cost of service. In May, 2015, Hydro received approval of new interim rates which were implemented on July 1, 2015 and will continue into 2016 until the PUB's final order on the GRA is received. Hydro's rates were also adjusted for the cost of fuel consumed at the HTGS which occurs through the normal operation of the RSP. However, this recovery is limited to the cost of No. 6 fuel only. Hydro's cost of diesel and gas turbine fuel for standby generation currently has no deferral protection. Hydro did apply in its GRA for deferral of these costs in excess of test year amounts which is currently pending approval. Hydro also included the 2015 portion of these fuel costs in its Amended 2015 Cost Deferral Application but these costs were not approved in the December, 2015 order from the PUB. Hydro filed an application in February 2016 to provide recovery of additional 2016 fuel costs resulting from increased operation of the combustion turbines to maintain reliable service.

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2015**	2014	Variance	**2015**	2014	Variance
Revenue	**156.4**	151.1	5.3	**585.6**	553.5	32.1
Fuels	**54.9**	64.4	9.5	**192.8**	268.1	75.3
Power purchased	**14.7**	14.6	(0.1)	**60.7**	63.8	3.1
Operating costs	**39.8**	38.7	(1.1)	**153.5**	140.3	(13.2)
Depreciation and amortization	**17.4**	15.0	(2.4)	**63.8**	56.0	(7.8)
Net finance (income) expense	**18.9**	16.5	(2.4)	**73.7**	70.8	(2.9)
Other (income) expense	**6.3**	(2.1)	(8.4)	**10.4**	3.2	(7.2)
Profit (loss) before regulatory adjustments	**4.4**	4.0	0.4	**30.7**	(48.7)	79.4
Regulatory adjustments	**0.8**	(40.9)	41.7	**59.5**	(66.3)	125.8
Profit (loss) for the period	**3.6**	44.9	(41.3)	**(28.8)**	17.6	(46.4)

Revenue

The increase in revenue for the quarter and the year was primarily due to the implementation of new interim rates as of July 1, 2015 and higher energy sales, partially offset by a lower RSP[1] recovery resulting from the normal operation of the RSP. The impact of increased energy sales is partially offset in the regulatory adjustments line.

Fuels

The decrease in fuel costs for the quarter and for the year was primarily due to a lower price per barrel of No. 6 fuel as a result of lower oil prices. The majority of this variance is offset through the RSP[1] in the regulatory adjustments line.

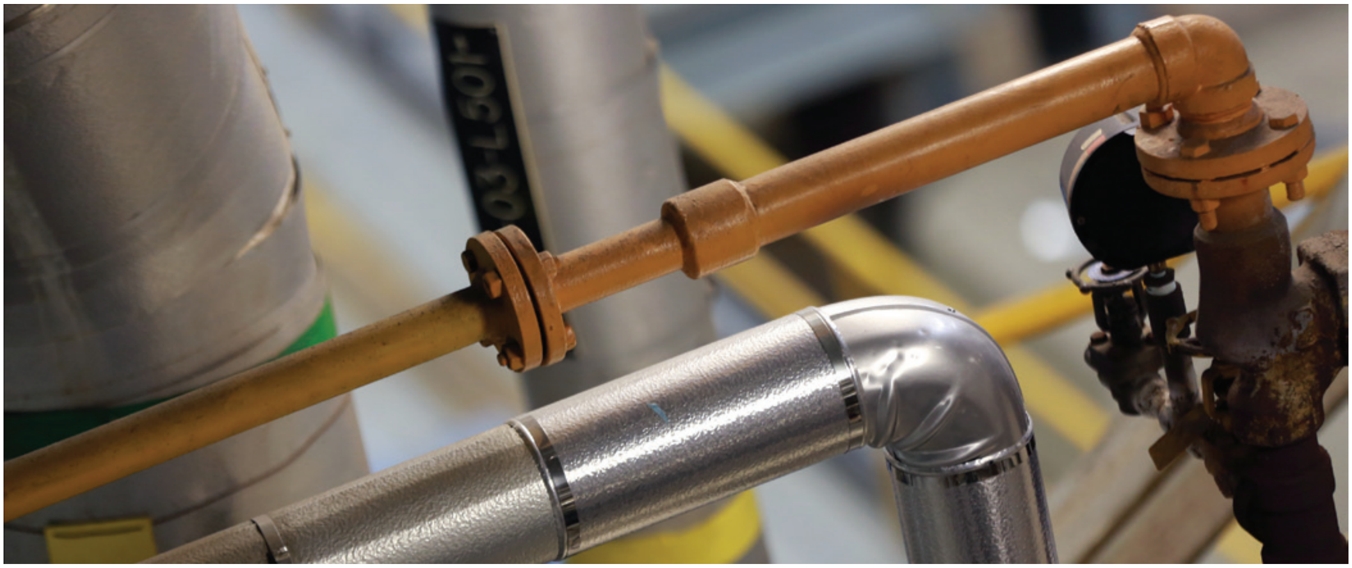
The following tables summarize fuel consumed and average price:

	Three months ended		Twelve months ended	
For the period ended December 31 (millions of dollars)	**2015**	2014	**2015**	2014
No. 6 fuel consumption: Millions of barrels	**0.8**	0.6	**2.4**	2.3
Average price (CAD/bbl)	**$60.39**	$97.85	**$67.21**	$108.54
Gas turbine fuel consumption: Millions of liters	**8.0**	0.8	**20.5**	7.2
Average price (CAD/liter)	**$0.66**	$0.89	**$0.75**	$0.96
Diesel fuel consumption: Millions of liters	**4.3**	4.2	**16.1**	16.9
Average price (CAD/liter)	**$0.96**	$1.10	**$1.01**	$1.15

Fuel costs are summarized below:

	Three months ended		Twelve months ended	
For the period ended December 31 (millions of dollars)	**2015**	2014	**2015**	2014
No. 6 fuel and other	**45.4**	59.2	**161.0**	241.8
Gas turbine fuel	**5.4**	0.8	**15.4**	6.9
Diesel	**4.2**	4.5	**16.4**	19.4
	55.0	64.5	**192.8**	268.1

[1] The RSP primarily provides for the deferral of fuel expense variances resulting from changes in No. 6 fuel prices, hydrology, load and associated interest. Items not stabilized through the RSP include demand revenue, rural sales volume, customer rate, diesel fuel, gas turbine fuel, power purchases, fuel efficiency and transmission loss variances.



Energy supply is summarized below:

	Three months ended			Twelve months ended		
For the period ended December 31 (GWh)	**2015**	2014	Variance	**2015**	2014	Variance
Generation:						
Hydraulic generation[1]	**1,274.3**	1,251.7	22.6	**4,823.4**	4,658.0	165.4
Holyrood generation	**465.6**	355.0	110.6	**1,458.5**	1,315.3	143.2
Standby generation[1,2]	**19.9**	(1.2)	21.1	**40.8**	2.5	38.3
Thermal diesel generation	**13.4**	13.3	0.1	**51.5**	51.7	(0.2)
Purchases[3]	**428.7**	428.7	-	**1,666.4**	1,654.8	11.6
	2,201.9	2,047.5	154.4	**8,040.6**	7,682.3	358.3

[1] Includes Hydro generation only.

[2] Includes Gas Turbine and Diesel generation.

[3] Purchases include generation from Exploits, recall energy for use in Labrador, wind and other sources.

Electricity sales are summarized below:

	Three months ended			Twelve months ended		
For the period ended December 31 (GWh)	**2015**	2014	Variance	**2015**	2014	Variance
Newfoundland Power	**1,667.0**	1,529.0	138.0	**6,072.0**	5,852.0	220.0
Hydro Rural	**283.0**	299.3	(16.3)	**1,099.8**	1,113.8	(14.0)
Industrials	**135.1**	120.4	14.7	**499.1**	391.9	107.2
Internal Usage	**0.6**	0.6	-	**3.2**	3.0	0.2
Losses	**116.2**	98.2	18.0	**366.5**	321.6	44.9
	2,201.9	2,047.5	154.4	**8,040.6**	7,682.3	358.3

Power purchased

The decrease in power purchased for the year was primarily due to lower capacity assistance purchases, partially offset by higher co-generation purchases.

Operating costs

The increase in operating costs for the quarter was primarily due to higher costs related to increased regulatory activity combined with higher backup diesel generation rental costs. The increase in operating costs for the year was primarily due to higher salaries and benefits related costs, additional maintenance work, regulatory activity and normal inflationary increases.

Depreciation and amortization

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

Net finance (income) expense

The unfavourable variance in net finance (income) expense for the quarter was primarily due to lower capitalized interest costs. The unfavourable variance for the year was primarily due to a reduction in interest revenue associated with the retirement of sinking funds related to a 2014 debt retirement, lower capitalized interest and an increase in the government debt guarantee fee in 2015. This variance is partially offset by lower costs associated with long-term debt.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter and the year was primarily due to higher costs related to the disposal of assets, customer settlement costs and lower insurance proceeds.

Regulatory adjustments

Regulatory adjustments resulted in increased expenses for the quarter and the year due to a reduction in deferred fuel costs, partially offset by a decrease in RSP amortization, both resulting from the normal operation of the RSP. Also contributing to the increase in expense was the change in regulatory cost deferrals approved by the PUB. The PUB approved cost deferrals in 2014 and 2015 as an interim measure until final rates relating to Hydro's GRA are approved.

CHURCHILL FALLS

Churchill Falls is the owner and operator of the Churchill Falls Generating Station, with a rated capacity of 5,428 MW. The 1969 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. In addition, two power purchase agreements effective March 9, 1998 and January 1, 2015, provide for the sale of electricity to Hydro for use domestically and for resale in export markets.

Churchill Falls earns revenue from Hydro-Québec under the Guaranteed Winter Availability Contract (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 2015, Churchill Falls derived 47.4% of its revenue from sales to Hydro-Québec under the Power Contract (2014 – 63.4%), 23.8% from the GWAC (2014 – 29.1%) and 28.8% from other revenue (2014 – 7.5%). Other revenue now includes the sale of energy to Hydro pursuant to the 2015 Hydro PPA.

The strategy for Churchill Falls continues to focus 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. During 2015, Churchill Falls invested $55.0 million, net of contributions in aid of construction (2014 - $49.9 million), in property, plant and equipment. In accordance with the 1999 Churchill Falls Shareholders' Agreement (the 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, 2015, this fund had a balance of $47.0 million (2014 - $52.0 million).

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2015**	2014	Variance	**2015**	2014	Variance
Revenue	**30.8**	24.0	6.8	**101.3**	72.9	28.4
Operating costs	**12.4**	10.7	(1.7)	**45.5**	41.4	(4.1)
Depreciation and amortization	**4.3**	3.7	(0.6)	**15.1**	13.8	(1.3)
Net finance (income) expense	**(0.3)**	(0.2)	0.1	**(1.1)**	(1.2)	(0.1)
Other (income) expense	**1.0**	0.1	(0.9)	**1.9**	1.8	(0.1)
Share of loss (profit) of joint venture	**0.2**	(0.1)	(0.3)	**0.3**	(0.4)	(0.7)
Preferred dividends	**(1.2)**	(0.7)	0.5	**(4.7)**	(2.7)	2.0
Profit for the period	**14.4**	10.5	3.9	**44.3**	20.2	24.1

Revenue

The increase in revenue for the quarter and the year was due to additional energy sales to Hydro related to the 2015 Hydro PPA. Increased GWAC revenue earned in Q1 2015 was the primary contributor to the revenue increase during the year.

Operating costs

The increase in operating costs for the quarter and for the year was primarily due to an increase in salaries and benefits related costs, additional legal costs related to the Motion for declaratory judgement filed in July, 2013 and an increase in rental and royalty expense as a result of higher revenues for the same periods.

Depreciation and amortization

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) expense

The unfavourable variance in net finance (income) expense for the year was due to less favourable interest rates compared to the prior year.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter was primarily due to the timing of asset retirements and disposals in 2015, which occurred later in the year as compared to 2014.

Share of loss (profit) of joint venture

The decrease in the share of loss (profit) of joint venture for the quarter and the year was as a result of Twin Falls ceasing to sell hydroelectric power as of December 31, 2014.

Preferred dividends

Preferred dividends increased during the quarter and the year as a result of higher profit.

OIL AND GAS

Oil and Gas is currently a joint venture working interest partner in three developments in the Newfoundland and Labrador offshore. It owns 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 WRX, which produced first oil from the North Amethyst field in May 2010; and a 10.0% working interest in the HSE, which produced first oil in June 2011.

For the quarter and the year ended December 31, 2015, Oil and Gas has recognized an impairment expense of $61.7 million related to it's working interest in the WRX. The recognition of an impairment expense is primarily a result of sustained decreases in forecasted Dated Brent prices. Oil and Gas' decision to recognize an impairment expense is consistent with the position of other industry participants subsequent to the recent downturn in prices.

The recognition of an impairment expense related to the WRX is driven by financial reporting requirements under IFRS, and is not reflective of the favourable lifetime project economics or the overall profitability of the WRX development that has been producing since 2010. As per requirements under IFRS, Oil and Gas assesses the carrying value of its oil and gas developments against the future recoverable amount at each reporting period. Historical cash flow generated by the asset is not taken into consideration in determining whether there is an impairment. In assessing impairment and impairment reversals, Oil and Gas uses factors including expected future oil prices and proved and probable reserves from third party specialists and a discount rate reflective of Oil and Gas' risk to determine the present value of future cash flows generated from the developments in which Oil and Gas has a working interest. Due to the current economic conditions and lower forecasted price of Brent Crude, the forecasted future cash flows for WRX have decreased, resulting in a reduction in the recoverable amount of WRX for financial reporting purposes. As future oil prices improve, Oil and Gas may be in a position to reverse the impairment recognized in 2015 in future periods.

Financial Highlights

For the period ended December 31 (millions of dollars)	**Three months ended 2015**	2014	Variance	**Twelve months ended 2015**	2014	Variance
Revenue	**15.6**	17.4	(1.8)	**45.2**	79.5	(34.3)
Operating costs	**4.5**	5.5	1.0	**22.3**	21.6	(0.7)
Depreciation, depletion, amortization and impairment	**68.5**	3.9	(64.6)	**79.7**	22.5	(57.2)
Exploration and evaluation	**0.1**	0.3	0.2	**1.0**	1.2	0.2
Net finance (income) expense	**0.2**	0.1	(0.1)	**0.7**	0.4	(0.3)
Other (income) expense	**(3.5)**	(1.5)	2.0	**(10.0)**	(3.3)	6.7
(Loss) profit for the period	**(54.2)**	9.1	(63.3)	**(48.5)**	37.1	(85.6)

Non-GAAP Operating Profit Disclosure

Reconciliation of Oil and Gas' (loss) profit to operating profit for the three and twelve months ended December 31, 2015 is as follows:

For the period ended December 31 (millions of dollars)	**Three months ended 2015**	2014	Variance	**Twelve months ended 2015**	2014	Variance
(Loss) profit for the period	**(54.2)**	9.1	(63.3)	**(48.5)**	37.1	(85.6)
Impairment of property, plant and equipment	**61.7**	-	61.7	**61.7**	-	61.7
Operating profit for the period	**7.5**	9.1	(1.6)	**13.2**	37.1	(23.9)

Revenue

The decrease in revenue for the quarter was due to a reduction in seismic sales compared to 2014 and a lower Average Dated Brent Price per barrel. This decrease was partially offset by an 109,389 bbl increase in production volumes compared to Q4 2014. The increase in Q4 2015 production was primarily due to increased production at HSE. The decrease in revenue for the year is primarily attributed to lower Average Dated Brent Price per barrel and a 136,181 bbl decrease in production as compared to 2014. Oil price data for the quarter and year with 2014 comparatives are summarized in the table below. The Average Dated Brent 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 (dollars)	**Three months ended 2015**	2014	**Twelve months ended 2015**	2014
Average Dated Brent Price (USD/bbl)	**38.90**	67.48	**47.53**	101.54
Realized Price (USD/bbl)	**53.78**	84.64	**64.55**	104.60
Realized Price (CAD/bbl)	**71.17**	95.87	**82.90**	115.26

Operating costs

The decrease in operating costs for the quarter was due to a decrease in professional services and production costs associated with lower project operating costs at HSE. The increase in operating costs for the year is primarily attributable to the increase in production costs associated with transshipment and transportation fees, partially offset by a decrease in processing costs.

Depreciation, depletion, amortization and impairment

The increase in depreciation, depletion, amortization and impairment for the quarter and the year is primarily due to an impairment expense associated with WRX.

Exploration and evaluation

The decrease in exploration and evaluation for the quarter and year relates to a decrease in the operating portion of Nalcor's exploration expenditures, which are funded through two government-sponsored programs, the Petroleum Exploration Enhancement Program and the Offshore Geoscience Data Program.

Net finance (income) expense

The unfavourable variance in net finance (income) expense for the quarter and the year was primarily a result of a higher accretion expense associated with decommissioning liabilities.

Other (income) expense

The favourable variance in other (income) expense for the quarter and the year is primarily due to gains on settlement of oil commodity contracts.

Capital Expenditures

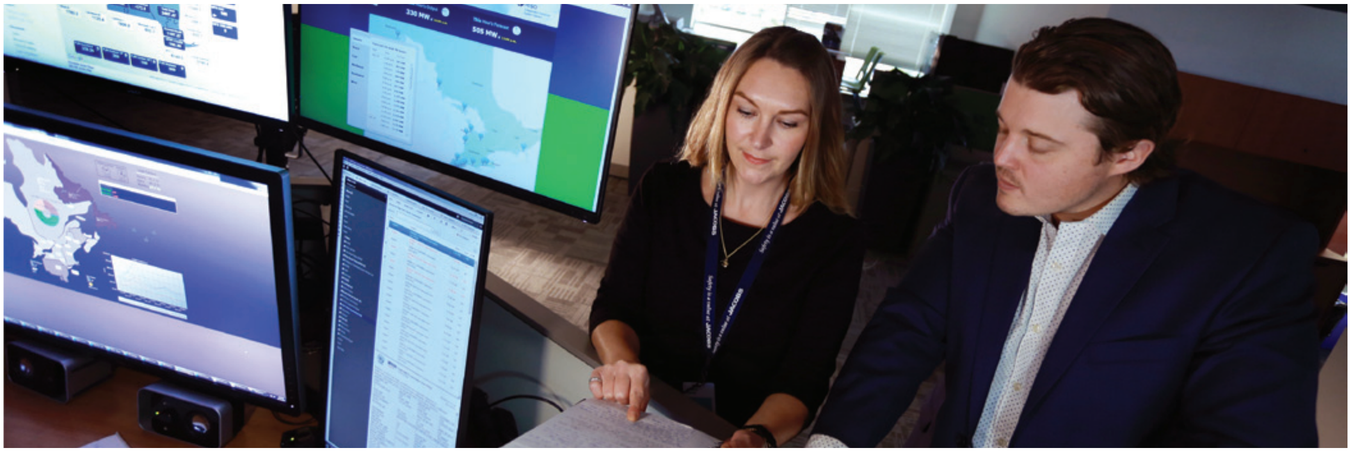
During 2015, exploration costs capitalized as intangible assets totaled $27.6 million (2014 - $12.9 million). Costs capitalized as petroleum and natural gas properties totaled $221.2 million (2014 - $237.3 million) and include pre-development, development and drilling costs. The 2015 costs are comprised of expenditures related to Hebron of $129.6 million, HSE of $78.4 million, WRX of $12.5 million, and other expenditures of $0.7 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 are as follows:

	2015 Light and Medium Oil		2014 Light and Medium Oil	
As at December 31 (thousands of barrels - Mbbls)	**Gross**	**Net**	Gross	Net
Developed	**8,667**	**6,148**	5,562	3,981
Undeveloped	**11,905**	**10,971**	11,011	9,976
Total Proved	**20,572**	**17,119**	16,573	13,957
Probable	**40,426**	**30,607**	45,328	32,600
Total Proved Plus Probable	**60,998**	**47,726**	61,901	46,557

Gross reserves represent Oil and Gas' working interest in remaining reserves, while net reserves represent remaining reserves less royalties. Total Gross Proved (1P) reserves at December 31, 2015 are 20,572 Mbbls, an increase of 3,999 Mbbls from December 31, 2014 reserve levels, due to an increased understanding of the producing fields. Total Gross Proved plus Probable (2P) reserves at December 31, 2015 are 60,998 Mbbls, a decrease of 903 Mbbls over December 31, 2014 reserve levels. This decrease is primarily as a result of production of 356 Mbbls and a decrease of 300 Mbbls in total 2P reserves at South WRX due to uncertainty over future production capabilities.



