



NALCOR ENERGY NEWFOUNDLAND AND LABRADOR HYDRO

2015 Annual Performance Report
Transparency and Accountability

June 2016



Message from the Board of Directors

Honourable Siobhan Coady
Minister of Natural Resources
Government of Newfoundland and Labrador
P. O. Box 8700
St. John's, NL
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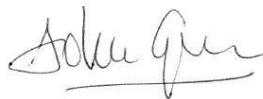
Dear Minister:

In accordance with the *Transparency and Accountability Act*, I am pleased to submit the 2015 Annual Performance Report on behalf of the Boards of Directors of Nalcor Energy and Newfoundland and Labrador Hydro.

The 2014-2016 Strategic Plan for Nalcor Energy and Newfoundland and Labrador Hydro outlined how each entity would address the applicable strategic directions of the Provincial Government in relation to the energy sector as communicated by the Minister of Natural Resources.

This Performance Report will present results for all of Nalcor Energy and will also highlight the accomplishments of Newfoundland and Labrador Hydro.

As the Boards of Directors of Nalcor Energy and Newfoundland and Labrador Hydro, we are accountable for the preparation of this report and are accountable for the results.



John Green
Chair, Boards of Directors
Nalcor Energy
Newfoundland and Labrador Hydro

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1 OVERVIEW

Nalcor

Nalcor Energy (Nalcor) is Newfoundland and Labrador's energy company. The company's business includes the development, generation, transmission and sale of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication site management; and energy marketing.

Focused on sustainable growth, the company 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 workers, contractors and the public.

Nalcor is a provincial Crown corporation established in 2007 under a special act of the Legislature of the Province of Newfoundland and Labrador. Nalcor's legal structure 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 per cent 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
Labrador Churchill Management Corporation (LCMC)	Wholly owned subsidiary
Churchill Falls (Labrador) Corporation Limited (Churchill Falls)	65.8 per cent owned joint operation of Hydro
Twin Falls Power Corporation Limited (Twin Falls)	33.3 per cent owned joint venture of Churchill Falls
Gull Island Power Corporation (GIPCo)	Wholly owned subsidiary (inactive)
Lower Churchill Development Corporation (LCDC)	51 per cent owned subsidiary of Hydro (inactive)

Headquartered in St. John's, Nalcor's energy portfolio is located throughout the province (see Appendix 1).

Hydro

As the primary generator of electricity in Newfoundland and Labrador, Hydro is focused on providing a safe, reliable and least-cost electricity supply to meet current energy demand and future growth. Hydro is involved in both regulated and non-regulated activities.

The majority of Hydro's business is regulated by the Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) and its electricity rates are set through periodic general rate applications. The regulated portion of the company includes the generation, transmission and distribution of electrical power and energy to utility, residential and commercial customers, as well as island industrial customers. The non-regulated activities of Hydro include electricity sales to industrial customers in Labrador west.

Hydro's generating assets include nine hydroelectric plants, one oil-fired plant, four gas turbines, and 25 diesel plants. These generating assets along with a network of transmission and distribution lines bring electricity to communities throughout Newfoundland and Labrador.

Vision

Nalcor

To build a strong economic future for successive generations of Newfoundlanders and Labradorians.

Hydro

To be recognized as an innovative provider of quality energy services.

Mission

Nalcor

Nalcor is focused on sustainable growth and is leading the development of the province's energy resources to provide maximum benefit to Newfoundland and Labrador. Over the coming years, Nalcor will continue to manage its energy holdings including oil and gas interests, Hydro and Upper Churchill assets, and the Bull Arm fabrication site, and will advance plans for the development of the Lower Churchill hydroelectric resource.

By December 31, 2016, Nalcor Energy will have further advanced its energy sector involvement in hydroelectric development, oil and gas, energy marketing and industrial site fabrication management to help build a strong economic future for Newfoundland and Labrador.

Hydro

Hydro is focused on providing a safe, reliable and cost-effective electricity supply to meet current and future energy needs. Hydro's strategy is focused on managing its assets in a manner that optimizes total cost of operation and maintenance. Diligence in the area of safety of employees, contractors and the public and a commitment to environmental sustainability and energy conservation drive the company. Over the coming years, Hydro will continue to enhance safety, asset management and environmental sustainability in order to improve the delivery of electricity to the people of the province.

By December 31, 2016, Hydro will have enhanced its safety, asset management and environmental sustainability processes to continuously improve the delivery of reliable and cost-effective electricity supply to its customers.