ENERGY MARKETING

The revenue and profit in this segment are derived primarily from the sale of available recapture energy as well as 225MW of power and energy available for sale arising from the 2015 Hydro PPA. The recapture energy is sold to markets in eastern Canada and the northern US, as well as to the iron ore industry in Labrador. The energy available under the PPA between Hydro and Churchill Falls is sold in Labrador West at rates determined by the Labrador Industrial Rates policy. In addition, revenue is generated through the 18.7 MW Menihek Generating Station.

Financial Highlights

	Three months ended			Twelve months ended		
For the period ended December 31 (millions of dollars)	**2015**	2014	Variance	**2015**	2014	Variance
Revenue	**20.9**	11.5	9.4	**96.5**	75.6	20.9
Power purchased	**11.5**	2.4	(9.1)	**43.6**	8.5	(35.1)
Operating costs	**10.3**	7.3	(3.0)	**33.5**	27.6	(5.9)
Depreciation and amortization	**0.1**	-	(0.1)	**0.1**	-	(0.1)
Net finance (income) expense	**0.1**	-	(0.1)	**0.1**	-	(0.1)
Other (income) expense	**(1.6)**	(1.7)	(0.1)	**(3.3)**	1.5	4.8
Profit for the period	**0.5**	3.5	(3.0)	**22.5**	38.0	(15.5)

Revenue

The significant increase in revenue for the quarter and the year is due to the non-regulated sales to industrial customers in Labrador West. The profit associated with these sales is recorded in Churchill Falls with no profit impact on Energy Marketing. Revenue includes $37.1 million related to these sales. The increase was also due to the reclassification of Menihek's cost recoveries from operating costs to other revenue.

In 2015, approximately 53.7% of revenue related to export sales (2014 - 90.6%), 39.9% related to sales to industrial customers (2014 - 7.2%) and 6.4% of revenues were derived from other sources (2014 - 2.2%). The increase associated with sales to industrial customers was partially offset by decreased export prices. Prior year export prices were stronger due to colder than average temperatures in 2014.

Prices and volumes for the quarter and the year for sales in export markets are summarized in the table below. The Average Market Price reflects prices realized in the export market. The Realized Price (USD) includes the impact of electricity commodity price hedges, and Realized Price (CAD) includes the impact of foreign exchange.

	Three months ended		Twelve months ended	
For the period ended December 31 (dollars)	**2015**	2014	**2015**	2014
Average Market Price (USD/MWh)	**$18.56**	$23.49	**$25.08**	$38.80
Realized Export Electricity Price (USD/MWh)	**$25.21**	$23.63	**$30.35**	$37.55
Realized Export Electricity Price (CAD/MWh)	**$23.94**	$25.93	**$34.11**	$41.04
Export sales (GWh)	**396**	387	**1,618**	1,591

Power purchased

The increase in power purchased for the quarter and the year is primarily a result of power purchased under the 2015 Hydro PPA, which was subsequently sold to Labrador West customers, partially offset by a decrease in price and volume of export market power purchases. The portion of total power purchased related to Labrador West customers is $37.1 million.

Operating costs

The increase in operating costs for the quarter was primarily due to the reclassification of Menihek's cost recoveries from operating costs to other revenue and an increase in professional fees. The increase for the year was primarily due to the reclassification of Menihek's cost recoveries, an increase in professional fees and an increase in salaries and benefits as a result of Energy Marketing's implementation plan to move energy trading operations in-house in 2015, offset by reduced marketing fees previously paid to a third party marketer.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter as compared to 2014 was primarily due to slightly less favourable fluctuations in mark-to-market valuations on commodity hedge contracts and foreign exchange losses, partially offset by gains on settlement of commodity hedge contracts and favourable gains on financial transmission rights. The favourable variance for the year was primarily due to significant gains on settlement of commodity hedge contracts, partially offset by unfavourable foreign exchange losses.

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 the continual development of an experienced labour force and related knowledge transfer.

Revenue is primarily generated through leasing arrangements associated with large construction projects. The site is currently under lease to ExxonMobil Canada Properties until completion of the Hebron Project which is planned to be in 2017. Site project work consists of 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

For the period ended December 31 (millions of dollars)	Three months ended 2015	2014	Variance	Twelve months ended 2015	2014	Variance
Revenue	**5.4**	4.6	0.8	**20.5**	17.8	2.7
Operating costs	**0.5**	0.3	(0.2)	**1.3**	1.0	(0.3)
Other (income) expense	**0.8**	(0.8)	(1.6)	**2.3**	(0.5)	(2.8)
Profit for the period	**4.1**	5.1	(1.0)	**16.9**	17.3	(0.4)

Revenue

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

Operating costs

The increase in operating costs for the quarter is primarily due to development of a marketing plan. The increase in operating costs for the year is primarily due to development of a marketing plan and an increase in salaries and benefits.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter and the year is primarily due to losses on unfavourable foreign exchange rates associated with the settlement of 2015 hedge contracts. In addition, the prior year reflected a gain on a financial adjustment related to the transfer of ownership of the Bull Arm site from the Province to Nalcor in 2009.

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 comprise costs incurred by Nalcor's subsidiaries in the construction of the Muskrat Falls Generation Facility, the Labrador-Island Link and the Labrador Transmission Assets. The current capital cost estimate is $7.65 billion, plus capitalized interest and financing costs of $1.3 billion. The costs of the Maritime Link, which is owned and financed by a subsidiary of Emera Inc. (to be utilized for a period of 35 years following in-service of the Muskrat Falls Generation Facility, at which time ownership will transfer to Nalcor), is also included as capital expenditures in the annual audited consolidated financial statements.

Financial Highlights

For the period ended December 31 (millions of dollars)	Three months ended 2015	2014	Variance	Twelve months ended 2015	2014	Variance
Operating costs	**0.4**	1.9	1.5	**1.3**	2.4	1.1
Net finance (income) expense	**(0.2)**	(0.1)	0.1	**(0.6)**	-	0.6
Other (income) expense	**2.5**	-	(2.5)	**2.5**	-	(2.5)
Loss for the period	**(2.7)**	(1.8)	(0.9)	**(3.2)**	(2.4)	(0.8)

Operating costs

The decrease in operating costs for the quarter and the year is due to decreased costs of corporate overhead, audit fees and other general administrative costs which are not eligible for capitalization in accordance with IFRS.

Net finance (income) expense

The favourable variance in net finance (income) expense for the quarter and the year is primarily due to interest earned on cash contributions to meet pre-funded equity requirements associated with the Project Finance Agreements.

Other (income) expense

The unfavourable variance in other (income) expense for the quarter and the year is primarily due to increased losses on foreign exchange transactions which are not eligible for capitalization in accordance with IFRS.

Capital Expenditures

Capital expenditures increased by $113.8 million for the quarter and $833.2 million for the year compared to the same periods in 2014. The breakdown by each component of Phase 1 of the Lower Churchill Project is as follows:

	Three months ended		**Twelve months ended**		Total
For the period ended December 31 (millions of dollars)	**2015**	2014	**2015**	2014	To Date
Muskrat Falls	222.6	185.8	788.9	580.3	2,045.4
Labrador Transmission Assets	89.5	54.5	289.1	182.9	594.0
Labrador-Island Link	224.7	145.4	801.9	404.5	1,380.2
Nalcor facilities capital costs	**536.8**	**385.7**	**1,879.9**	**1,167.7**	**4,019.6**
Capitalized interest and financing costs	40.9	33.2	151.4	124.3	334.6[1]
Class B Limited Partnership Unit Interest	3.8	1.7	9.6	6.4	21.2
Total capital costs for Nalcor project components	**581.5**	**420.6**	**2,040.9**	**1,298.4**	**4,375.4**
Maritime Link	70.8	117.9	329.0	238.3	661.3
Total capital expenditures	**652.3**	**538.5**	**2,369.9**	**1,536.7**	**5,036.7**

[1] Excludes $52.1 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)	**2015**	2014	Variance	**2015**	2014	Variance
Revenue	**0.1**	-	0.1	**0.1**	-	0.1
Operating costs	**5.2**	4.2	(1.0)	**21.5**	14.4	(7.1)
Depreciation	**0.1**	-	(0.1)	**0.5**	0.4	(0.1)
Net finance (income) expense	**0.3**	(3.7)	(4.0)	**0.7**	(2.7)	(3.4)
Other (income) expense	**(0.7)**	0.3	1.0	**(0.7)**	0.1	0.8
Loss for the period	**(4.8)**	(0.8)	(4.0)	**(21.9)**	(12.2)	(9.7)

Operating costs

The increase in operating costs for the quarter and the year was primarily driven by costs associated with the preparation to transition to operations and integrate the Lower Churchill Project upon completion, costs related to a multi-year business systems project to upgrade/replace business systems, and increased salaries and benefits.

Net finance (income) expense

The unfavourable variance in net finance (income) expense for the quarter and for the year was largely due to increased interest expense on short-term investments and increased bank charges.

Other (income) expense

The favourable variance in other (income) expense for the quarter and for the year was primarily due to a prior period adjustment related to Nalcor's investment in a subsidiary company.

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, short-term borrowings, long-term debt, and contributions 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 debt. Additional liquidity is available through multiple credit facilities Nalcor and its subsidiaries maintain with their primary banker.

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 2016.

CASH FLOW HIGHLIGHTS

Operating Activities:

For the period ended December 31 (millions of dollars)	**2015**	2014	Variance
Net cash provided from operating activities	**227.0**	145.8	81.2

Cash provided from operating activities was $227.0 million, up $81.2 million compared to 2014. The increase was due primarily to changes in regulatory adjustments, an increase in depreciation, depletion, amortization and impairment, and changes in non-cash working capital balances, offset partially by a reduction in profit.

For the period ended December 31 (millions of dollars)	**2015**	2014	Variance
Additions to property, plant and equipment and intangible assets	**(2,451.2)**	(1,790.1)	(661.1)
Decrease (increase) in long-term receivables	**33.6**	(20.5)	54.1
(Increase) decrease in sinking fund	**(6.6)**	102.0	(108.6)
Decrease in reserve fund	**3.3**	16.1	(12.8)
Decrease in investments (including short-term)	**1,789.0**	1,572.6	216.4
Changes in non-cash working capital balances	**307.5**	136.0	171.5
Other	**(0.5)**	0.3	(0.8)
Net cash used in investing activities	**(324.9)**	16.4	(341.3)

Cash used in investing activities consisted of additions to property, plant and equipment and intangible assets, primarily related to construction in progress as well as less significant additions to petroleum and natural gas properties and exploration investments, partially offset by capital accruals. Sinking fund disposals were $1.5 million in 2015 as opposed to $126.5 million in 2014 and investment redemptions were higher in 2015 than in 2014.

Financing Activities:

For the period ended December 31 (millions of dollars)	**2015**	2014	Variance
Issuance/retirement of long-term debt	**-**	72.4	(72.4)
Increase in restricted cash	**(705.7)**	(605.1)	(100.6)
Class B limited partnership unit contributions	**118.4**	-	118.4
Increase in short-term borrowings	**44.0**	12.0	32.0
Decrease in long-term payables	**(15.1)**	(8.1)	(7.0)
Increase in shareholder contributions	**734.7**	327.3	407.4
(Decrease) increase in deferred contributions	**(2.2)**	5.2	(7.4)
Increase in deferred credits	**11.5**	1.2	10.3
Net cash provided from (used in) financing activities	**185.6**	(195.1)	380.7

In 2015, $185.6 million was provided from financing activities, compared to $195.1 million used in 2014, mainly due to increased shareholder contributions which were used to fund Nalcor's capital expenditures and an increase in Class B limited partnership unit contributions, partially offset by a decrease in restricted cash.

CAPITAL STRUCTURE

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

As at December 31 (millions of dollars)	**2015**	2014
Short-term borrowings	**97.0**	53.0
Current portion of long-term debt	**233.4**	8.4
Long-term debt (net of sinking funds)	**5,765.5**	6,012.1
Class B limited partnership units	**207.4**	79.4
Total debt (net of sinking funds)	**6,303.3**	6,152.9
Total shareholder's equity	**3,455.6**	2,722.0
Debt to capital	**64.6%**	69.3%
Fixed rate debt as percentage of total indebtedness	**98.4%**	99.1%

The above noted ratios are Non-GAAP financial measures. Please refer to Section 8: 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.

As at December 31, 2015 and December 31, 2014, total consolidated liquidity is as follows:

	December 31, 2015				December 31, 2014			
As at (millions of dollars)	**Credit Facilities**	**Borrowings Outstanding**	**Letters of Credit Outstanding**	**Total Liquidity**	Credit Facilities	Borrowings Outstanding	Letters of Credit Outstanding	Total Liquidity
Hydro Regulated:								
Cash and cash equivalents/ Short-term investments				**4.0**				7.9
Promissory notes program	**300.0**	**97.00**	**-**	**203.0**	300.0	53.0	-	247.0
Demand operating facility	**50.0**	**-**	**0.3**	**49.7**	50.0	-	0.3	49.7
				256.7				304.6
Churchill Falls:								
Cash and cash equivalents/ Short-term investments				**54.9**				31.6
Demand operating facility	**10.0**	**-**	**2.0**	**8.0**	10.0	-	2.0	8.0
				62.9				39.6
Oil and Gas:								
Cash and cash equivalents/ Short-term investments				**17.3**				12.5
Demand operating facility	**5.0**	**-**	**-**	**5.0**	5.0	-	-	5.0
				22.3				17.5
Energy Marketing:								
Cash and cash equivalents/ Short-term investments				**3.4**				-
Demand operating facility	**20.0**	**8.2**	**-**	**11.8**	-	-	-	-
				15.2				-
Bull Arm:								
Cash and cash equivalents/ Short-term investments	**-**	**-**	**-**	**1.1**	-	-	-	2.8
				1.1				2.8
LCP:								
Cash and cash equivalents/ Short-term investments				**20.7**				5.1
MFLTA working capital reserve account	**75.0**	**-**	**-**	**75.0**	75.0	-	-	75.0
LIL working capital revolving facility	**75.0**	**-**	**-**	**75.0**	75.0	-	-	75.0
				170.7				155.1
Nalcor:								
Cash and cash equivalents/ Short-term investments				**75.1**				45.9
2-year facility	**250.0**	**-**	**12.0**	**238.0**	250.0		8.9	241.1
				313.1				287.0
Total consolidated liquidity				**842.0**				806.6

HYDRO REGULATED

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

Capital expenditures in excess of cash provided from operations are funded with proceeds from short-term borrowings 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. As at December 31, 2015, there were $97.0 million in promissory notes outstanding (2014 - $53.0 million). In addition, Hydro maintains a $50.0 million demand operating facility with its primary bank. As at December 31, 2015, there were no amounts drawn on the facility (2014 - $nil).

Sinking funds were established for four of Hydro's outstanding debt issues. These four debt issues have a par value of $875.0 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 working capital requirements and capital expenditures, which Churchill Falls funds mainly through cash provided 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. In 2014, $23.4 million was withdrawn from the reserve fund to fund a portion of 2014 capital expenditures. In 2015, $5.0 million was withdrawn to fund a portion of 2015 capital expenditures. These funds will be replaced in future periods in accordance with Article 5.6 of the Shareholders' Agreement.

To ensure sufficient liquidity, Churchill Falls targets a minimum cash balance of $20.0 million (2014 - $16.0 million) and maintains a $10.0 million demand operating facility with its primary banker. As at December 31, 2015, there were no amounts drawn on the facility (2014 - $nil).

OIL AND GAS

Capital resource requirements for Oil and Gas consist primarily of capital expenditures and working capital requirements. While cash from operations is sufficient to meet working capital requirements 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 related to Oil and Gas from the Province totaled $192.7 million for the year ended December 31, 2015 (2014 - $212.5 million). Liquidity is provided through a $5.0 million demand operating facility Oil and Gas maintains with its primary banker. As at December 31, 2015, there were no amounts drawn on the facility (2014 - $nil).

ENERGY MARKETING

Capital resource requirements for Energy Marketing are limited to working capital requirements. Energy Marketing maintains a $20.0 million demand operating facility with its primary banker. As at December 31, 2015, there was $8.2 million drawn on the facility (2014 - $nil).

BULL ARM FABRICATION

Capital resource requirements for Bull Arm Fabrication are limited to working capital requirements, which will continue to be funded through cash provided from operations. Historically, cash provided from operations has exceeded the Bull Arm's working capital requirements. Under the 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 debt drawdowns under the Project Finance Agreements and equity contributions from the Province, as well as Emera Newfoundland and Labrador-Island Link Inc. relating to its limited partnership interest in the LIL LP. 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 MF/LTA Project Finance Agreement. LIL LP has access to a $75.0 million working capital revolving facility which can be used to meet any short-term funding requirements that may arise between drawdowns under the LIL Project Finance Agreement.

CAPITAL EXPENDITURES

Capital expenditures, which significantly impact the cash used in investing activities, increased by $82.5 million for the quarter and $741.5 million for the year as compared with the same period in 2014.

	Three months ended		**Twelve months ended**	
For the period ended December 31 (millions of dollars)	**2015**	2014	**2015**	2014
Hydro Regulated	**33.9**	64.4	**125.0**	207.3
Churchill Falls[1]	**11.4**	8.8	**36.0**	32.7
Oil and Gas	**57.5**	59.6	**221.2**	237.2
Energy Marketing	**0.1**	0.7	**0.2**	1.4
Phase 1 Lower Churchill Project	**581.5**	420.6	**2,040.9**	1,298.4
Corporate and Other Activities	**0.6**	1.3	**7.5**	3.0
Total Capital Expenditures before the following:	**685.0**	555.4	**2,430.8**	1,780.0
Maritime Link – Non Cash Additions	**70.8**	117.9	**329.0**	238.3
Total Capital Expenditures	**755.8**	673.3	**2,759.8**	2,018.3

[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 $3.6 billion as at December 31, 2015 (December 31, 2014 - $3.7 billion), primarily related to the Phase 1 Lower Churchill Project, Oil and Gas, Hydro Regulated and Churchill Falls. Additional information about Nalcor's obligations and commitments can be found in Note 29 of the annual audited consolidated financial statements for the year ended December 31, 2015.

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 Organization for Standards (ISO)/Canadian Standards Association 31000. The Enterprise Risk Management (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 subject matter expertise in the area of risk management. 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 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 Board is charged with oversight of Nalcor's risk profile, and in particular, ensuring that 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. The Governance Committee of the Board provides primary support in fulfilling its risk management mandate, including reviewing ERM policies and corporate ERM Plans, and making recommendations regarding their approval. The Audit Committee oversees the management of the Company's financial risk profile. 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 and/or Audit 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 overseers, i.e. independent reviewers 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;
- Chair the ERM Committee and co-chair the ERM Corporate Oversight Committee with the CEO;
- Ensure the ERM Committee meetings take place at least quarterly and that there is adequate representation and expertise;
- Review policies 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 Management and the Board as required.

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 to Nalcor's activities. 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 material 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 significant potential financial impacts, strategic risks which could have a high impact on Nalcor's reputation are also presented, as an impairment to the corporate reputation could materially affect the Company's ability to execute strategy. Such strategic risks include:

<u>Risks Relating to General External Environmental Factors</u>

Nalcor is subject to uncertainty pertaining to key estimates and assumptions including, but not limited to, changes in crude oil and electricity production levels and prices from what was included in assumptions and budgets, particularly relating to revenue, and potentially impacting all lines of business. 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, can have a material impact on cash flows and financial results, in particular for lines of business with generating or transmission assets, or those marketing excess power where seasonality patterns that differ from normal ranges can materially impact operating conditions and results. Transmission constraints are relevant in lines of business that operate in electricity markets either generating or selling power, and can result from high demand on transmission assets into key markets. Transportation constraints resulting from damage to infrastructure or other factors resulting in an inability to deliver critical supplies required to operate generation facilities, such as fuel or construction material, and/or contractual or market disputes.

Nalcor partially mitigates the risks associated with market price movements through its financial hedging strategy, which is explained in more detail within the financial risk section, and by continuous monitoring of market conditions. Assets are maintained in a manner that accounts for the extreme weather conditions that are inherent to our climate and the age of the infrastructure, and the approach includes a focused winter readiness plan with the objective of protecting assets, which are considered critical during winter months when domestic demand for electricity is highest. For energy marketing activities, risks relating to transmission constraints are managed to the extent possible through contractual arrangements protecting the use of transmission infrastructure, as well as the purchase of financial products mitigating the risk of congestion on lines into key markets.

Financial results and operating conditions may be materially impacted in periods where external environmental factors are outside the normal expected range.

Risk of Sudden and Catastrophic Events

Other external factors exist 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.

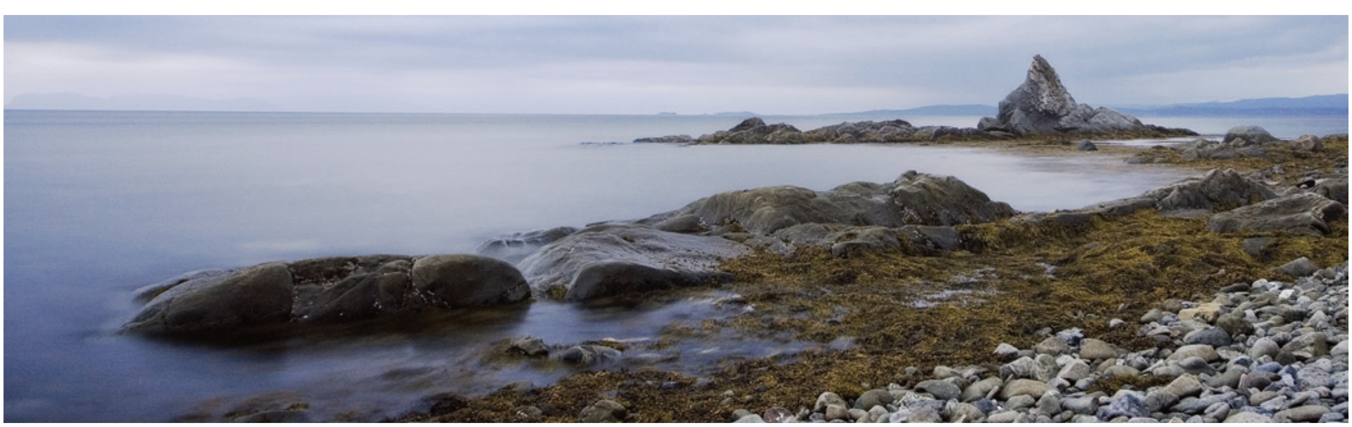
To mitigate the risk of a sudden and catastrophic incident, Nalcor has invested in business recovery and other emergency preparedness measures, and has in place, controls governing physical and information technology (IT) security threats. To the extent that coverage is available, certain risks are transferred through the placement of insurance.

Such events are unlikely, but could have severe, sudden and potentially long-term impacts on the Company.

Risks to the 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 in Newfoundland and Labrador's offshore region. 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 capital.

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 and the timing of any investment remains with those companies.



Given these uncertainties, the level of activity in the oil and natural gas industry is uncertain. 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.

Risks Relating to Electricity System Integration

Phase 1 of the Lower Churchill Project is well underway and the interconnection of the isolated island grid to North America is approaching. As such, the Company is focused on system integration efforts and is well advanced in planning for the implementation of new operating procedures upon completion of the Lower Churchill Project, as well as taking all necessary actions to maximize the value from market opportunities in North American markets. The integration of Muskrat Falls and related transmission assets into Nalcor's existing asset base is complex, with key focus areas being as follows:

- Selection and implementation of an appropriate long-term asset management strategy and service model;
- Finalization and implementation of key commercial and operational agreements, including those necessary to ensure generation assets are optimized to maximize the value from external market opportunities;
- Consideration of the impacts and actions required to address the addition of the new facilities on scheduling, dispatch, reserve requirements, forecasting, and reliability of existing assets; and
- Ensuring export and import access to and from North American markets.

A key priority for Nalcor is to be organizationally ready for the transition to a long-term electricity operations structure in advance of major facilities completions. 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 Management and senior representatives of the Newfoundland and Labrador Department of Natural Resources.

Delays in project construction could lead to a delay in the interconnection to the North American grid or the completion of Muskrat Falls. Delays of this nature could affect planned sales of energy into export markets. Delayed interconnection would potentially impact Nalcor's ability to deliver power for island customers and therefore continue dependence on the HTGS for longer than planned.

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 and assets owned by Nalcor, such as office buildings, data, and system infrastructure.

Operating Risks – Generation and Transmission Assets

Hydro and Churchill Falls operations are subject to normal risks inherent to operating generation and transmission assets. Many of the 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, particularly considering the isolated nature of the provincial electrical system and growing demand, particularly on the Avalon Peninsula.

Nalcor established a formal Office of Asset Management to enhance processes relating to risk control, preventative maintenance, asset refurbishment and replacement, and other key programs which are in place to treat the risks noted above. Asset management maturity is measured against an established framework, with each line of business having strategic asset management plans in place. Standards are established corporately in key areas such as condition inspection, severe weather preparation and critical spare parts management. Five-year Long-Term Asset Management Plans are in use which, are updated annually from condition inspection and assessment data and drive capital investments with a 20 year view updated every three years. 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. Project work is planned and executed applying a formal project management methodology which aligns to industry standards, and leverages both internal resources and contractors to execute.

Nalcor maintains a comprehensive corporate insurance program typical for such a company. 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 Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable.

Material and unexpected asset failures or degradation may result in safety or environmental incidents, interruptions to power supply to customers, emergency and unplanned work, and/or the reallocation of capital budgets and resources. 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. Such unforeseen events may have a material impact on the Company's financial condition and its reputation.

Operating Risks – Joint Venture Interest in Oil and Gas Assets

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 Company to liability for workplace incidents, business interruption, property damage or destruction, or environmental liabilities.

These operational risks are managed by the operator of projects in which Nalcor is a minority joint venture partner. The approach and performance of the operator with respect to addressing these areas is monitored actively by reviewing project status reports and risk registers, participation in meetings with co-venturers, and the exercise of Oil and Gas voting rights within operating agreements.

Nalcor transfers certain risks through the placement of insurance for both onshore and offshore activities typical for the industry; 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 projects are exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable.

The material failure of oil and gas operating assets may result in safety or environmental incidents, regulatory fines and penalties, interruptions to production which could materially impact revenue assumptions, and/or unplanned capital work requiring increased equity investment from partners.

Safety Risks

Several of Nalcor's lines of business have material inherent safety risks. Hydro and Churchill Falls carry safety risks inherent to operating various generation facilities, as well as transmission and distribution infrastructure, notably the risk of working in and around energized equipment. Employees are also exposed to hazards on LCP and Bull Arm sites relating to large construction projects. 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.

Given the potential severity of a workplace incident, Nalcor has made it a first 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 safety plans. Nalcor's Safety Program is currently based on the internationally recognized Occupational Health and Safety Assessment Standard 18001. A monitoring and audit process has been implemented to assess ongoing operational compliance with this standard, as well as internal operational controls and safety procedures. Whenever Nalcor employees and contractors work in and around energized equipment, the Company has implemented an Electrical Safety Program, including a comprehensive Work Protection Code which establishes conditions that provide a safe work area when working on or around energized equipment.

Nalcor works closely with the International Brotherhood of Electrical Workers (IBEW), which represents unionized employees. Nalcor has a strong partnership with the IBEW and supports a joint consultation process when discussing matters related to safety. A safety culture is reinforced throughout the Company through the development of a comprehensive safety framework, which includes a Safety Credo, an Internal Responsibility System, strong processes supporting safety reporting, and investigation and the use of focused safety culture surveys and action plans. Nalcor has a network of safety and health professionals at the corporate office as well as embedded throughout its lines of business.

Hydro and Churchill Falls operate dams, dykes, spillways, and water reservoirs through its hydraulic electricity generation operations. These facilities represent potentially high 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.

Safety 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.

Environmental Risks

Nalcor is subject to various municipal, provincial and federal requirements, and given the industry and nature of the work performed, there are a number of diverse environmental risks that may adversely affect Nalcor's financial position in any given year. There is a potential for environmental liability with existing assets or from assets assumed from another operator, or the presence or release of hazardous or other harmful substances. It is also possible that planned work is affected by the lack or absence of governmental approvals, permits, or renewals of existing approvals and permits related to construction or operating facilities.

The number and diversity of environmental risks facing Nalcor requires a structured and consistent management approach. Nalcor applies the principles of ISO 14001 Environmental Management System (EMS) standard to its relevant lines of business, which is a risk based framework for managing significant environmental risks and reducing the frequency and severity of incidents.

To ensure material environmental risks are managed, Nalcor has implemented a Contaminated Sites Management Program for all properties it owns, leases, operates or acquires. The objectives of the program are to evaluate the potential for environmental contamination, undertake sampling, assess potential risks and liabilities, and identify sites requiring monitoring or remediation as required. The program is intended to guide the implementation of environmental site assessments, using standardized methods, on all properties owned or occupied by Nalcor.

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.

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 (EERPs) 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 EERPs and, where applicable, specific operating procedures have been developed to facilitate the safe handling of the products used.

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.

Environmental events may cause significant environmental damage, lead to claims by third parties and/or governmental fines, disruption to operations, increased project or operating costs, orders or directives requiring specific actions with associated costs or cause long -term impairment to asset values and/or Nalcor's reputation.

<u>IT Infrastructure and Security Risks</u>

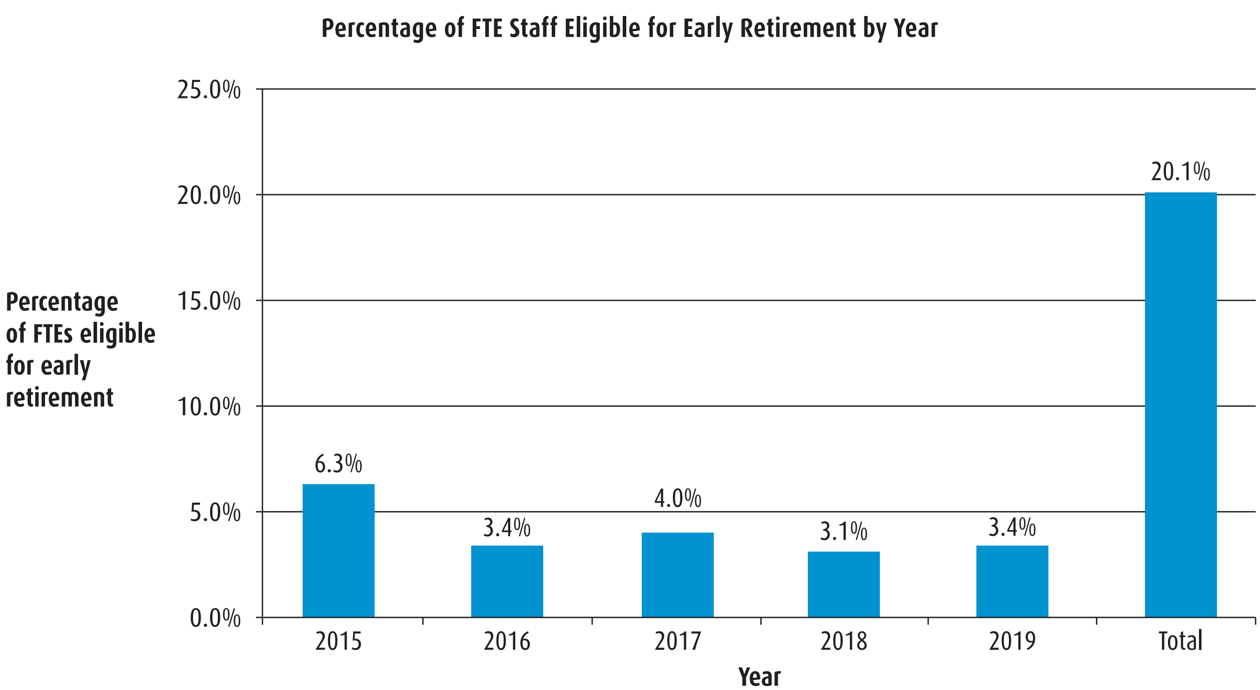
IT affects all aspects of Nalcor's operations. The Company's success is in part dependent on developing, maintaining and managing complex IT systems which are employed to operate transmission and generation facilities, financial and billing systems, and other business systems. If such systems are not up to date and robust enough to support the needs of the business, performance may be negatively impacted due to errors, poor efficiency and/or loss of system stability. This increasing reliance on information systems and expanding data networks also creates exposure to information security threats. Major risk exposures in this environment relate to information security, availability of information, and risk of corporate data loss. These risks include the loss of processing capability due to hardware and/or software failure or threat of virus attacks, the loss of communication across the wide area network, the loss of data through cybercriminal malware, or similar events.

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 and 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 Company's financial results and reputation.

Human Resource Risks

The future success of Nalcor is tied to attracting and retaining sufficient qualified staff to replace those retiring. Approximately 20% of full time equivalent (FTE) employees will be eligible for the earliest unreduced pension within the next five years. Nalcor is focused on early identification and more rapid development of staff with management potential. Recruitment was up 2% from 2015, and 17% over 2013. Apprenticeship and other programs are continued focus areas and effectively utilized to grow specific skills in-house and to shadow long-term employees nearing retirement. Nalcor is focused on workforce planning, recruitment and employee development to identify and mitigate challenges across the Company.

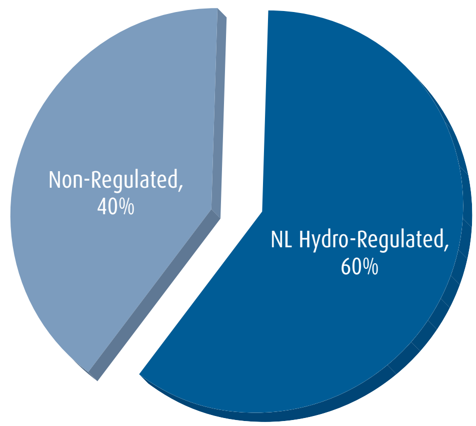


The collective agreement with Churchill Falls IBEW Local 2351 has been ratified for the period from January 1, 2014 to December 31, 2018, and Newfoundland and Labrador Hydro IBEW Local 1615 has been ratified for the period from April 1, 2014 to March 31, 2018. The relative size of each line of business, as well as whether or not employees are in a regulated or non-regulated operation, provides an indication of the level of human resource risk introduced by each division, as seen in the table below.

Distribution of FTE Employees by Line of Business and Regulated versus Non-Regulated

Line of Business	Percentage
NL Hydro - Regulated	59.7%
NL Hydro - Non-Regulated	2.7%
Churchill Falls	21.2%
Nalcor Energy	8.6%
Lower Churchill	4.8%
Oil and Gas	1.5%
Energy Marketing	1.3%
Bull Arm Fabrication	0.2%

Distribution of FTE Employees: Regulated versus Non-Regulated Business



Attracting and retaining skilled labour was identified by LCP as a material risk. To manage these risks, extensive training and recruitment initiatives were put in place early in the project lifecycle, and labour agreements included competitive terms for salaries, accommodations and working conditions. The focus continues to be on promoting LCP as a worksite of choice for Newfoundlanders and Labradorians across the country. To date, the labour acquisition program for LCP has resulted in attracting and recruiting the necessary workforce. The focus remains on retaining qualified workers and retaining LCP's skilled project management team.

In 2013, the Government of Newfoundland and Labrador issued three Special Project Orders (SPOs) confirming distinct labour relations regimes for specific components of LCP. 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.

Risks Relating to 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. In addition to operating risks, 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.

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.

The impact of declining production in one well in either project could have a significant adverse effect on Nalcor's results and financial position.

Risks Relating to 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 those which are market driven such as contractor perception of risk, 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 performance of the contractors and the workforce, the availability of resources and materials, unexpected problems experienced during commissioning and startup, weather, productivity, safety incidents onsite, and changes to the original project plan which enhance quality, reliability, or some other objective. The quality of the work done onsite is of paramount importance, and issues with components not meeting the standards set can cause increases to cost or schedule.

LCP has implemented rigorous controls over cost, schedule and quality. Competitive contracting was achieved by creating interest in LCP 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 changes to the Lower Churchill Project which may result in cost increases are considered where they are necessary from a safety, operability, maintainability imperative or further either quality and/or reliability. 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 and the establishment of the Muskrat Falls Oversight Committee (Oversight Committee) by the Province have a mandate of protecting the interests of Canada and the Province in LCP. The Independent Engineer conducts periodic site visits, visits manufacturing facilities and 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 meets regularly with senior members of LCP and issues reports publicly to further enhance communication and transparency.

LCP maintains an owner controlled insurance program. Insurance is subject to coverage and limits and exclusions, as well as time sensitive claims discovery and reporting provisions. In addition, no assurance can be given that such insurance will be adequate to cover LCP's liabilities.

Schedule delays could impact the timing of interconnection to the North American grid and the delivery of power to Hydro Regulated and export markets which may impact future revenue assumptions.

Risks Relating to the Limitations of Control Systems

Management is responsible to ensure that risks are controlled by putting in place and monitoring processes and systems designed to reduce such risks as detailed above. Internal control systems are intended to provide reasonable assurance with respect to the achievement of objectives, and those controls deemed to be effective do not eliminate the risk altogether. They may not always prevent or detect misstatements with respect to financial statement preparation and presentation, or prevent material financial losses or reputational impacts from occurring.

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 in compliance with Nalcor's internal processes and procedures.

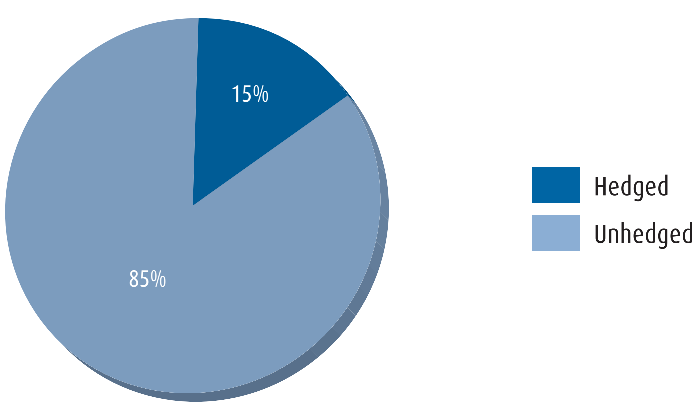
Commodity Price Risk

Commodity price risk is the threat that a change in the market price of a commodity will adversely impact the entity who purchases or 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, gas turbine fuel, and diesel fuel for Hydro thermal facilities, and sales of recall power at market rates.

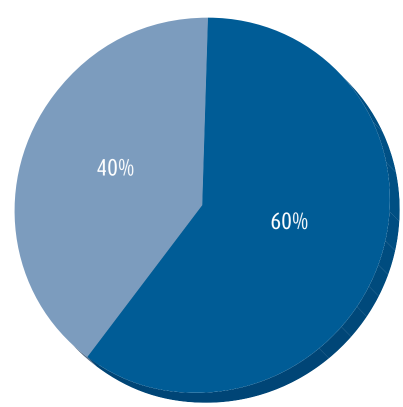
When risk mitigation is considered appropriate in the context of market conditions and the financial risk management objectives, the Company has historically used fixed price commodity price swaps to manage the impact of market price volatility on sales in Oil and Gas and Energy Marketing. At the beginning of 2016, swap contracts with a notional value of USD $11.1 million were in place representing 15% of anticipated 2016 oil production, at an average fixed price of USD $59.85 per barrel. Swap contracts with a notional value of USD $29.0 million were in place representing 60% of anticipated 2016 electricity sales, at an average price of USD $41.30 per MWh (On Peak) and USD $21.60 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. To date, the risk of changes in the price of gas turbine fuel and diesel fuel does not get passed to customers between rate hearings and therefore does impact Hydro's profit.

Oil and Gas is more exposed to commodity price risk in 2016 as 85% of anticipated oil production is not hedged, compared to 74% in 2015. This is due to a lower amount of higher certainty barrels of production, and a hedging strategy that focuses on these higher certainty barrels in purchasing commodity price swaps. Regarding Energy Marketing, commodity price risk is similar in 2016, as 40% of anticipated volume is unhedged, compared to 38% in 2015. Hedging strategies are developed leveraging the best available information regarding the movement of market prices, and may perform better or worse than expected given actual market results. Additionally, as not all commodity price exposure is hedged, much of planned Oil and Gas as well as Energy Marketing sales remain subject to the risk of substantially higher or lower prices versus plan. The graphs below provide a summary of the hedging strategy for 2016:

Distribution of budgeted 2016 oil revenues: price risk hedged versus unhedged



Distribution of budgeted 2016 electricity export revenues: price risk hedged versus unhedged



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 CAD. 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 LCP.