Mandate

Nalcor

The mandate of Nalcor, established in legislation under the *Energy Corporation Act*, is to invest in, engage in and carry out activities in all areas of the energy sector in the province and elsewhere, including:

- Developing, generating, producing, transmitting, distributing, delivering, supplying, selling, exporting, purchasing and using power from wind, water, steam, gas, coal, oil, hydrogen or other products used or useful in the production of power.
- Exploring for, developing, producing, refining, marketing and transporting hydrocarbons and products from hydrocarbons.
- Manufacturing, producing, distributing and selling energy related products and services.
- Research and development.

Hydro

The *Hydro Corporation Act* mandates Hydro to be responsible for:

- Developing and purchasing power and energy on an economic and efficient basis.
- Engaging within the province and elsewhere in the development, generation, production, transmission, distribution, delivery, supply, sale, purchase and use of power from water, steam, gas, coal, oil, wind, hydrogen and other products.
- Supplying power, at rates consistent with sound financial administration, for domestic, commercial, industrial or other uses in the province and subject to the prior approval of the Lieutenant-Governor in Council, outside of the province.

Lines of Business

Nalcor has six lines of business: Hydro, Churchill Falls, Oil and Gas, Lower Churchill Project, Bull Arm Fabrication and Energy Marketing. The activities of these lines of business support the fulfillment of the strategic directions of the Provincial Government for the energy sector. A description of each of the lines of business is presented below.

Hydro

Hydro is the primary generator of electricity in Newfoundland and Labrador. The utility delivers safe, reliable, and least-cost power to utility, industrial, residential and commercial customers in over 200 communities in the province. Hydro activities can be grouped as follows:

- Electricity generation involves the operation of nine hydroelectric generating stations, one oil-fired plant, four gas turbines, and 25 diesel plants. This line of business also includes Hydro's involvement in forecasting electricity requirements in the province and advancing options for generation expansion.
- Transmission, distribution and customer service activities include the operation and maintenance of over 3,700 kilometres of transmission lines and more than 3,300 kilometres of distribution lines. Customer service activities address the requirements of over 38,000 residential and commercial customers, Newfoundland Power, as well as our industrial customers.

Churchill Falls

Nalcor's operation in Churchill Falls is one of the largest underground hydroelectric powerhouses in the world with a rated capacity of 5,428 megawatts (MW). Safely operating and maintaining its electricity assets, as well as municipal and community services, drives the Churchill Falls strategy.

The Churchill Falls generating station provides clean, renewable electricity to millions of consumers throughout North America. A significant portion of that electricity is being sold to Hydro-Québec under a long-term contract and the associated 25 year renewal contract which comes into effect September 1, 2016. Churchill Falls sells 300 MW to Hydro for use in the province and for export sales (recapture or recall energy). As of January 2, 2015, Churchill Falls also provides up to 225 MW to Hydro for sale to customers in Labrador West.

Oil and Gas

Oil and Gas has ownership interests in three developments in the Newfoundland and Labrador offshore: the Hebron oil field, the White Rose Growth Project, and the Hibernia Southern Extension Project. Through its multi-year exploration strategy, Oil and Gas is accelerating the exploration and delineation of the province's undiscovered oil and gas resources.

Lower Churchill Project

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America and is a key component of the province's energy portfolio. The two hydroelectric sites at Gull Island and Muskrat Falls will have a combined capacity of over 3,000 MW. Phase One of the Lower Churchill Project was sanctioned on December 17, 2012. The project includes the 824 MW hydroelectric facility at Muskrat Falls on the lower Churchill River, over 1,600 km of associated transmission lines in Newfoundland and Labrador linking the island of Newfoundland to Labrador, and the Maritime Link between the island of Newfoundland and Nova Scotia. The clean, stable, renewable electricity from the Muskrat Falls Project will provide an opportunity for the province to meet its own domestic and industrial needs in an environmentally-sustainable way, and also export excess electricity to other jurisdictions where the demand for clean, renewable energy continues to grow.

Bull Arm Fabrication

Bull Arm Fabrication manages Atlantic Canada's largest fabrication site. Close to international shipping lanes, this site has unobstructed, deep water access to the Atlantic Ocean. This facility spans over 6,300 acres with capabilities for steel fabrication and concrete construction, outfitting installation, at-shore hook-up and deep water commissioning. Currently, the Bull Arm site is fully leased by ExxonMobil Canada Properties for the construction and commissioning phases of the Hebron Project.