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 creates a natural hedge that partially mitigates this exposure. At the beginning of 2016, no USD sales were hedged as estimated USD capital expenditures exceed the USD value of high certainty barrels of production.

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 2016, Bull Arm has foreign currency forward contracts in place with a notional value of USD $16.3 million, mitigating USD exposure on 100% of its expected USD denominated lease revenue. Energy Marketing has forward contracts in place with a notional value of USD $29.0 million, mitigating USD exposure on 60% of its expected USD denominated electricity sales.

To the extent that USD exposure is 100% hedged in respect of Bull Arm lease revenue, the achievement of planned revenue attributable to this source is certain in this line of business. Within Energy Marketing, however, a portion of sales remain subject to the effects of changes in foreign exchange rates which may be higher or lower than those anticipated at the beginning of the year. Sudden or unexpected movements in rates may have material positive or negative impacts on financial results versus plan.

Credit Risk

Credit risk represents the financial loss that would be suffered if the Company'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 or in non-performance of suppliers and/or contractors.

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 are 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 maintenance of 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, such as letters of credit, 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 and 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. 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.

To manage the risk of counterparty credit worthiness, Nalcor's corporate due diligence process includes an assessment of credit risk and appropriate actions are taken to ensure this risk is mitigated. This may include the establishment of appropriate performance security packages, such as letters of credit, performance bonds and parental guarantees as part of the terms of final contracts.

Default by a company that Nalcor has extended significant credit to could result in material lost revenue, increases to bad debt expense, and a negative impact to Nalcor's balance sheet as receivables are deemed to be uncollectible.

Liquidity Risk

Liquidity risk is the risk that the Company 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, Churchill Falls and Energy Marketing with limits of $5.0 million, $50.0 million, $10.0 million and $20.0 million respectively.

Long-term liquidity is provided through the issuance of debentures in the capital markets and injections of equity capital from Nalcor's shareholder in support of the existing large project investments. Long-term liquidity depends on Hydro's continued ability to access the capital markets and on Nalcor's shareholder'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.

Diminished liquidity may result in constraints on executing growth plans and carrying out planned capital investment.

COMPLIANCE RISK

Compliance risk exists where there is a regulatory, legislative or contractual requirement or commitment relating to Nalcor or one of its segments. In certain instances, the outcome of noncompliance may have material impacts on revenue assumptions, cash flows or expenses, or may affect the timely delivery of a product, service, or project in a given period. Non-compliance may also cause potential reputational damage which could impede the Company's ability to execute on growth or other strategic initiatives in the future.

Regulatory and Legislative Compliance

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

Hydro Regulated 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. Management works to mitigate these risks by working with the PUB to ensure both compliance with existing regulations and the proactive management of regulatory issues. In total, these factors may negatively affect the timing of capital projects, results of operations and financial position of Hydro.

As Nalcor grows its Energy Marketing segment and interconnects the island to the North American electrical system, it is subject to increasing levels of US and Canadian regulation and market participant rules. This introduces the risk of loss of authorizations necessary to participate in chosen export markets in reaction to noncompliance. Such occurrences have the potential to cause reputational damage that may effect the Company's ability to meet sales and other targets. Management has established dedicated resources to develop and maintain an appropriate compliance framework.

Contractual Compliance

Nalcor has contracts in place with various related companies and third parties, including but not limited to arrangements relating to federally guaranteed debt and power purchase agreements governing the sale of power. Across all segments, there are agreements relating to revenue generation activities, financing of key investments and projects, the delivery of power and other products and services, the use of Nalcor sites or locations by third parties, and the payment of various contractors and service providers.

To manage the risk of entering into contracts that expose the organization to unacceptable levels of risk, a due diligence process is followed for new contracts above a certain threshold which involves review by representatives from across the Company who have expertise relating to the agreement under negotiation. Contracts are awarded in compliance with provincial purchasing requirements and regulation, as well as Nalcor internal purchasing guidelines, and standard contracts are often used. Contract owners are responsible for overseeing the execution of key terms and ensuring internal processes are created to promote contract compliance and to resolve disputes as they may arise. A central legal team provides support to contract development and interpretation as required.

Default by Nalcor relating to a material contract, or the default of another party to key agreements may affect the Company's ability to meet sales or other targets, fund major capital projects, and could cause significant reputational damage in certain instances. From time to time, disputes arise between Nalcor and related or third parties which create uncertainty with respect to various financial targets affected by certain contracts with the potential to be material.

SECTION 7: ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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, 2015.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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 description of Nalcor's significant accounting judgements and estimates is provided in Note 3 of the annual audited consolidated financial statements for the year ended December 31, 2015.

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 financial 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.

Disclosure of 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

Disclosure of Operating Profit (Loss)

The term "operating profit (loss)" is a non-GAAP measure that encompasses profit (loss) excluding extraordinary and non-recurring items such as impairment expenses that are not indicative of Nalcor's future financial performance. This non-GAAP financial measure provides a more accurate reflection of Nalcor's operating performance and analysis against prior periods.

SECTION 9: SUMMARY OF QUARTERLY RESULTS

The following table outlines Nalcor's unaudited quarterly results for the four quarters ended March 31, 2015 through December 31, 2015. The quarterly information has been obtained from Nalcor's unaudited condensed consolidated interim financial statements for the periods ended March 31, 2015, June 30, 2015, and September 30, 2015, and the annual audited consolidated financial statements for the year ended December 31, 2015. These quarterly results are historical in nature and should not be used to estimate or project future performance of Nalcor.

For the period ended (millions of dollars)	Revenue	Profit (loss)	Capital Expenditures[1]
March 31, 2015	287.2	29.5	394.4
June 30, 2015	175.5	(8.0)	614.8
September 30, 2015	130.0	(1.2)	736.6
December 31, 2015	219.4	(39.5)	755.8

[1] Excludes Maritime Link

The financial performance of several of Nalcor's business segments are impacted by seasonality. Specifically, electricity sales in Hydro Regulated and Churchill Falls are typically highest during the first quarter and 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. 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.

SECTION 10: OUTLOOK

Hydro expects to receive a final regulatory decision on the GRA hearing in the first half of 2016. However, until a final decision is rendered by the PUB, there will continue to be regulatory risk that could materially impact 2016 profit. Hydro Regulated's forecasted profit assumes that all costs and deferrals included in its GRA will be approved.

Churchill Falls' 2016 forecasted profit is lower than 2015 mainly due to decreased revenue resulting from a 20% decrease in the power rate effective September 1, 2016 as per the 2016 Renewal Contract.

Oil and Gas is forecasting lower 2016 operating profit over 2015, primarily due to a decrease in revenue due to lower realized price, partially offset by higher forecasted production in 2016. Realized oil prices continue to be volatile and any significant price change for 2016 unhedged production will impact profitability. To mitigate exposure on realized oil prices, Oil and Gas has entered into commodity price swaps providing an average fixed price of $59.85 USD per barrel on 15% of budgeted 2016 production.

Energy Marketing's 2016 forecasted profit is higher than 2015 largely due to an increase in forecasted price and favourable forecasted foreign exchange. To mitigate commodity price risk, Energy Marketing has entered into fixed price commodity swaps providing an average price of $41.30 USD per MWh (peak) and $21.60 USD per MWh (off-Peak) on 60% of forecasted electricity sales in 2016. To mitigate foreign exchange fluctuations, Energy Marketing has entered into foreign exchange contracts valued at $29.0 million USD on 60% of forecasted USD sales.

Bull Arm is forecasting higher profit in 2016 over 2015 due to the effect of favourable forecasted foreign exchange on USD lease revenue.

2016 total budgeted capital expenditures (excluding those related to the Maritime Link) are forcasted to be $3.0 billion. The largest component of capital expenditures relates to the Lower Churchill Project.

SECTION 11: ABBREVIATIONS

bbl	Barrel
CAD	Canadian Dollars
EERP	Environmental Emergency Response Plan
EMS	Environmental Management System
ERM	Enterprise Risk Management
FTE	Full Time Equivalent
GAAP	Generally Accepted Accounting Principles
GBS	Gravity Based Structure
GRA	General Rate Application
GWAC	Guaranteed Winter Availability Contract
GWh	Gigawatt hours
HSE	Hibernia South Extension Project
HTGS	Holyrood Thermal Generating Station
HVac	High Voltage alternating current
IBEW	International Brotherhood of Electrical Workers
IC	Industrial Customers
IFRS	International Financial Reporting Standards
ISO	International Organization for Standards
IT	Information Technology
KWh	Kilowatt hours
MD&A	Management's Discussion & Analysis
MW	Megawatts
NP	Newfoundland Power
PPA	Power Purchase Agreement
PUB	Newfoundland and Labrador Board of Commissioners of Public Utilities
RFI	Request for Information
RSP	Rate Stabilization Plan
SPO	Special Project Order
USD	United States Dollars
WRX	White Rose Extension Project

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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 judgement, 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 11, 2016. 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 Auditors' 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

Deloitte.

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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 statement of financial position as at December 31, 2015, and the consolidated statements of profit and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Managements 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nalcor Energy as at December 31, 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	Notes	**2015**	2014
ASSETS			(Note 34)
Current assets			
Cash and cash equivalents	5	**148.5**	60.8
Restricted cash		**1,836.3**	1,130.6
Short-term investments		**1,026.2**	1,790.0
Trade and other receivables	6	**270.9**	249.2
Inventories	7	**77.9**	97.1
Current portion of sinking funds	12	**1.6**	1.5
Prepayments		**14.1**	16.4
Derivative assets		**9.1**	11.8
Total current assets		**3,384.6**	3,357.4
Non-current assets			
Property, plant and equipment	8	**8,317.6**	5,658.8
Intangible assets	9	**56.2**	30.9
Investment property	10	**1.0**	1.0
Investment in joint arrangement		**1.2**	1.5
Long-term investments	13	**90.6**	1,115.8
Other long-term assets	12	**326.2**	353.5
Total assets		**12,177.4**	10,518.9
Regulatory deferrals	11	**144.3**	124.2
Total assets and regulatory deferrals		**12,321.7**	10,643.1
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	15	**97.0**	53.0
Trade and other payables	14	**997.1**	672.1
Current portion of long-term debt	15	**233.4**	8.4
Derivative liabilities		**5.2**	1.6
Current portion of other liabilities	17,18,19	**6.1**	5.3
Total current liabilities		**1,338.8**	740.4
Non-current liabilities			
Long-term debt	15	**6,008.1**	6,240.5
Class B limited partnership units	16	**207.4**	79.4
Deferred credits	17	**670.3**	333.1
Deferred contributions	18	**11.6**	15.0
Decommissioning liabilities	19	**102.0**	42.1
Long-term payables	20	**62.6**	74.0
Employee benefits liability	21	**135.3**	144.5
Total liabilities		**8,536.1**	7,669.0
Shareholder's equity			
Share capital	22	**122.5**	122.5
Shareholder contributions	22	**2,203.8**	1,469.1
Reserves		**2.3**	(15.8)
Retained earnings		**1,127.0**	1,146.2
Total equity		**3,455.6**	2,722.0
Total liabilities and equity		**11,991.7**	10,391.0
Regulatory deferrals	11	**330.0**	252.1
Total liabilities, equity and regulatory deferrals		**12,321.7**	10,643.1

Commitments and contingencies (Note 29)
Subsequent events (Note 33)

See accompanying notes

On Behalf of the Board

Ed Martin
Director

Gerald Shortall
Director

CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2015**	2014
			(Note 34)
Energy sales	23	**761.9**	755.6
Other revenue	23	**50.0**	42.4
Revenue		**811.9**	798.0
Fuels		**192.8**	268.1
Power purchased		**62.8**	68.3
Operating costs	24	**278.9**	248.7
Depreciation, depletion, amortization and impairment	8,9	**159.2**	92.7
Exploration and evaluation expense		**1.0**	1.2
Net finance (income) expense	25	**73.5**	67.3
Other (income) expense	26	**3.1**	2.8
Share of loss (profit) of joint arrangement		**0.3**	(0.4)
Profit before regulatory adjustments		**40.3**	49.3
Regulatory adjustments	11	**59.5**	(66.3)
(Loss) profit for the year		**(19.2)**	115.6
Other comprehensive income for the year		**18.1**	11.3
Total comprehensive (loss) income for the year		**(1.1)**	126.9

See accompanying notes

CONSOLIDATED STATEMENT 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, 2015		**122.5**	**1,469.1**	**40.5**	**(56.3)**	**1,146.2**	**2,722.0**
Loss for the year		**-**	**-**	**-**	**-**	**(19.2)**	**(19.2)**
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments[1]		**-**	**-**	**10.4**	**-**	**-**	**10.4**
Net change in fair value of cash flow hedge[1]		**-**	**-**	**(2.1)**	**-**	**-**	**(2.1)**
Net change in fair value of financial instruments reclassified to profit or loss		**-**	**-**	**(10.1)**	**-**	**-**	**(10.1)**
Actuarial gain on employee benefits liability	**21**	**-**	**-**	**-**	**18.2**	**-**	**18.2**
Regulatory adjustment	**11**	**-**	**-**	**-**	**1.7**	**-**	**1.7**
Total comprehensive (loss) income for the year		**-**	**-**	**(1.8)**	**19.9**	**(19.2)**	**(1.1)**
Shareholder contributions	**22**	**-**	**734.7**	**-**	**-**	**-**	**734.7**
Balance at December 31, 2015		**122.5**	**2,203.8**	**38.7**	**(36.4)**	**1,127.0**	**3,455.6**
Balance at January 1, 2014		122.5	1,141.8	11.3	(38.4)	1,030.6	2,267.8
Profit for the year		-	-	-	-	115.6	115.6
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments[1]		-	-	32.1	-	-	32.1
Net change in fair value of cash flow hedge[1]		-	-	8.2	-	-	8.2
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(11.1)	-	-	(11.1)
Actuarial loss on employee benefits liability	21	-	-	-	(17.9)	-	(17.9)
Total comprehensive income (loss) for the year		-	-	29.2	(17.9)	115.6	126.9
Shareholder contributions	22	-	327.3	-	-	-	327.3
Balance at December 31, 2014		122.5	1,469.1	40.5	(56.3)	1,146.2	2,722.0

[1] Subsequently reclassified to profit or loss on derecognition

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	Notes	**2015**	2014
Cash provided from (used in)			(Note 34)
Operating activities			
(Loss) profit for the year		**(19.2)**	115.6
Adjusted for items not involving a cash flow:			
Depreciation, depletion, amortization and impairment	8,9	**159.2**	92.7
Amortization of deferred contributions	18	**(0.9)**	(0.7)
Amortization of deferred credits	17	**(2.7)**	(1.0)
Accretion	25	**5.6**	5.4
Employee benefits		**9.0**	8.1
Loss on disposal of property, plant and equipment	26	**4.4**	2.4
Reserves amortized to profit or loss		**0.8**	0.8
Share of loss (profit) of joint arrangement		**0.3**	(0.4)
Regulatory adjustments	11	**57.8**	(66.3)
Other		**(10.4)**	(3.7)
		203.9	152.9
Changes in non-cash working capital balances	31	**23.1**	(7.1)
Net cash provided from operating activities		**227.0**	145.8
Investing activities			
Additions to property, plant and equipment	32	**(2,421.2)**	(1,773.6)
Additions to intangible assets	9	**(30.0)**	(16.5)
Decrease (increase) in long-term receivables	12	**33.6**	(20.5)
(Increase) decrease in sinking fund		**(6.6)**	102.0
Additions to financial transmission rights		**(1.2)**	-
Additions to reserve fund		**-**	(0.3)
Withdrawal from reserve fund		**3.3**	16.4
Decrease (increase) in short-term investments		**763.8**	(33.4)
Decrease in long-term investments	13	**1,025.2**	1,606.0
Proceeds on disposal of property, plant and equipment		**0.7**	0.3
Changes in non-cash working capital balances	31	**307.5**	136.0
Net cash used in investing activities		**(324.9)**	16.4
Financing activities			
Issuance/retirement of long-term debt		**-**	72.4
Increase in restricted cash		**(705.7)**	(605.1)
Class B limited partnership unit contributions	16	**118.4**	-
Increase in short-term borrowings	15	**44.0**	12.0
Decrease in long-term payables		**(15.1)**	(8.1)
Increase in shareholder contributions	22	**734.7**	327.3
(Decrease) increase in deferred contributions	18	**(2.2)**	5.2
Increase in deferred credits		**11.5**	1.2
Net cash provided from (used in) financing activities		**185.6**	(195.1)
Net increase (decrease) in cash and cash equivalents		**87.7**	(32.9)
Cash and cash equivalents, beginning of year		**60.8**	93.7
Cash and cash equivalents, end of year		**148.5**	60.8

Supplementary cash flow information (Note 31)

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 (Labrador 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 the 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 and Class C 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 the 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.

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 of which are inactive.

1.2 INVESTMENT IN JOINT ARRANGEMENT

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 holds a 33.33% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation (Twin Falls).

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 LIL Funding Trust and therefore the operations of these trusts are not reflected in these 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 has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015 and includes individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited consolidated financial statements have been prepared on a historical cost basis, except for financial instruments at fair value through profit or loss (FVTPL) and available-for-sale (AFS) which have been measured at fair value. The annual audited consolidated financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The annual audited consolidated financial statements were approved by Nalcor's Board of Directors (the Board) on March 7, 2016.

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 VIEs, 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 (the 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 Churchill Falls' Board of Directors. 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 investment in Twin Falls 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 Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months classified as short-term investments. Cash and cash equivalents are measured at cost which approximates fair value, while short-term investments are measured at fair value.

2.4 RESTRICTED CASH

Restricted cash consists of cash held on deposit with Schedule 1 Canadian Chartered banks and administered by the Collateral Agent for the sole purpose of funding construction costs related to the LIL, Labrador Transmission Assets (LTA) and Muskrat Falls' hydroelectric plant. The Project draws funds from these accounts in accordance with procedures set out in the Labrador-Island Link Limited Partnership Agreement (LIL LPA) and MF/LTA Project Finance Agreement (MF/LTA PFA). Restricted cash also includes accounts administered by the Trustee of the Project Trust which are associated with the establishment of the Project Trust. Restricted cash is measured at cost which approximates fair value.

2.5 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.

2.6 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.

2.7 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 outlined in Note 2.11. 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 repairs and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment is 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 65 years
Terminal stations	40 to 55 years
Distribution system	30 to 55 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, buildings, vehicles, furniture, tools and equipment.

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, depletion and impairment. 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) 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 Oil and Gas 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.

(iv) Other Assets

Office equipment and computer hardware are carried at cost less accumulated depreciation. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of five years. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Lower Churchill Project

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

Project support assets	4 to 5 years

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 a mineral 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, 2015 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 and professional fees. 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, Bull Arm Fabrication 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 the Consolidated Statement of Loss and Comprehensive 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 INTANGIBLE ASSETS

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, feasibility studies, exploration assets and intellectual property 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. The estimated useful life and amortization method are reviewed at the end of each year, 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.

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

Computer software	5 to 10 years
Feasibility studies	5 to 20 years
Exploration assets	6 years

2.11 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 the Consolidated Statement of Loss and Comprehensive Loss in the period in which they are incurred.

2.12 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 CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Loss and Comprehensive Loss.

2.13 INVESTMENTS IN JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which two or more parties involved 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 classified as a joint operation or a joint venture based on the rights of the parties involved.

Oil and Gas holds equity stakes in the Hebron, Hibernia South Extension and White Rose Extension projects. These projects are classified as joint operations as multiple parties hold joint control and stakeholders have rights to the project assets and obligations for its liabilities. Oil and Gas accounts for its oil and gas investments by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

Effective June 18, 1999, Hydro, Churchill Falls and Hydro-Québec entered into the 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 retains its 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. This investment is accounted for using the proportionate consolidation method.

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 Statement of Financial Position at cost plus post acquisition changes in Churchill Falls' share of net assets of the joint venture. The Consolidated Statement of Loss and Comprehensive Loss reflects the share of the profit or loss of the joint venture.

2.14 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. Liabilities associated with this Plan are held with the Province.

(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. Pursuant to Order No. P.U. 36 (2015), Nalcor recognizes the amortization of Hydro's employee future benefit actuarial gains and losses in the Consolidated Statement of Loss and Comprehensive Loss as a regulatory adjustment.

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

2.15 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 Consolidated Statement of Financial Position date using the current discount rate.

2.16 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 (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 or expensed in the Consolidated Statement of Loss and Comprehensive Loss if the liability is short-term in nature.

2.17 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 two primary customers: Hydro-Québec and Hydro.

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 (2014 - 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 an additional 225 MW to Hydro.

Petroleum and Natural Gas 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, Oil and Gas retains no continuing managerial involvement or control and collection is reasonably assured.

Revenue from properties in which Oil and Gas has an interest with other producers is recognized on the basis of Oil and Gas' net working interest of petroleum and natural gas produced. Under this method, crude oil produced below or above Oil and Gas' 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.

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.

2.18 LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor accounting

Amounts due from lessees under finance leases are recognized as receivables at the amount of Nalcor's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on Nalcor's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Lessee accounting

Assets held under finance leases are initially recognized as assets of Nalcor at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Nalcor's general policy on borrowing costs (Note 2.11). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.19 NET FINANCE (INCOME) 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.

2.20 FOREIGN CURRENCIES

Transactions in currencies other than Nalcor's functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by 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. Foreign exchange gains and losses not included in regulatory deferrals are recorded in the Consolidated Statement of Loss and Comprehensive Loss as other (income) expense.

2.21 INCOME TAXES

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

2.22 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized in the Consolidated Statement 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.

<u>Classification of Financial Instruments</u>

Nalcor has classified each of its financial instruments into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments, AFS financial assets, financial liabilities at FVTPL, 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
Reserve fund	AFS financial assets
Long-term receivables	Loans and receivables
Long-term investments	Held-to-maturity investments
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) <u>Effective Interest Method</u>

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (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 or expense is recognized on an effective interest basis for financial instruments other than those financial assets and liabilities 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) 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) 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.

(vii) 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.

(viii) 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:

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 the Consolidated Statement of Loss and Comprehensive Loss for the year.

Amounts recognized as other comprehensive income (loss) are transferred to the Consolidated Statement of Loss and Comprehensive 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.

2.23 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.

2.24 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.

2.25 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 Consolidated Statement of Financial Position and transferred to the Consolidated Statement of Loss and Comprehensive Loss 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 Consolidated Statement of Loss and Comprehensive Loss in the period in which they become receivable.

2.26 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% (2014 - 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 11.

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 JUDGMENTS

(i) Asset Impairment and Reversals

Nalcor applies judgment in evaluating impairment and impairment reversal indicators based on various internal and external factors.

The recoverable amount of a CGU or asset is determined based on the higher of fair value less costs of disposal and its value in use. Management uses factors including expected future oil prices and proved and probable reserves from third party specialists and discount rates to determine the recoverable amount, as well as judgments regarding the occurrence of future events. Changes in these factors will affect the recoverable amount of CGUs and assets, which may result in a material adjustment to their carrying value.

(ii) Property, Plant and Equipment

Nalcor's accounting policy relating to property, plant and equipment is described in Note 2.7. 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.

(iii) 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 is 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.

(iv) 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.

(v) Determination of CGUs

Nalcor's accounting policy relating to impairment of non-financial assets is described in Note 2.12. In applying this policy, Nalcor groups assets into the smallest identifiable groups for which cash flows are largely independent of the cash flows from other assets or groups of assets. Judgment is used in determining the level at which cash flows are largely independent of other assets or groups of assets.

(vi) Discount Rates

Certain of Nalcor's financial liabilities are discounted using discount rates that are subject to Management's judgment.

(vii) Consolidation of Joint Arrangements

Management exercises judgment when applying the criteria outlined in IFRS 11 to determine whether joint arrangements constitute joint ventures or joint operations. Management has determined that its interest in Churchill Falls is considered a joint operation and its interest in Twin Falls is considered a joint venture.

(viii) 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 Trusts.

3.2 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) Investment Property

Amounts recorded for depreciation are based on the useful lives of Bull Arm Fabrication's assets. 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.

Due to the nature of the property and lack of comparable market data, the fair value of Bull Arm Fabrication's investment property is determined using the present value of the future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

(iii) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Nalcor's assets. 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 amortization recorded.

(iv) 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.

(v) Partnership Unit Liabilities

The Partnership determines the fair value of the Class A and Class B limited partnership units at each financial reporting date. These units represent the limited partners' ownership interests in the Partnership. Due to the nature of the liabilities and lack of comparable market data, the fair value of these units is determined using the present value of future cash flows. Significant assumptions used in the determination of fair value include estimates of the amount and timing of future cash flows and the discount rate.

The process of valuing financial liabilities for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the liability. These differences could be material to the fair value of the financial liability.

(vi) 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 the Consolidated Statement of Loss and Comprehensive Loss through net finance (income) expense. Differences between the recorded decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the settlement period.

(vii) 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.

(viii) 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. Lease revenue is recognized evenly over the period of the lease contract and may change depending on the final contract value.

(ix) 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.

3.3 USE OF ASSUMPTIONS

(i) Derivative Assets

Fair value assumptions for financial transmission rights have been based on internal valuation techniques and models that extrapolate observable external market inputs, such as commodity prices, and include significant judgment regarding the expected impact of seasonality and locational adjustments.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]

[1] Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

4.1 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 in 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 operator 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 Nalcor's annual audited consolidated financial statements.

4.2 AMENDMENTS TO IAS 1 DISCLOSURE INITIATIVE

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. Management does not anticipate that the application of these amendments to IAS 1 will have a material impact on Nalcor's annual audited consolidated financial statements.

4.3 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 method for depreciation and amortization of its property, plant and equipment, and intangible assets respectively, along with the unit of production method for depletion of its development and production assets.

Management believes that these methods are 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 Nalcor's annual audited consolidated financial statements.

4.4 AMENDMENTS TO IFRS 10 AND IAS 28 SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendments to IFRS 10 and IAS 28 deal with situations where there is a single sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investor's interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investor's interest in the new associate or joint venture.

Management does not anticipate that the application of these amendments to IFRS 10 and IAS 28 will have a material impact on Nalcor's annual audited consolidated financial statements in future periods should such transactions arise.

4.5 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 that 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 FVTPL, 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 attributable 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 FVTPL 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 Nalcor'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.

4.6 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 Nalcor'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.

4.7 IFRS 16 LEASES

On January 13, 2016, the IASB issued IFRS 16 which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019 with earlier application permitted for companies that have also adopted IFRS 15 Revenue from Contracts with Customers.

Management anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in Nalcor's annual audited consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until Management performs a detailed review.

5. CASH AND CASH EQUIVALENTS

As at December 31 (millions of Canadian dollars)	**2015**	2014
Cash	**148.5**	55.9
Cash equivalents	**-**	4.9
	148.5	60.8

The effective interest rate on cash, cash equivalents and short-term investments at December 31, 2015 ranged from 0.98% to 1.05% (2014 – 1.20% to 1.28%) per annum.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (millions of Canadian dollars)	**2015**	2014
Trade receivables	**134.7**	123.5
Receivables from related parties	**0.1**	2.9
Advances	**88.8**	74.5
Other receivables	**60.3**	59.7
Allowance for doubtful accounts	**(13.0)**	(11.4)
	270.9	249.2

As at December 31 (millions of Canadian dollars)	**2015**	2014
0-60 days	**174.6**	173.3
60+ days	**96.3**	75.9
	270.9	249.2

As at December 31 (millions of Canadian dollars)	**2015**	2014
Allowance for doubtful accounts, beginning of year	**(11.4)**	(9.6)
Amounts provided for during the year	**(1.7)**	(1.9)
Amounts written off as uncollectable	**0.1**	0.1
Allowance for doubtful accounts, end of year	**(13.0)**	(11.4)

As at December 31, 2015, trade and other receivables included balances of $16.0 million (2014 - $13.7 million) denominated in United States Dollars (USD).

7. INVENTORIES

As at December 31 (millions of Canadian dollars)	**2015**	2014
No. 6 fuel	**26.4**	49.4
Materials and other	**41.1**	36.9
Diesel fuel	**4.2**	4.4
Other fuel	**3.9**	4.1
Construction aggregates	**2.3**	2.3
	77.9	97.1

The cost of inventories recognized as an expense during the year is $199.3 million (2014 - $275.3 million) and is included in operating costs and fuels.

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, 2014	1,477.3	662.5	594.5	192.0	1,360.1	4,286.4
Additions	0.4	-	237.2	-	1,780.7	2,018.3
Disposals	(2.1)	(1.8)	-	(1.3)	-	(5.2)
Transfers	49.7	57.6	-	17.2	(124.4)	0.1
Decommissioning liabilities and revisions	2.2	(0.1)	5.5	-	-	7.6
Balance at December 31, 2014	1,527.5	718.2	837.2	207.9	3,016.4	6,307.2
Additions	**(0.2)**	**-**	**221.2**	**-**	**2,538.8**	**2,759.8**
Disposals	**(3.0)**	**(3.1)**	**-**	**(3.6)**	**-**	**(9.7)**
Transfers	**179.1**	**58.7**	**-**	**23.6**	**(261.4)**	**-**
Decommissioning liabilities and revisions	**0.5**	**(0.3)**	**58.4**	**-**	**-**	**58.6**
Other adjustments	**-**	**-**	**-**	**190.9**	**(111.6)**	**79.3**
Balance at December 31, 2015	**1,703.9**	**773.5**	**1,116.8**	**418.8**	**5,182.2**	**9,195.2**
Depreciation, depletion and impairment						
Balance at January 1, 2014	333.3	99.2	73.7	53.6	-	559.8
Depreciation and depletion	38.0	19.3	22.2	11.6	-	91.1
Disposals	(1.2)	(0.4)	-	(0.9)	-	(2.5)
Other adjustments	(0.5)	0.5	-	-	-	-
Balance at December 31, 2014	369.6	118.6	95.9	64.3	-	648.4
Depreciation and depletion	**44.1**	**21.9**	**14.8**	**12.0**	**-**	**92.8**
Impairment	**-**	**-**	**61.7**	**-**	**-**	**61.7**
Disposals	**(1.5)**	**(0.8)**	**-**	**(2.3)**	**-**	**(4.6)**
Other adjustments	**-**	**-**	**-**	**79.3**	**-**	**79.3**
Balance at December 31, 2015	**412.2**	**139.7**	**172.4**	**153.3**	**-**	**877.6**
Carrying value						
Balance at January 1, 2014	1,144.0	563.3	520.8	138.4	1,360.1	3,726.6
Balance at December 31, 2014	1,157.9	599.6	741.3	143.6	3,016.4	5,658.8
Balance at December 31, 2015	**1,291.7**	**633.8**	**944.4**	**265.5**	**5,182.2**	**8,317.6**

Included in depreciation, depletion and impairment expense is an impairment expense related to the White Rose Extension CGU at December 31, 2015. This impairment expense is the result of a decline in forecasted oil prices. The recoverable amount was determined to be the value in use and was estimated using the discounted future cash flows model based on forecasted oil prices, proved and probable reserves and a discount rate of 10%.

The forecasted oil prices used to determine future cash flows from oil reserves are:

	2016	2017	2018	2019	2020	Average Annual % Change to 2026
Brent Price (CAD/barrel)	62.45	77.29	86.55	96.28	97.69	5.73%

Fluctuations to the discount rate or forecasted oil prices over the life of the reserves would have the following impact on the impairment of the White Rose Extension CGU:

	Discount Rate		Forecasted Price Estimates	
(in millions of Canadian dollars)	1% Decrease	1% Increase	5% Decrease	5% Increase
Impairment of CGU	(1.5)	1.5	(8.6)	8.7

9. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Exploration Assets	Intellectual Property	Total
Cost					
Balance at January 1, 2014	8.0	1.8	-	8.6	18.4
Additions	3.5	-	13.0	-	16.5
Balance at December 31, 2014	11.5	1.8	13.0	8.6	34.9
Additions	**2.4**	**-**	**27.6**	**-**	**30.0**
Balance at December 31, 2015	**13.9**	**1.8**	**40.6**	**8.6**	**64.9**
Amortization					
Balance at January 1, 2014	1.8	0.6	-	-	2.4
Amortization	1.2	0.4	-	-	1.6
Balance at December 31, 2014	3.0	1.0	-	-	4.0
Amortization	**1.4**	**0.2**	**3.1**	**-**	**4.7**
Balance at December 31, 2015	**4.4**	**1.2**	**3.1**	**-**	**8.7**
Carrying value					
Balance at January 1, 2014	6.2	1.2	-	8.6	16.0
Balance at December 31, 2014	8.5	0.8	13.0	8.6	30.9
Balance at December 31, 2015	**9.5**	**0.6**	**37.5**	**8.6**	**56.2**

10. INVESTMENT PROPERTY

As at December 31, 2015, the fair value measurement of the investment property is categorized as a Level 3 valuation. The fair value of investment property at December 31, 2015 is estimated to be $33.8 million (2014 - $42.6 million). Due to the nature of the property and lack of comparable market data, the fair value of Bull Arm Fabrication's investment property is determined using the present value of future cash flows. Bull Arm Fabrication's estimates are based on cash flows estimated to occur between 2016 and 2030, discounted at a rate of 12.0%.

11. REGULATORY DEFERRALS

	January 1 2015	Regulatory activity	December 31 2015	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals				
Foreign exchange losses	58.4	(2.2)	56.2	26.0
Foreign exchange on fuel	0.3	0.4	0.7	n/a
Deferred lease costs	3.7	1.4	5.1	n/a
2014 cost deferral	45.9	(7.3)	38.6	n/a
2015 cost deferral	-	27.8	27.8	n/a
Fuel supply deferral	9.6	-	9.6	n/a
Deferred energy conservation costs	6.3	-	6.3	n/a
	124.2	20.1	144.3	
Regulatory liability deferrals				
Rate stabilization plan (RSP)	(246.0)	(78.6)	(324.6)	n/a
Insurance amortization and proceeds	(5.6)	0.6	(5.0)	n/a
Deferred power purchase savings	(0.5)	0.1	(0.4)	11.5
	(252.1)	(77.9)	(330.0)	

11.1 REGULATORY ADJUSTMENTS RECORDED IN THE CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
RSP amortization	**27.6**	41.2
Rural rate adjustment	**4.1**	9.1
RSP fuel deferral	**25.2**	(76.1)
RSP interest	**21.7**	18.0
Total RSP activity	**78.6**	(7.8)
2014 cost deferral	**7.3**	(45.9)
2015 cost deferral	**(27.8)**	-
Fuel supply deferral	**-**	(9.6)
Amortization of deferred foreign exchange losses	**2.2**	2.1
Deferred foreign exchange on fuel	**(0.4)**	(0.3)
Deferred energy conservation	**-**	(2.4)
Deferred purchased power savings	**(0.1)**	-
Employee benefits actuarial loss	**1.7**	-
Insurance amortization and proceeds	**(0.6)**	1.3
Deferred lease costs	**(1.4)**	(3.7)
	59.5	(66.3)

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 for 2015 would have increased by $59.5 million (2014 - $66.3 million decrease).

11.2 RATE STABILIZATION PLAN (RSP)

In 1986, the PUB ordered Hydro to implement an 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 2015, Hydro recorded a net increase in regulatory liabilities of $78.6 million (2014 - decrease of $7.8 million) resulting in an RSP ending balance for 2015 of $324.6 million (2014 - $246.0 million). Included in the balance is $126.9 million (2014 - $75.6 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 December 31, 2016. The remaining portion of the RSP balance totaling $197.7 million (2014 - $170.4 million) has been set aside with $133.4 million (2014 - $124.0 million) to be refunded to Newfoundland Power's retail customers, $61.2 million (2014 - $35.5 million) subject to a future ruling of the PUB and $3.1 million (2014 - $10.9 million) to be used to phase in Island Industrial rate increases. Pursuant to Board Order No. P.U. 17 (2015), the balance designated to phase in Island Industrial rate increases was also used to settle the Island Industrial 2014 closing balance of $6.8 million.

11.3 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 2015, the amortization of $2.2 million (2014 - $2.1 million) reduced regulatory assets.

11.4 DEFERRED ENERGY CONSERVATION

The PUB has historically approved the deferral of costs associated with an electrical conservation program for residential, industrial and commercial sectors. In 2015, Hydro recognized $nil (2014 - $2.4 million) in the deferred energy conservation costs regulatory asset. As per Order No. P.U. 36 (2015), Hydro deferred $1.2 million of 2015 deferred energy conservation costs as a part of the $2.2 million Settlement Agreement adjustments in the 2015 cost deferral.

11.5 DEFERRED PURCHASED POWER SAVINGS

In 1997, the PUB ordered Hydro to defer $1.1 million related to reduced purchased power rates resulting from the interconnection of 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 $0.4 million (2014 - $0.5 million) are deferred as a regulatory liability.

11.6 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 2015, Hydro recognized foreign exchange losses on fuel purchases of $0.4 million (2014 - $0.3 million loss) in regulatory assets.

11.7 INSURANCE AMORTIZATION AND PROCEEDS

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds against 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 2015, Hydro recorded a decrease to regulatory liabilities resulting from amortization of $0.6 million (2014 - $0.5 million) related to the assets and insurance proceeds of $nil (2014 - $1.8 million).

11.8 DEFERRED LEASE COSTS

Pursuant to Order No. P.U. 38 (2013), Hydro deferred lease costs associated with a 16 MW diesel plant and other necessary infrastructure to ensure black start capability at the HTGS. In 2015, Hydro recognized $1.4 million (2014 - $3.7 million) in regulatory assets. Recovery of this balance is subject to a future PUB Order.

11.9 FUEL SUPPLY DEFERRAL

Pursuant to Order No. P.U. 56 (2014), Hydro received approval in 2014 to defer $9.6 million as a regulatory asset in additional capacity related supply costs incurred during the three months ended March 31, 2014. There was no activity in 2015. Recovery of this balance is subject to a future PUB Order.

11.10 2014 COST DEFERRAL

As per Order No. P.U. 58 (2014), Hydro received approval in 2014 to defer $45.9 million in relation to Hydro's proposed 2014 revenue requirement. In 2015, Hydro decreased this regulatory asset by $7.3 million to recognize an allowance for cost reductions that Hydro has agreed will not be included in the original deferral amount. These reductions include the revenue requirement associated with a delay of placing capital assets in service in 2014, repairs to HTGS Unit 1 and corresponding replacement power, a reduction in asset retirement obligations costs and common service costs received as an administration fee. Recovery of the remaining 2014 cost deferral is subject to a future PUB Order.

11.11 2015 COST DEFERRAL

As per Order No. P.U. 36 (2015), Hydro received approval to defer $30.2 million in relation to Hydro's proposed 2015 net profit deficiency. This approval included a revenue deficiency due to delayed rates of $19.6 million, RSP Interest of $7.6 million, Settlement Agreement adjustments of $2.2 million, and a General Rate Application (GRA) Hearing Deferral of $0.8 million. Accordingly, these costs have been recognized as a regulatory asset. Hydro decreased the regulatory asset by $2.4 million to recognize an allowance for cost reductions that Hydro has agreed will not be included in the 2015 net profit deficiency. The reductions include a revenue requirement associated with the repairs to HTGS Unit 1, a 2015 fuel inventory adjustment and a reduction of common service costs recorded as an administration fee. Recovery of the 2015 cost deferral is subject to a future PUB Order.

11.12 EMPLOYEE BENEFITS ACTUARIAL LOSS

Pursuant to Order No. P.U. 36 (2015), Hydro recognizes the amortization of employee future benefit actuarial gains and losses in profit or loss. During 2015, Hydro recorded $1.7 million (2014 - $nil) of employee future benefits losses as a regulatory adjustment. In the absence of rate regulation, IFRS would require Hydro to include employee future benefits actuarial gains and losses in other comprehensive income. As a result, during 2015 Hydro also recorded a decrease of $1.7 million (2014 - $nil) to other comprehensive income to recognize the amount that was reclassified to profit or loss.

12. OTHER LONG-TERM ASSETS

As at December 31 (millions of Canadian dollars)		**2015**	2014
Long-term receivables	(a)	**3.6**	37.2
Long-term prepayments	(b)	**9.2**	15.0
Reserve fund	(c)	**30.9**	34.2
Sinking funds	(d)	**283.6**	268.6
Other		**0.5**	-
Other long-term assets, end of period		**327.8**	355.0
Less: current portion of sinking funds		**(1.6)**	(1.5)
		326.2	353.5

(a) As at December 31, 2015, long-term receivables include $3.3 million (2014 - $36.9 million) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. The current portion of $88.8 million (2014 - $74.5 million) is included in trade and other receivables. The remaining $0.3 million (2014 - $0.3 million) includes the non-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, and pursuant to the terms of the 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. In December 2015, $5.0 million was withdrawn to fund a portion of 2015 capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period beginning in 2017.

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

The reserve fund consists of the following:

As at December 31 (millions of Canadian dollars)	**2015**	2014
Reserve fund, beginning of year	**34.2**	50.5
Principal withdrawals	**(3.3)**	(15.4)
Earnings withdrawn	**-**	(1.0)
Net discount	**0.1**	0.3
Mark-to-market adjustment	**(0.1)**	(0.2)
Fair value of reserve fund	**30.9**	34.2

(d) As at December 31, 2015, sinking funds include $242.6 million (2014 - $228.4 million) related to repayment of Hydro's long-term debt and $41.0 million (2014 - $40.2 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 Schedule 1 banks, and have maturity dates ranging from 2017 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. 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 1.22% to 9.12% (2014 - 1.52% to 9.12%).

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

The sinking funds consist of the following:

As at December 31 (millions of Canadian dollars)	**2015**	2014
Sinking funds, beginning of year	**268.6**	303.3
Contributions	**8.1**	8.3
Earnings	**6.8**	12.3
Disposals	**(1.5)**	(75.7)
Mark-to-market adjustment	**1.6**	21.2
Gain on sale of investments	**-**	(0.8)
Sinking funds, end of year	**283.6**	268.6
Less: current portion	**(1.6)**	(1.5)
	282.0	267.1

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

(millions of Canadian dollars)	2016	2017	2018	2019	2020
Sinking fund instalments	8.1	6.7	60.4	114.1	114.1

13. LONG-TERM INVESTMENTS

Long-term investments consist of structured deposit notes of $1,115.8 million (2014 - $2,871.4 million) related to Muskrat Falls, Labrador Transco and the LIL Partnership.

As at December 31 (millions of Canadian dollars)		**2015**	2014
Long-term investments, beginning of year		**2,871.4**	4,477.4
Redemptions		**(1,786.2)**	(1,667.4)
Earnings		**30.6**	61.4
Long-term investments, end of year		**1,115.8**	2,871.4
Less: redemptions to be received within one year	(a)	**(1,025.2)**	(1,755.6)
		90.6	1,115.8

(a) Redemptions to be received within one year have been reclassified to short-term investments.

14. TRADE AND OTHER PAYABLES

As at December 31 (millions of Canadian dollars)	**2015**	2014
Trade payables	**913.9**	553.0
Accrued interest payable	**44.6**	45.9
Payables due to related parties	**-**	0.8
Rent and royalty payable	**5.1**	3.1
Other payables	**33.5**	69.3
	997.1	672.1

As at December 31, 2015, trade and other payables included balances of $44.1 million (2014 - $27.7 million) denominated in USD, $0.1 million (2014 - $0.1 million) denominated in Great British Pounds, $64.2 million ($9.8 million) denominated in European Dollars and $0.3 million (2014 - $0.3 million) denominated in Norwegian Krones.

15. DEBT

15.1 SHORT-TERM BORROWINGS

Nalcor maintains a $250.0 million CAD or USD equivalent committed revolving term credit facility with its banker. In June 2015, the maturity date of this facility was extended to January 31, 2017. There were no amounts drawn on this facility as at December 31, 2015 (2014 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate.

Nalcor has issued eleven irrevocable letters of credit, with a total value of $12.0 million. Two of these letters, totaling $4.7 million, are in favour of Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. During the year, a letter of credit previously issued in favour of Oil and Gas in the amount of $0.1 million, was cancelled by the beneficiary.

Another nine letters, totaling $7.3 million, are in favour of Energy Marketing and relate to collateral requirements in the Québec, Ontario, New York, New England, Midwest United States and PJM (Pennsylvania-New Jersey-Maryland) electricity markets. Letters of credit issued prior to 2015 include $1.3 million USD to ISO New England Inc., $0.2 million to Independent Electricity System Operator and $1.0 million to Hydro-Quebec. In March 2015, Nalcor increased the irrevocable letter of credit issued to New York Independent System Operator to $2.6 million USD (2014 - $1.2 million USD). In May 2015, Nalcor issued a $0.2 million USD letter of credit to Green Mountain Power Corporation relating to collateral required for transmission customers. In September 2015, Nalcor issued a $50,000 USD letter of credit to PJM Settlement Inc. and a $50,000 USD letter of credit to Midcontinent Independent System Operator Inc., relating to collateral required for market participation. Also in September 2015, Nalcor issued a $52,000 USD letter of credit to Eversource Energy Service Company, relating to collateral required for transmission customers. In October 2015, Nalcor issued a $0.3 million letter of credit to Brookfield Energy Marketing LP, as credit assurance for obligations under a master power purchase and sale agreement.

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at December 31, 2015, there were no amounts drawn on this facility (2014 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. 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, with interest calculated at the Prime Rate. Hydro has issued one irrevocable letter of credit, for $0.3 million, as a performance guarantee in relation to the Department of Fisheries and Oceans Fish Habitat Compensation Program.

Promissory notes outstanding in Hydro as at December 31, 2015 were $97.0 million (2014 - $53.0 million).

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at December 31, 2015, there were no amounts drawn on this facility (2014 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, or letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. 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 USD or CAD equivalent unsecured credit facility with its banker and as at December 31, 2015, there were no amounts drawn on this facility (2014 - $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.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2015, there was $8.2 million drawn on this facility (2014 - $nil), included in cash and cash equivalents. This facility has an unconditional and irrevocable guarantee from Nalcor. 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.

LCMC maintains a $50.0 million unsecured revolving credit facility with its parent, Nalcor. At December 31, 2015, there were no amounts drawn on this facility (2014 - $nil). Borrowings may take the form of Prime Rate Advances.

15.2 LONG-TERM DEBT

The following table represents the value of long-term debt measured at amortized cost:

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2015**	2014
Hydro						
V*	0.3	10.50	1989	2014	**0.3**	0.3
X*	150.0	10.25	1992	2017	**149.8**	149.7
Y*	300.0	8.40	1996	2026	**294.7**	294.3
AB*	300.0	6.65	2001	2031	**305.7**	305.9
AD*	125.0	5.70	2003	2033	**123.8**	123.7
AE	225.0	4.30	2006	2016	**224.8**	224.6
AF	200.0	3.60	2014	2045	**197.1**	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**	650.2
Tranche B	675.0	3.83	2013	2037	**675.1**	675.1
Tranche C	1,275.0	3.86	2013	2048	**1,275.2**	1,275.3
Total debentures	6,300.3				**6,297.3**	6,296.8
Less: Sinking fund investments in own debentures					**55.8**	47.9
					6,241.5	6,248.9
Less: payments due within one year					**233.4**	8.4
Total debentures					**6,008.1**	6,240.5

* 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 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 the year ended December 31, 2015 was $4.5 million (2014 - $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 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 LIL 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, 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 Labrador 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 Labrador Transco. Muskrat Falls and Labrador 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 Labrador Transco draw funds from this account on a monthly basis in accordance with procedures set out in the PFA.

In July 2015, Muskrat Falls, Labrador Transco, the MF/LTA Funding Trust and the Collateral Agent executed an amendment to the PFA. Under the amendment, Muskrat Falls continues to be jointly and severally liable for the total credit facility; however, Muskrat Falls' ratable share is based on its cumulative portion of actual debt drawn for the construction of the Muskrat Falls hydroelectric facility. As of December 31, 2015, Muskrat Falls' cumulative portion of actual debt drawn was 76% (2014 - 82%) and Labrador Transco's cumulative portion of actual debt drawn was 24% (2014 - 18%).

As security for these debt obligations, Muskrat Falls and Labrador 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)	2016	2017	2018	2019	2020
Long-term debt repayment	225.3	150.0	-	-	-

16. CLASS B LIMITED PARTNERSHIP UNITS

Debt and equity instruments issued by LIL LP are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Class B limited partnership units represent Emera NL's ownership interest in the Partnership. As described in the Partnership Agreement, these units have certain rights and obligations, including mandatory distributions, that indicate that the substance of the units represent a financial liability and are measured at amortized cost using the effective interest method. The return on the units is classified as a finance expense. All finance expenses associated with the units have been capitalized.

As at December 31 (millions of Canadian dollars)	**Units**	**2015**	Units	2014
Class B limited partnership units, beginning of year	**25**	**79.4**	25	73.0
Contributions	**-**	**118.4**	-	-
Accrued interest	**-**	**9.6**	-	6.4
Class B limited partnership units, end of period	**25**	**207.4**	25	79.4

17. DEFERRED CREDITS

Deferred credits consist of Hydro and Oil and Gas funding from the Province, deferred energy sales to Emera NL and deferred lease revenue.

(millions of Canadian dollars)	Hydro Wind Funding	Oil and Gas Program Funding	Deferred Energy Sales	Deferred Lease Revenue	Total
Deferred credits, beginning of year	0.7	4.3	330.0	1.5	336.5
Additions	-	2.6	329.0	8.9	340.5
Amortization	(0.2)	(1.0)	-	(1.5)	(2.7)
Deferred credits, end of year	0.5	5.9	659.0	8.9	674.3
Less: current portion	(0.5)	(3.5)	-	-	(4.0)
	-	2.4	659.0	8.9	670.3

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 these studies and programs is amortized to income directly against the related expenditures as the costs are incurred.

Nalcor has recorded deferred energy sales of $659.0 million (2014 - $330.0 million) which equals the construction 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.

18. 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.

As at December 31 (millions of Canadian dollars)	**2015**	2014
Deferred contributions, beginning of year	**15.8**	11.3
Additions	**1.4**	5.2
Adjustments	**(3.6)**	-
Amortization	**(0.9)**	(0.7)
Deferred contributions, end of year	**12.7**	15.8
Less: current portion	**(1.1)**	(0.8)
	11.6	15.0

19. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the HTGS, disposal of Polychlorinated Biphenyls (PCBs) and decommissioning liabilities resulting from its net ownership interests in petroleum and natural gas properties and related well sites.

The reconciliation of beginning and ending carrying amounts of decommissioning liabilities for the years ended December 31, 2015 and December 31, 2014 are as follows:

As at December 31 (millions of Canadian dollars)	**2015**	2014
Decommissioning liabilities, beginning of year	**43.2**	33.9
Liabilities incurred	**-**	5.9
Liabilities settled	**(0.2)**	-
Accretion	**1.4**	1.3
Revisions	**58.6**	2.1
Decommissioning liabilities, end of year	**103.0**	43.2
Less: current portion	**(1.0)**	(1.1)
	102.0	42.1

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2015 are $32.1 million (2014 - $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 Hydro's credit adjusted risk free rate of 2.3% (2014 - 2.6%). Hydro has recorded $27.0 million (2014 - $25.8 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2015 are $2.0 million (2014 - $2.6 million). Payments to settle the liabilities are expected to occur between 2016 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's and Churchill Falls' credit adjusted risk free rates of 2.6% to 3.8% (2014 - 2.8% to 4.6%). Hydro and Churchill Falls have recorded $1.8 million (2014 - $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, 2015 are \$137.4 million (2014 - \$30.5 million). Payments to settle the liabilities are expected to occur between 2016 and 2031. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 3.6% to 4.4% (2014 - 3.7% to 5.6%).

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 Nalcor is required to remove, a decommissioning liability for those assets will be recognized at that time.

20. LONG-TERM PAYABLES

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.

As at December 31 (millions of Canadian dollars)	**2015**	2014
Long-term payables, beginning of year	**82.2**	86.5
Payments	**(7.3)**	(8.1)
Additions and revisions	**(1.5)**	-
Accretion	**3.7**	3.8
	77.1	82.2
Less: current portion	**(14.5)**	(8.2)
Long-term payables, end of year	**62.6**	74.0

Under the UCRA, Nalcor is required to pay to the Innu Nation \$2.0 million annually, escalating by 2.5% annually. At December 31, 2015, \$2.2 million (2014 - \$2.2 million) of the amount is current and is recorded in trade and other payables. Nalcor has sinking funds in the amount of \$40.9 million (2014 - \$40.2 million) to fund these future obligations.

Under the IBA, Nalcor is required to make annual payments to the Innu Nation that commenced upon 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 an annual consumer price index from sanction until first commercial power. The present value of the remaining payments using a discount rate of 2.6% (2014 - 3.7%) is \$42.9 million (2014 - \$33.5 million). The current portion of the payable at December 31, 2015 is \$5.0 million (2014 - \$5.0 million).

In September 2012, the joint venture partners in the Hebron Project executed the Benefits Agreement Drilling Equipment Set (DES) Settlement Agreement. The DES Settlement Agreement allowed the Hebron partners to adjust the Hebron Benefits Agreement such that the 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 its present value using a discount rate of 2.6%. At June 30, 2015 the balance of the amount payable was transferred to trade and other payables.

A long-term payable to Hydro-Québec as at December 31, 2015 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 $0.3 million (2014 - $1.0 million) is included in trade and other payables. The long-term portion is $nil (2014 - $0.7 million).

21. EMPLOYEE BENEFITS LIABILITY

21.1 PENSION PLAN

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $11.7 million (2014 - $7.8 million) are expensed as incurred.

21.2 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 2015, cash payments to beneficiaries for its unfunded other employee future benefits were $3.3 million (2014 - $2.7 million). An actuarial valuation was performed as at December 31, 2015.

As at December 31 (millions of Canadian dollars)	**2015**	2014
Accrued benefit obligation, beginning of year	**144.5**	118.5
Current service cost	**6.0**	4.7
Interest cost	**6.3**	6.1
Benefits paid	**(3.3)**	(2.7)
Actuarial (gain) loss	**(18.2)**	17.9
Accrued benefit obligation, end of year	**135.3**	144.5

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Component of benefit cost		
Current service cost	**6.0**	4.7
Interest cost	**6.3**	6.1
Total benefit expense for the year	**12.3**	10.8

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

	2015	2014
Discount rate - benefit cost	**4.20%**	5.00%
Discount rate - accrued benefit obligation	**4.10%**	4.20%
Rate of compensation increase	**3.50%**	3.50%

Assumed healthcare trend rates:

	2015	2014
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	**2025**	2020

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

Increase (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**2.8**	2.4
Accrued benefit obligation	**25.3**	30.9

Decrease (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**(2.0)**	(1.7)
Accrued benefit obligation	**(19.0)**	(23.1)

22. SHAREHOLDER'S EQUITY

22.1 SHARE CAPITAL

As at December 31 (millions of Canadian dollars)	**2015**	2014
Common shares of par value $1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**122.5**	122.5

22.2 SHAREHOLDER CONTRIBUTIONS

As at December 31 (millions of Canadian dollars)	**2015**	2014
Total shareholder contributions	**2,203.8**	1,469.1

During 2015, Nalcor's shareholder contributed capital in the amount of $734.6 million (2014 - $327.1 million) in relation to Nalcor's capital expenditures.

In addition, 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 2015, the Trust contributed capital in the amount of $0.1 million (2014 - $0.2 million).

23. REVENUE

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Electricity sales	**707.2**	670.4
GWAC revenue	**24.1**	21.1
Petroleum and natural gas sales	**32.2**	73.9
Royalty expense	**(1.6)**	(9.8)
Total energy sales	**761.9**	755.6
Lease revenue	**20.5**	17.8
Government funding	**1.0**	1.0
Preferred dividends	**4.7**	2.7
Other	**23.8**	20.9
Total other revenue	**50.0**	42.4

24. OPERATING COSTS

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Salaries and benefits	**140.2**	125.7
Transmission rental	**25.1**	20.4
Maintenance and materials	**39.3**	37.2
Oil and gas production costs	**12.1**	11.3
Professional services	**27.1**	26.2
Travel and transportation	**8.8**	9.4
Rental and royalty expense	**5.1**	3.1
Equipment rental	**6.1**	5.9
Other	**15.1**	9.5
	278.9	248.7

25. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Finance income		
Interest on sinking fund	**14.7**	17.1
Interest on reserve fund	**0.9**	1.3
Interest on investments	**31.1**	61.5
Interest on restricted cash	**11.8**	8.7
Other interest income	**1.7**	4.6
	60.2	93.2
Finance expenses		
Long-term debt	**275.0**	276.1
Class B limited partnership units	**9.6**	6.4
Debt guarantee fee	**4.5**	3.7
Accretion	**5.6**	5.4
Other	**1.4**	2.1
	296.1	293.7
Interest capitalized during construction	**(162.4)**	(133.2)
	133.7	160.5
Net finance (income) expense	**73.5**	67.3

26. OTHER (INCOME) EXPENSE

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Mark-to-market of commodity swaps	**4.0**	(4.6)
Settlement of commodity swaps	**(20.2)**	1.3
Mark-to-market of foreign exchange forward contracts	**(0.6)**	0.7
Financial transmission rights income and amortization	**(1.6)**	(0.1)
Loss on disposal of property, plant and equipment	**4.4**	2.4
Asset disposal costs	**1.7**	2.6
Insurance proceeds	**(0.1)**	(3.0)
Foreign exchange loss	**12.4**	4.6
Other	**3.1**	(1.1)
Other (income) expense	**3.1**	2.8

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

27.1 FAIR VALUE

The estimated fair values of financial instruments as at December 31, 2015 and 2014 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that 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 measurement during the years ended December 31, 2015 and 2014.

(millions of Canadian dollars)	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
		December 31, 2015		December 31, 2014	
Financial assets					
Derivative assets	**2,3**	**9.1**	**9.1**	11.8	11.8
Sinking funds - investments in same Hydro issue	**2**	**55.8**	**69.9**	47.9	62.3
Sinking funds - other investments	**2**	**283.6**	**283.6**	268.6	268.6
Long-term investments	**2**	**90.6**	**90.6**	1,115.8	1,115.8
Reserve fund	**2**	**30.9**	**30.9**	34.2	34.2
Long-term receivables	**2**	**3.6**	**3.6**	37.2	37.2
Financial liabilities					
Derivative liabilities	**2**	**5.2**	**5.2**	1.6	1.6
Long-term debt including amount due within one year (before sinking funds)	**2**	**6,297.3**	**7,557.1**	6,296.8	7,626.7
Class B limited partnership units	**3**	**207.4**	**207.4**	79.4	79.4
Long-term payables*	**2**	**70.0**	**86.4**	74.0	86.3

* At June 30, 2015, Oil and Gas' long-term payable balance of $7.1 million was reclassified to trade and other payables. At December 31, 2015, Churchill Falls' long-term payable balance of $0.3 million was reclassified to trade and other payables.

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.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets, which in some cases are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities and long-term debt are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at December 31, 2015.

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	0.3	Modelled pricing	Implied volatilities	2-4%

Methodologies for calculating the fair values of financial transmission rights are determined by using underlying contractual data as well as observable and unobservable inputs. Fair value methodologies are reviewed by Management on a quarterly basis to assess the reasonability of the assumptions made and models are adjusted as necessary for significant expected changes in fair value due to changes in key inputs. As at December 31, 2015, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in +/- $14.0 thousand change in the carrying value of financial transmission rights.

27.2 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 Statement 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 Schedule 1 Canadian 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 Schedule 1 Canadian Chartered banks 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 Schedule 1 Canadian 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 Schedule 1 Canadian 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 (%)
	2015		2014	
Provincial governments	**AA- to AAA**	**0.37%**	AA- to AAA	5.49%
Provincial governments	**A -to A+**	**45.04%**	A- to A+	40.86%
Provincially owned utilities	**AA- to AAA**	**-**	AA- to AAA	22.57%
Provincially owned utilities	**A- to A+**	**52.28%**	A- to A+	29.10%
Schedule 1 Canadian banks	**AA- to AAA**	**-**	AA- to AAA	-
Schedule 1 Canadian banks	**A- to A+**	**2.31%**	A- to A+	1.98%
		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 (%)
	2015		2014	
Provincial governments	**AA- to AAA**	**3.48%**	AA- to AAA	-
Provincial governments	**A- to A+**	**12.69%**	A- to A+	29.28%
Provincially owned utilities	**AA- to AAA**	**-**	AA- to AAA	2.10%
Provincially owned utilities	**A- to A+**	**12.70%**	A- to A+	9.15%
Schedule 1 and 2 Canadian banks	**AA- to AAA**	**10.17%**	AA- to AAA	9.14%
Schedule 1 Canadian banks	**A- to A+**	**60.96%**	A- to A+	50.33%
		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 Schedule 1 Canadian Chartered banks 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 (%)
	2015		2014	
Schedule 1 Canadian Banks	**AA-**	**100.00%**	AA-	100.00%

Credit exposure on derivative assets is limited by a Financial Risk Management Policy as approved by the Board, which restricts available counterparties for hedge transactions to Schedule 1 Canadian 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, 2015.

Liquidity Risk

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, an operating credit facility which Nalcor maintains with its banker and shareholder contributions. 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. In June 2015, the maturity date of this facility was extended to January 31, 2017. There were no amounts drawn on this facility at December 31, 2015 (2014 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $50.0 million (2014 - $50.0 million) unsecured demand operating credit facility. Oil and Gas and Churchill Falls also maintain demand operating facilities of $5.0 million (2014 - $5.0 million) and $10.0 million (2014 - $10.0 million), respectively. Churchill Falls maintains a $20.0 million minimum cash balance (2014 - $16.0 million). Energy Marketing maintains a demand operating facility of $20.0 million (2014 - $nil).

Liquidity risk for Muskrat Falls and Labrador Transco is considered to be minimal, as both companies can access the funds drawn down from the MF/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 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, 2015:

(millions of Canadian dollars)	<1 Year	1-3 Years	3-5 Years	>5 Years	Total
Trade and other payables	997.1	-	-	-	997.1
Short-term borrowings	97.0	-	-	-	97.0
Long-term debt	233.4	200.2	228.3	5,638.4	6,300.3
Interest	272.9	508.0	499.9	4,886.3	6,167.1
Class B partnership units	-	32.5	126.7	48.2	207.4
Long-term payables	-	14.7	21.2	26.7	62.6
	1,600.4	755.4	876.1	10,599.6	13,831.5

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 and 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 Policy.

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 the Consolidated Statement of Loss and Comprehensive Loss associated with cash and cash equivalents, short-term borrowings and long-term debt was negligible throughout 2015 due to the short time period to maturity.

The table below shows the impact of a 0.5% change in interest rates on other comprehensive income associated with the sinking funds and reserve fund as at December 31, 2015:

	Other Comprehensive Income	
(millions of Canadian dollars)	0.5% Decrease	0.5% Increase
Interest on sinking funds	13.1	(12.7)
Interest on reserve fund	0.3	(0.2)
	13.4	(12.9)

The impact of interest rates on the expected future cash outflows related to short-term borrowings (which includes promissory notes and BAs 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 forecasted 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 profit or loss 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, 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.

The table below shows the impact of a 0.5% change in foreign exchange rates on trade and other payables as at December 31, 2015:

(millions of Canadian dollars)	0.5% Decrease	0.5% Increase
Trade and other payables	(5.4)	5.4

As the power purchase agreement (PPA) with Hydro was effective October 1, 2015, $5.9 million in USD export market sales were recorded in Energy Marketing for 2015, while Hydro recorded export sales of $33.9 million in USD for 2015. Foreign exchange risk on these sales was mitigated by Energy Marketing in 2015 through the use of foreign currency forward contracts. Commodity price risk was mitigated by Hydro in 2015, through the use of electricity price forward contracts. In November 2015, Energy Marketing concluded the required International Swaps and Derivatives Association Master Agreements with its bank as a result of entering into the PPA.

In December 2014, Energy Marketing entered into a series of 12 monthly foreign exchange forward contracts with a notional value of $41.8 million USD to hedge foreign exchange risk on 70% of planned USD electricity sales to the end of 2015. These contracts have an average exchange rate of $1.14 CAD per USD. As the contracts have not been designated as hedged instruments, changes in fair value have been recorded in other (income) expense. During 2015, $4.8 million in losses from these contracts were included in other (income) expense (2014 - $1.0 million in losses).

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 $43.60 USD per MWh (On Peak) and $30.10 USD per MWh (Off Peak). During 2015, $9.2 million in realized gains from these derivative contracts was recognized in Hydro's other (income) expense (2014 - $2.2 million loss) and $0.7M in unrealized losses were recognized in Hydro's other (income) expense (2014-$2.6 million unrealized gains).

In December 2015, Energy Marketing entered into a series of 11 foreign exchange forward contracts to hedge foreign exchange risk on approximately 60% of planned USD electricity sales in 2016. These contracts, with a notional value of $29.0 million USD, provide Energy Marketing with an average rate of $1.34 CAD per USD. For the year ended December 31, 2015, $1.3 million in unrealized losses were recognized in other comprehensive income (loss).

Also in December 2015, Energy Marketing entered into a series of 22 fixed price commodity swaps to hedge commodity price risk on approximately 60% of planned electricity sales in 2016. These contracts, with a notional value of $29.0 million USD, provide Energy Marketing with an average price of $41.30 USD per MWh (Peak) and $21.60 USD per MWh (off-Peak). For the year ended December 31, 2015, $2.1 million in unrealized losses were recognized in other (income) expense.

During 2015, Energy Marketing purchased a series of annual and semi-annual financial transmission rights with notional values of $0.9 million USD and $78,900 CAD to mitigate risk on congestion during peak transmission hours. As the contracts have not been designated as hedging instruments, changes in fair value have been recorded in other (income) expense.

During 2015, total oil sales denominated in USD were $25.2 million (2014 - $67.1 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 2015 were denominated in USD, which mitigated this exposure. Furthermore, in October 2014, Oil and Gas entered into a series of twelve commodity price swap contracts to mitigate commodity price exposure on energy sales. These contracts had a notional value of $22.6 million USD, and provided an average fixed price of $87.44 USD per barrel on approximately 26% of budgeted production for 2015.

In March 2015, Oil and Gas entered into eight additional commodity price swaps with a notional value of USD $4.5 million, providing an average fixed price of $59.25 USD per barrel on 75,410 additional barrels of production for 2015 and the first quarter of 2016. During 2015, $9.8 million in gains from these contracts were included in other (income) expense (2014 - $nil).

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

In November 2015, Oil and Gas entered into a series of six commodity price swaps with a notional value of $2.7 million USD to mitigate commodity price exposure. These contracts provide Oil and Gas with an average fixed price of $50.88 USD per barrel on 52,437 barrels of production for the third and fourth quarters of 2016.

As at December 31, 2015, Oil and Gas has a total of 13 remaining commodity price swaps with a notional value of $11.1 million USD, providing an average fixed price of $59.85 USD per barrel on 185,937 barrels, representing approximately 15% of budgeted production for 2016.

As all of Oil and Gas' contracts have been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income.

During 2015, Bull Arm Fabrication's total rental revenue denominated in USD was $16.1 million (2014 - $16.1 million). In December 2014, Bull Arm Fabrication entered into a total of 12 forward contracts with a notional value of $18.2 million USD to mitigate USD/CAD currency exposure on its USD denominated lease revenues. These contracts provided Bull Arm Fabrication with an average fixed exchange rate of $1.14 CAD per USD on 92% of expected USD lease revenue for 2015, and an average fixed exchange rate of $1.15 CAD per USD on one month of expected lease revenue for 2016. During 2015, $2.3 million in losses from these contracts were included in other (income) expense (2014 - $nil) and $0.4 million in unrealized losses were included in other comprehensive income (2014 - $0.4 million).

In November 2015, Bull Arm Fabrication entered into a total of 13 forward contacts with a notional value of $17.5 million USD, to mitigate USD/CAD currency exposure on its USD denominated lease revenues. These contracts provide Bull Arm Fabrication with an average fixed exchange rate of $1.33 CAD per USD. Combined with the hedge contract placed in 2015, 100% of expected USD lease revenue for 2016 is hedged at a weighted average fixed exchange rate of $1.32 CAD per USD. In addition, the first two months of expected lease revenue for 2017 is also hedged, at a weighted average fixed exchange rate of $1.33 CAD per USD. During 2015, $0.7 million in unrealized losses from these contracts were included in other comprehensive income (2014 - $nil).

In December 2013, Muskrat Falls entered into nine bond forward contracts totaling $2.0 billion to hedge the interest rate risk on the forecasted issue of long-term debt. These contracts were designated as part of a cash flow hedging relationship and the resulting change in fair value was recorded in other comprehensive income (loss) with the ineffective portion recognized immediately in other (income) expense. The loss related to the effective portion of the cash flow hedge is capitalized in line with treatment of the interest expense related to the long term debt that it is hedging. The amount amortized in 2015 was $0.8 million (2014 - $0.8 million). The other comprehensive loss will be recognized in the Consolidated Statement of Loss and Comprehensive Loss over the same period as the related debt instruments which mature between 2029 and 2048.

28. RELATED PARTY TRANSACTIONS

Nalcor enters into various transactions with its shareholder and other affiliates. These transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Related parties with which Nalcor transacts are as follows:

Related Party	Relationship
The Province	100.0% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Twin Falls	Joint venture of Churchill Falls
The 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 is required to incur the costs of operations of the PUB as well as the cost of hearings and application costs. During 2015, Hydro incurred $3.9 million (2014 - $3.1 million) in costs related to the PUB and has included $4.0 million (2014 - $2.4 million) in trade and other payables.

(b) The debt guarantee fee for 2015 was $4.5 million (2014 - $3.7 million). It was paid to the Province on March 31, 2015.

(c) Hydro recognized contributions in aid of construction totaling $0.2 million (2014 - $nil) from the Province related to wind feasibility studies. As at December 31, 2015, $0.4 million (2014 - $0.7 million) has been recorded in deferred credits.

(d) For the year ended December 31, 2015, Hydro has purchased $27.8 million (2014 - $27.9 million) of power generated from assets related to Exploits Generation, which are held by the Province. In addition, Hydro operates these assets on behalf of Nalcor and recovered costs in the amount of $19.2 million (2014 - $16.4 million).

(e) Hydro received $0.9 million (2014 - $0.9 million) from Nalcor associated with the UCRA to be used to reduce the electricity accounts of each residential Innu customer in Innu Communities or to Mushuau Innu First Nation.

(f) Hydro recorded $0.4 million (2014 - $0.4 million) as a rate subsidy for rural isolated customers from the Province and $2.0 million (2014 - $1.6 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customer under the Northern Strategic Plan. As at December 31, 2015, there is a balance of $0.7 million outstanding in trade and other receivables (2014 - $0.6 million).

(g) Under the terms of a lease between Churchill Falls and the Province, 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 at December 31, 2015, $7.8 million (2014 - $4.7 million) was payable to the Province.

(h) Churchill Falls has entered into long-term power contracts with its shareholders for the sale of substantially all of the power produced by the generating plant. During 2015, revenue from Hydro-Québec and Hydro was $109.6 million (2014 - $102.3 million) and $43.6 million (2014 - $6.1 million), respectively.

(i) 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 was diverting the flow of water from the Twin Falls plant and using 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. This sub-lease expired on December 31, 2014.

(j) Churchill Falls tracks the value of differences between energy delivered and the AEB over a four year period. The difference is then recovered from or refunded to Hydro-Québec over the subsequent four year period.

The long-term payable to Hydro-Québec as at December 31, 2015 is the accumulation of historical and forecasted differences between energy delivered and the AEB during the four year period from September 1, 2008 to August 31, 2012 and the four year period September 1, 2012 to August 31, 2016. The current portion of $1.5 million (2014 - $1.5 million) is included in trade and other payables. The long-term portion is $nil (2014 - $1.1 million) and relates to the four-year period from September 1, 2012 to August 31, 2016.

For the year ended December 31, 2015, net interest expense on the long-term related party payable/receivable was $0.1 million (2014 - $0.3 million).

(k) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of the 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. To date, $4.9 million (2014 - $4.8 million) has been received and $17.0 thousand (2014 - $0.2 million) has been accrued receivable from the Trust.

(l) As at December 31, 2015, Churchill Falls capacity penalty payable was $0.4 million (2014 - $0.4 million). The capacity penalty relates to the supply of power to Hydro-Québec.

(m) Total funding to be received under the Petroleum Exploration Enhancement Program was $4.5 million over five years. There was no funding provided for the years ended December 31, 2015 and 2014. Included in deferred credits at December 31, 2015 is $1.1 million (2014 - $1.2 million) related to funding received.

(n) Total funding to be received under the Offshore Geoscience Data Project was $14.3 million over four years. For the year ended December 31, 2015, $0.5 million (2014 - $0.5 million) was received. Included in deferred credits at December 31, 2015 is $2.0 million (2014 - $2.5 million) related to funding received.

(o) The Province provides cash to fund capital expenditures by way of shareholder contributions. For the year ended December 31, 2015, the Province provided $192.7 million (2014 - $212.5 million) in shareholder contributions relating to Oil and Gas, $293.2 million (2014 - $26.6 million) relating to Muskrat Falls, $76.6 million (2014 - $27.9 million) relating to Labrador Transco and $172.1 million (2014 - $60.1 million) relating to LIL Holdco.

28.1 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)	**2015**	2014
Salaries and employee benefits	**3.6**	3.4
Post-employment benefits	**0.3**	0.2
	3.9	3.6

29. COMMITMENTS AND CONTINGENCIES

(a) Nalcor and its subsidiaries have 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 Nalcor's exposure to such claims and litigation, to the extent not covered by insurance or otherwise provided for, is not expected to materially affect its financial position.

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $3.5 billion as at December 31, 2015 (2014 - $3.7 billion).

(c) Oil and Gas has committed to fund its share of all exploration and development projects and has the following commitments as a result of its joint venture partnerships:

(millions of dollars)	Operating	Capital	Total Commitments
2016	$41.8	$44.6	$86.4
2017	$23.3	$21.7	$45.0
2018	$8.4	-	$8.4
2019	$5.3	-	$5.3
2020	$4.5	-	$4.5

(d) 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
Cogeneration	15 MW	2003	20 years
Wind	390 kW	2004	15 years
Wind	27 MW	2008	20 years
Wind	27 MW	2009	20 years
Wind	300 kW	2010	Continual
Hydroelectric	225 MW	2015	25.5 years

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

(millions of Canadian dollars)	2016	2017	2018	2019	2020
Power purchases	71.0	72.9	73.8	75.5	77.3

(e) Nalcor has issued eleven irrevocable letters of credit with a total value of $12.0 million as per Note 14.1.

(f) Hydro 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:

2016	$19.5 million
2017	$19.8 million
2018	$20.0 million
2019	$20.2 million
2020	$20.4 million

(g) Hydro has received Phase I funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency in relation to a wind-hydrogen-diesel research development project in the community of Ramea. In 2014, Hydro and Nalcor 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, 2015, there have been no commercial implementations.

(h) 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 power 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 for each contract 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.

(i) As part of the LIL PFA, LIL LP, Muskrat Falls and Labrador Transco have pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the IT PFA, LIL LP has also provided a guarantee of the IT's payment obligations to the Collateral Agent for the benefit of the LIL Funding Trust. LIL LP has pledged the escrow account, where the $172.1 million in pre-funded equity contribution has been deposited, as security to the Collateral Agent.

(j) Energy Marketing has entered into a one-year agreement with a bilateral counterparty for 7MW of firm transmission rights. Estimated payments in 2016 are $0.2 million USD.

30. CAPITAL MANAGEMENT

Nalcor's principal business requires ongoing access to capital in order to maintain assets and ensure the continuity of its operations as a going concern. 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 Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

A summary of the consolidated capital structure is outlined below:

(millions of Canadian dollars)	**2015**		2014	
Debt				
Sinking funds	**(242.6)**		(228.4)	
Short-term borrowings	**97.0**		53.0	
Current portion of long-term debt	**233.4**		8.4	
Long-term debt	**6,008.1**		6,240.5	
Class B limited partnership units	**207.4**		79.4	
	6,303.3	**64.6%**	6,152.9	69.3%
Equity				
Share capital	**122.5**		122.5	
Shareholder contributions	**2,203.8**		1,469.1	
Reserves	**2.3**		(15.8)	
Retained earnings	**1,127.0**		1,146.2	
	3,455.6	**35.4%**	2,722.0	30.7%
Total Debt and Equity	**9,758.9**	**100.0%**	8,874.9	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, 2015, Nalcor was in compliance with these covenants.

30.1 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, shareholder contributions 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 short-term borrowings 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 and $97.0 million is outstanding as at December 31, 2015 (2014 - $53.0 million). Issuance of short-term borrowings and long-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 short-term borrowings and long-term debt, to $1.6 billion at any point in time.

30.2 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 continues on new development assets. During this time, it is expected that Oil and Gas' cash flow from operations will be sufficient to fund a portion of its capital needs. Additional requirements will be funded entirely through shareholder contributions.

30.3 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.

30.4 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 property, plant and equipment.

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.

30.5 MUSKRAT FALLS AND LABRADOR TRANSCO

Long-term capital includes share capital and contributed capital, net of deficit. Muskrat Falls' and Labrador Transco's objectives for 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 facility and the LTA. Muskrat Falls' and Labrador Transco's future requirements for capital are expected to increase commensurate with construction progress. During this time, it is expected that proceeds from the MF/LTA Construction Facility and contributed capital will be sufficient to fund the development of the Muskrat Falls hydroelectric facility and the LTA. Additional requirements will be funded entirely through contributed capital. Nalcor, as well as the Province, have provided guarantees of equity support in relation to the construction of the Muskrat Falls hydroelectric facility and the LTA. These guarantees, together with the proceeds from long-term debt, will ensure sufficient funds are available to finance construction.

30.6 LIL LP

The capital structure of the Partnership is comprised of partner capital (issued units, cash calls and deficit) and long-term debt. The capital structure is adjusted through the amount of distributions paid to the Partners as well as capital contributions.

The Partnership's objective when managing capital is to fund the construction of the LIL while providing its partners a required return as well as 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 LIL. The Partnership's requirements for capital in the future are expected to increase, coincident with the development of the LIL. Managing cash calls from the limited partners is a key aspect of ensuring the availability of funding to develop the LIL. Nalcor, as well as the Province of Newfoundland and Labrador have provided guarantees to ensure partner contributions in relation to the construction of the LIL. These partner contributions, together with the proceeds from long-term debt, will be sufficient to fund the development and construction of the LIL.

31. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Trade and other receivables	**(21.7)**	(99.4)
Prepayments	**8.1**	(10.2)
Inventories	**19.2**	(21.9)
Trade and other payables	**325.0**	260.4
Changes in non-cash working capital balances	**330.6**	128.9
Related to:		
Operating activities	**23.1**	(7.1)
Investing activities	**307.5**	136.0
	330.6	128.9
Interest received	**46.2**	35.8
Interest paid	**276.5**	272.2

32. SEGMENT INFORMATION

Nalcor operates in seven business segments. Hydro Regulated activities encompass sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro. 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. Bull Arm Fabrication consists of an industrial fabrication site which is leased for major construction of development projects. Phase 1 of the Lower Churchill Project includes investments in the Muskrat Falls hydroelectric plant, the Labrador-Island Link and the Labrador Transmission Assets. Corporate and other activities encompass development activities including Phase 2 of the Lower Churchill Project and corporate activities. The segments' accounting policies are the same as those described in Note 2 of the annual audited consolidated financial statements. The designation of segments has been based on a combination of regulatory status and management accountability.

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter-Segment	Total
					For the year ended December 31, 2015				
Energy sales	582.1	100.8	30.6	90.4	-	-	-	(42.0)	761.9
Other revenue	3.5	0.5	14.6	6.1	20.5	-	0.1	4.7	50.0
Revenue	585.6	101.3	45.2	96.5	20.5	-	0.1	(37.3)	811.9
Fuels	192.8	-	-	-	-	-	-	-	192.8
Power purchased	60.7	-	-	43.6	-	-	-	(41.5)	62.8
Operating costs	153.5	45.5	22.3	33.5	1.3	1.3	21.5	-	278.9
Depreciation, depletion, amortization and impairment	63.8	15.1	79.7	0.1	-	-	0.5	-	159.2
Exploration and evaluation	-	-	1.0	-	-	-	-	-	1.0
Net finance (income) expense	73.7	(1.1)	0.7	0.1	-	(0.6)	0.7	-	73.5
Other (income) expense	10.4	1.9	(10.0)	(3.3)	2.3	2.5	(0.7)	-	3.1
Share of loss of joint arrangement	-	0.3	-	-	-	-	-	-	0.3
Preferred dividends	-	(4.7)	-	-	-	-	-	4.7	-
Profit (loss) before regulatory adjustments	30.7	44.3	(48.5)	22.5	16.9	(3.2)	(21.9)	(0.5)	40.3
Regulatory adjustments	59.5	-	-	-	-	-	-	-	59.5
(Loss) profit for the year	(28.8)	44.3	(48.5)	22.5	16.9	(3.2)	(21.9)	(0.5)	(19.2)
Capital expenditures*	125.0	36.0	221.2	0.2	-	2,369.9	7.5	-	2,759.8
Total assets	2,230.3	532.7	1,034.7	9.9	2.1	8,182.2	363.4	(33.6)	12,321.7

* Capital expenditures include non-cash additions of $329.0 million related to the Maritime Link and $9.6 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of $661.3 million related to the Maritime Link and $21.2 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	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter-Segment	Total
				For the year ended December 31, 2014					
Energy sales	549.4	71.9	64.2	74.1	-	-	-	(4.0)	755.6
Other revenue	4.1	1.0	15.3	1.5	17.8	-	-	2.7	42.4
Revenue	553.5	72.9	79.5	75.6	17.8	-	-	(1.3)	798.0
Fuels	268.1	-	-	-	-	-	-	-	268.1
Power purchased	63.8	-	-	8.5	-	-	-	(4.0)	68.3
Operating costs	140.3	41.4	21.6	27.6	1.0	2.4	14.4	-	248.7
Depreciation, depletion, amortization and impairment	56.0	13.8	22.5	-	-	-	0.4	-	92.7
Exploration and evaluation	-	-	1.2	-	-	-	-	-	1.2
Net finance (income) expense	70.8	(1.2)	0.4	-	-	-	(2.7)	-	67.3
Other (income) expense	3.2	1.8	(3.3)	1.5	(0.5)	-	0.1	-	2.8
Share of profit of joint arrangement	-	(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	207.3	32.7	237.2	1.4	-	1,536.7	3.0	-	2,018.3
Total assets	2,159.3	498.2	801.3	8.5	3.8	6,867.4	326.8	(22.2)	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. Total assets include total-to-date amounts of $332.3 million related to the Maritime Link and $11.7 million related to Class B Limited Partnership Unit accrued interest.

33. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the basis of presentation adopted during the current reporting period. The changes have been summarized as follows:

(millions of Canadian dollars)	Previously reported	Foreign exchange	Intangible asset	Legal settlement	Long-term investment	IOC recovery	**Reclassified balance at December 31, 2014**
Short-term investments	34.4	-	-	-	1,755.6	-	**1,790.0**
Property, plant and equipment	5,676.8	-	(18.0)	-	-	-	**5,658.8**
Intangible assets	12.9	-	18.0	-	-	-	**30.9**
Long-term investments	2,871.4	-	-	-	(1,755.6)	-	**1,115.8**
Other revenue	40.5	-	-	-	-	1.9	**42.4**
Operating costs	247.5	-	-	(0.7)	-	1.9	**248.7**
Net finance (income) expense	72.0	(4.7)	-	-	-	-	**67.3**
Other (income) expense	(2.6)	4.7	-	0.7	-	-	**2.8**

34. SUBSEQUENT EVENTS

On February 22, 2016, Nalcor, on behalf of Oil & Gas, issued an irrevocable letter of credit in the amount of $10.0 million to the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB). The purpose of the letter was to provide proof of financial responsibility with respect to the Hibernia Southern Extension project. This letter replaces a $1.5 million irrevocable letter of credit, issued by Nalcor on behalf of Oil and Gas, which was cancelled by C-NLOPB on February 29, 2016.

FINANCIAL STATISTICS

Years ended December 31 (millions of Canadian dollars) *	**2015**	2014	2013	2012	2011
OPERATING RESULTS					
Revenue					
Energy sales	**761.9**	755.6	755.3	710.4	700.0
Other	**50.0**	42.4	29.6	15.7	14.1
	811.9	798.0	784.9	726.1	714.1
Expenses					
Fuels and power purchased	**255.6**	336.4	253.9	243.2	207.8
Operating costs	**278.9**	248.7	212.0	206.9	200.1
Depreciation, depletion, amortization and impairment	**159.2**	92.7	89.9	79.3	85.2
Exploration and evaluation	**1.0**	1.2	7.4	-	-
Net finance (income) expense	**73.5**	67.3	73.8	73.6	70.9
Other (income) expense	**3.1**	2.8	3.5	0.4	(2.8)
Share of profit in joint arrangement	**0.3**	(0.4)	(0.4)	-	-
Regulatory adjustments	**59.5**	(66.3)	57.1	30.0	24.1
	831.1	682.4	697.2	633.4	585.3
Net Income	**(19.2)**	115.6	87.7	92.7	128.8
Contributions to net income					
Regulated Electricity	**(28.8)**	17.6	0.5	17.1	23.1
Energy Marketing	**22.5**	38.0	33.3	21.2	47.1
Churchill Falls	**44.3**	20.2	26.1	28.3	24.4
Oil and Gas	**(48.5)**	37.1	26.2	32.7	39.1
Bull Arm Fabrication	**16.9**	17.3	15.5	4.2	3.7
Phase 1 Lower Churchill Project	**(3.2)**	(2.4)	(2.0)	-	-
Corporate and Other Activities	**(21.9)**	(12.2)	(11.9)	(10.8)	(8.6)
FINANCIAL POSITION					
Total current assets	**3,384.6**	3,357.4	922.4	218.6	270.5
Total current liabilities	**1,338.8**	740.4	542.4	508.9	313.4
Net working capital	**2,045.8**	2,617.0	380.0	(290.3)	(42.9)
Property, plant and equipment	**9,195.2**	6,307.2	4,304.4	3,384.3	2,873.8
Accumulated depreciation and depletion	**877.6**	648.4	561.8	573.3	460.1
Property, plant and equipment, net	**8,317.6**	5,658.8	3,742.6	2,811.0	2,413.7
Long-term portion of sinking funds	**282.0**	267.1	237.9	302.8	247.0
Long-term investments	**90.6**	1,115.8	4,477.4	-	-
Regulatory deferrals (net)	**(185.7)**	(127.9)	(194.2)	-	-
Other assets	**102.6**	119.8	79.0	114.5	110.6
Long-term debt	**6,008.1**	6,240.5	6,047.9	1,125.9	1,131.5
Other liabilities	**1,189.2**	688.1	665.6	247.2	167.2
Shareholder's equity	**3,455.6**	2,722.0	2,267.8	1,564.9	1,429.7
CAPITAL EXPENDITURES	**2,759.8**	2,018.3	1,037.4	449.4	253.9

* 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 2015.

OPERATING STATISTICS

Years ended December 31	**2015**	2014	2013	2012	2011
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**	956	939	939	939
Thermal	**741**	617	617	617	632
Diesel	**65**	64	53	52	55
Menihek	**19**	19	19	19	19
Total	7,438	**7,309**	7,281	7,280	7,298
ELECTRIC ENERGY GENERATED, NET (gigawatt hours GWh)					
Churchill Falls	**33,470**	32,192	34,536	35,661	33,321
Hydro					
Hydraulic	**4,823**	4,658	4,688	4,595	4,512
Thermal	**1,500**	1,316	956	851	873
Diesel	**52**	54	49	45	49
Menihek	**46**	48	45	43	42
Total	39,891	**38,268**	40,274	41,195	38,797
ELECTRIC ENERGY SALES (GWh)					
Churchill Falls Export	**28,693**	27,568	29,787	30,805	28,569
Hydro					
Utility	**6,072**	5,852	5,606	5,359	5,317
Rural	**1,092**	1,089	1,017	998	949
Industrial	**2,231**[1]	535	559	607	491
Export	**1,645**	1,545	1,514	1,559	1,594
Menihek Export	**45**	45	44	42	42
Twin Falls Industrial	**-**	1,607	1,683	1,740	1,715
Total	39,778	**38,241**	40,210	41,110	38,677
TRANSMISSION LINES (kilometres)					
Churchill Falls					
735 kV	**608**	608	608	608	608
230 kV	**471**	471	471	471	471
Hydro					
230 kV	**1,609**	1,609	1,609	1,609	1,608
138 kV	**1,500**	1,500	1,500	1,500	1,500
69 kV	**634**	634	634	634	634
Menihek					
69 kV	**39**	39	39	39	39
Total	4,861	**4,861**	4,861	4,861	4,860
PEAK ELECTRICITY DEMAND (megawatts)					
Churchill Falls	**5,610**	5,620	5,658	5,671	5,635
Hydro System	**1,550**	1,535	1,501	1,385	1,399
Island System	**1,705**	1,687	1,640	1,531	1,525
PETROLEUM AND NATURAL GAS PROPERTIES					
Oil Production (Thousands Barrels of Oil Equivalent (BOE)/day)					
White Rose Growth Lands	**0.98**	1.52	1.59	1.20	1.81
Hibernia Southern Extension	**0.46**	0.29	0.21	0.44	0.38
Remaining Reserves (Proven and Probable) (Millions BOE)					
White Rose Growth Lands	**2.85**	3.63	4.50	3.84	4.15
Hibernia Southern Extension	**24.98**	25.10	21.35	20.52	18.18
Hebron	**33.17**	33.17	33.17	31.80	30.38
STAFFING LEVELS					
Full-time equivalents	**1,460**	1,394	1,334	1,305	1,290

[1] Includes sales from former Twinco Bloc.

NALCOR ENERGY EXECUTIVE LEADERSHIP TEAM (AT DECEMBER 31, 2015)

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
Transition to Operations

Paul Humphries
Vice President
System Planning

Jim Keating
Vice President
Oil and Gas
Vice President (Acting)
- Churchill Falls (Labrador) Corporation
- Project Execution & Technical Services

Chris Kieley
Vice President
Strategic Planning & Business Development

John MacIsaac
President
Newfoundland and Labrador Hydro

Michael Roberts
Vice President
Human Resources & Organizational Effectiveness

NALCOR ENERGY BOARD OF DIRECTORS (AT DECEMBER 31, 2015)

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

Leo Abbass [3, 4]
Corporate Director

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 DECEMBER 31, 2015)

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
Transition to Operations

Paul Humphries
Vice President
System Planning

Jim Keating
Vice President
Oil and Gas
Vice President (Acting)
- Churchill Falls (Labrador) Corporation
- Project Execution & Technical Services

Chris Kieley
Vice President
Strategic Planning & Business Development

John MacIsaac
President
Newfoundland and Labrador Hydro

Michael Roberts
Vice President
Human Resources & Organizational Effectiveness

Peter Hickman
Assistant Corporate Secretary

Robert Hull
General Manager, Finance

Auburn Warren
General Manager, Commercial,
Treasury and Risk

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

In 2015, Nalcor Energy's Board of Directors was comprised of five members , including the Chair of the Board and the President and CEO of Nalcor Energy. The Board, chaired by Ken Marshall in 2015, 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 11 times in 2015, in addition to Committee meetings. Director attendance at Board and Committee meetings in 2015:

Directors	Board of Directors	Audit	Corporate Governance	Compensation	Safety, Health, Environment and Community
Number of Meetings Held	11	6	2	2	3
Leo Abbass	11		2		3
Tom Clift	11	6	2	2	3
Ken Marshall	11	6		2	
Ed Martin	11				
Gerry Shortall	11	6	2	2	
Erin Breen[1]	2				

[1] Erin Breen resigned from the following Boards and Committees effective April 15, 2015:

- Nalcor Energy Board of Directors
- Safety, Health, Environment and Community Committee of the Nalcor Energy Board of Directors
- Newfoundland and Labrador Hydro Board of Directors
- Labrador-Island Link Holding Corporation

Nalcor has the following subsidiary companies, each with its own Boards of Directors (listed as at Dec. 31, 2015).*

CORPORATE GOVERNANCE

NEWFOUNDLAND AND LABRADOR HYDRO

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Leo Abbass
Corporate Director

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 (Acting), Churchill Falls (Labrador) Corporation

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Marie-Jose Nadeau
Chair, World Energy Council

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.[2]

Ken Marshall, Chairperson
President, Atlantic Region, Rogers Communications

Leo Abbass
Corporate Director

Ed Martin
President and Chief Executive Officer, Nalcor Energy

Gerald Shortall
Chartered Accountant

[2] Mike Mulrooney resigned from the Bull Arm Fabrication Board of Directors effective March 13, 2015

TWIN FALLS POWER CORPORATION LIMITED[3]

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

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

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

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

Derrick Sturge
Vice President and Chief Financial Officer, Nalcor Energy

Patrick Ryan
Manager of Site, Cliffs Natural Resources

Clifford Smith
Executive Vice President, Seaborne Iron Ore

Robert Hull
General Manager, Finance

[3] The following Directors resigned from the Twin Falls Power Corporation Limited Board of Directors in 2015:
Tony Beiting – effective January 30, 2015
Wayne Chamberlain – effective September 30, 2015
Tolaver Rapp – effective February 23, 2015
Gerard McDonald – effective December 31, 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

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

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

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[4]

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 Planning, Nalcor Energy

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

Chris Woodford
Architect, Woodford Sheppard Architecture

[4] Derrick Sturge resigned from the Labrador Transmission Corporation Board of Directors effective August 10, 2015. Tom Clift was appointed to the Board by Shareholder Resolution on August 10, 2015.

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

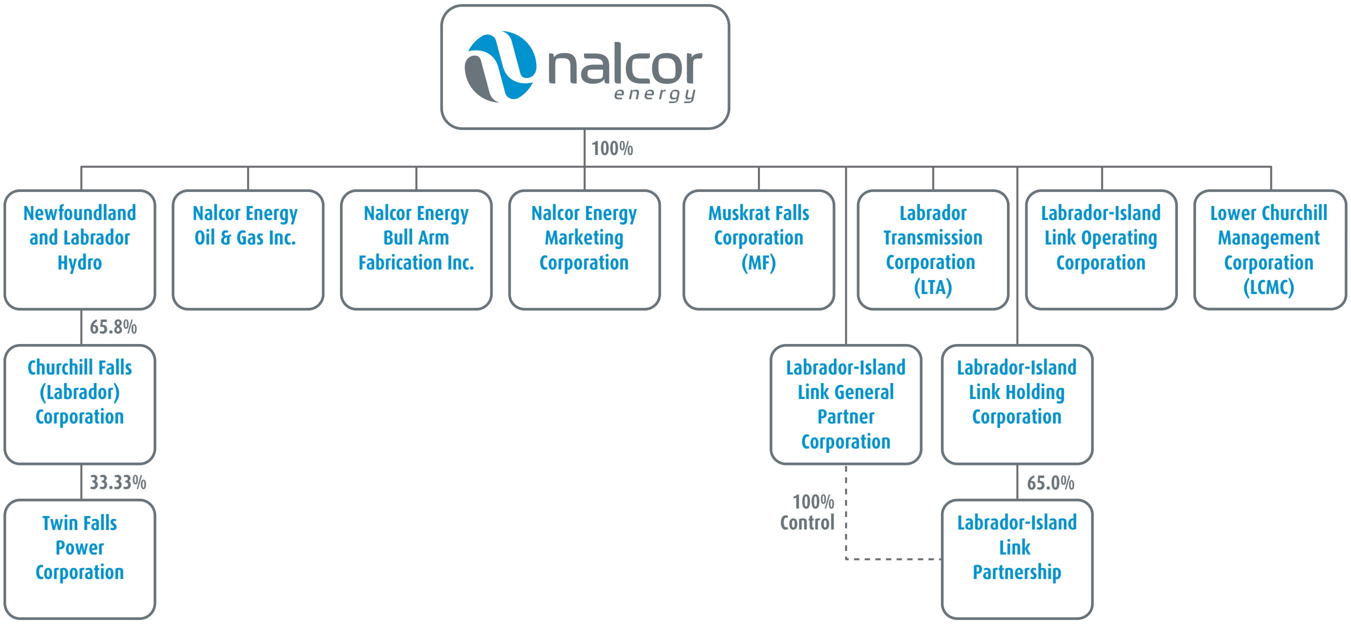
John Green
Lawyer, McInnes Cooper

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 2015, the Audit Committee was comprised of three independent directors. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial management expertise which results in the individual's financial sophistication. In 2015, the Committee was comprised of Gerald Shortall (Chair), Ken Marshall and Tom Clift.

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

a) serve as an independent and objective party to monitor the integrity of Nalcor's financial statements, financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
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 Nalcor's external auditors;
d) monitor the compliance by Nalcor with legal and regulatory requirements;
e) provide an avenue of communication among the external auditors, management, and the Board; and
f) encourage continuous improvement of, and foster adherence to, Nalcor's policies, procedures and practices at all levels.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. Subject to Board approval, the Audit Committee may retain, at the 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 2015, the Corporate Governance Committee consisted of three directors as determined by the Board, all of whom were independent. In 2015 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 the Corporation and its subsidiaries that are consistent with high standards of corporate governance and reviewing and assessing on an ongoing basis the Corporation's system of corporate governance;
b) Identifying and recommending candidates for appointment to the Board to be put before the Shareholder in the event of a vacancy on the Board;
c) Reviewing and recommending a process for Director orientation, assessment, and compensation; and
d) Enterprise Risk Management with respect to the Corporation and its subsidiaries.

COMPENSATION COMMITTEE

In 2015, 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 2015 the Committee was comprised of: Ken Marshall (Chair), Gerald Shortall and Tom Clift. The primary responsibilities of the Committee are to:

a) Consider and recommend for approval by the Board of Directors the appointment of the President and CEO and all other Officers of Nalcor and its subsidiaries.
b) With the chair of the Board of Directors, undertake an annual performance review of the President and CEO of Nalcor and report and/or make recommendations to the Board of Directors.
c) Review and assess annually Nalcor's succession planning policies and practices, and report and/or make recommendations to the Board of Directors.
d) Establish and maintain a compensation philosophy and framework for Nalcor and its subsidiaries.
e) Review and assess annually compensation and benefit policies and programs and pension plans of Nalcor for Executive, Management and all employees and recommend any changes or new policies or programs, where appropriate, to the Board of Directors.
f) Review compensation and benefits mandates for collective bargaining mandates and any proposed tentative settlement and recommend to the Board of Directors.
g) Review annually the Corporation's performance management practices and procedures, and report and recommend any changes, as appropriate, to the Board of Directors.
h) As necessary, provide guidance and direction to the Boards of subsidiary companies with respect to compensation and human resource policies and issues as outlined in this mandate.

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 2015, the Safety, Health, Environment and Community Committee consisted of two members as determined by the Board, both of whom were independent directors. In 2015 the Committee was comprised of: Tom Clift (Chair), and Leo Abbass. The Safety, Health, Environment and Community Committee's primary responsibilities include:

a) reviewing and reporting to the Board of Directors on Nalcor's maintenance of safety, environment and health policies, procedures and practices and in the conduct of its operation, directed to prevent injury to its employees, the public and the environment;
b) reviewing with Management whether Nalcor's safety, environment and health policies are effectively implemented and in compliance with statutory and regulatory requirements and report to the Board of Directors, at least annually, on Nalcor's compliance with current industry, legislative, regulatory and corporate standards for safety, environmental and health;
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 thereto and oversee to ensure that there is an agreed course of action leading to the resolution of any concerns, deficiencies or outstanding issues and timely follow-up on any unresolved matters;
d) reviewing with Management the impact of proposed legislation in matters of safety, environment and health on the operations of Nalcor and make recommendations to the Board of Directors on the appropriate responses and action for Nalcor;
e) reviewing and reporting to the Board of Directors Nalcor's safety and environmental emergency response planning policies and procedures.
f) reviewing and approving annually the safety and environmental audit plans by Nalcor and external auditors and review of an annual Corporate report on safety and environmental issues identified by Management;
g) reviewing with Management and make recommendations to the Board of Directors as appropriate on the Corporation's safety, environment, health and community programs, policies and procedures and any other matters relating to safety, environment, health and community that it considers relevant;
h) reviewing and approving the appointment, compensation and retention of external safety and environment auditors;
i) meeting with the Vice-President responsible at least annually to review safety, environmental, health or community matters that could have a material impact on Nalcor's reputation, business or financial position and report to the Board of Directors thereon in a timely manner; and
j) Reviewing and understanding the safety, health and environment policies and practices of Nalcor's oil & gas partners.

INDEPENDENCE

Nalcor Energy has a Director Independence Policy consisting of:

1. A majority of the Board of Directors, including the Board Chair shall be independent in accordance with the criteria established by the Corporation.
2. All of the members of the Audit Committee, Compensation Committee, Corporate Governance Committee, and Safety, Health and Environment Committee shall be independent Directors.
3. Annually, the Directors will be required to provide a formal declaration indicating that they satisfy the Corporation's Independence Criteria.
4. 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. If, based on these discussions, it its determined that the independence of the Director has been impacted, the Board should be advised.
5. If Directors do not satisfy the Independence Criteria, they should not participate in any discussion or voting relating to matters that contribute to the Independence issue.

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 2015 in connection with audit and audit-related services were $822,495.77 (2014 - $913,865) and fees related to non-audit services were $116,922.98 (2014 - $251,391).

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