Energy Marketing

Nalcor is involved in energy marketing and other energy activities including non-regulated electricity generation, wind energy, and research and development. Nalcor's energy marketing portfolio currently includes recall power that is not required by Hydro to meet demand in Labrador. Nalcor's energy marketing portfolio 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.

Values

Employees of Nalcor and its subsidiaries, including Hydro, are committed to building a bright future for Newfoundland and Labrador, unified by the following core values:

Open Communication	Fostering an environment where information moves freely in a timely manner.
Accountability	Holding ourselves responsible for our actions and performance.
Safety	Relentless commitment to protecting ourselves, our colleagues, and our community.
Honesty and Trust	Being sincere in everything we say and do.
Teamwork	Sharing our ideas in an open and supportive manner to achieve excellence.
Respect and Dignity	Appreciating the individuality of others by our words and actions.
Leadership	Empowering individuals to help guide and inspire others.

Primary Clients

In addition to the clients of its subsidiary, Hydro, Nalcor's clients include:

- Partners in oil and gas projects
- Emera Energy
- Bull Arm Fabrication site tenants
- Supply and service companies in the energy sector

The primary clients of Hydro, including its subsidiary CF(L)Co, are:

- Industrial electricity consumers
- Newfoundland Power
- Rural retail electricity customers
- Hydro-Québec
- Emera Energy
- Non-utility electricity generators (e.g. Corner Brook Pulp and Paper, wind generators)
- Government of Newfoundland and Labrador departments and agencies.

Number of Employees, Physical Location and Other Key Statistics

Nalcor

Nalcor, the province's energy corporation, is leading the development of the province's energy resources. As of December 31, 2015, Nalcor had 1,559 employees, with 66 per cent of these employees located in rural parts of the island and Labrador. The gender composition of Nalcor's employee group was 75 per cent male and 25 per cent female. Nalcor is currently implementing a multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	168	223	391	25%
Male	860	308	1168	75%
Total	1,028	531	1559	
Per cent	66%	34%		

Hydro

Headquartered in St. John's with assets and offices throughout Newfoundland and Labrador, Hydro is the province's main electrical energy provider. As of December 31, 2015, Hydro directly employed 979 people. The location of these employees reflects Hydro's service area and the location of the company's electricity assets, with 68 per cent located in rural areas. The gender composition of Hydro's employee group is 81 per cent male and 19 per cent female. As the largest employer within Nalcor, Hydro will play a key role in implementing the multi-year action plan to support diversity and inclusion.

Gender	Rural	Urban	Total	Per cent
Female	58	127	185	19%
Male	612	182	794	81%
Total	670	309	979	
Per cent	68%	32%		

2015 Consolidated Revenues and Expenses

In 2015, Nalcor had revenues of \$811.9 million. The majority of Nalcor's revenues are currently generated from energy sales through Hydro to utility, rural and industrial customers. Some 30.8 per cent of Nalcor's 2015 expenditures related to fuels and power purchased by Hydro with operating costs accounting for 33.6 per cent of expenses; depreciation, depletion, amortization and impairment totaling 19.1 per cent; and net finance (income) expense accounting for 8.8 per cent.

Nalcor's 2015 loss was \$19.2 million 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.

The following table summarizes the consolidated 2015 revenue and expenses for Nalcor. The 2015 Consolidated Financial Statements for Nalcor are appended to this document (See Appendix 2). The Nalcor 2015 Business and Financial Report is available at

<http://www.nalcorenergy.com/2015-q4-report.asp>

Table 1: Nalcor Energy Consolidated Revenue and Expenses 2015

<i>For the year ended December 31 (millions of dollars)</i>	\$	%
Revenue		
Energy sales	761.9	93.8
Other revenue	50.0	6.2
	811.9	
Expenses		
Fuels	192.8	23.2
Power purchased	62.8	7.6
Operating costs	278.9	33.6
Depreciation, depletion, amortization and impairment	159.2	19.1
Exploration and evaluation expense	1.0	0.1
Net finance (income) expense	73.5	8.8
Other (income) expense	3.1	0.4
Share of loss of joint arrangement	0.3	-
Regulatory adjustments	59.5	7.2
	831.1	
Loss for the year	(19.2)	

Hydro

In 2015, Hydro had revenues of \$774.4 million. The majority of Hydro's revenues are from energy sales to utility, rural and industrial customers with other revenues including preferred dividends from Hydro's subsidiary Churchill Falls. Consolidated energy sales also include CF(L)Co sales to Hydro Québec as well as sales of recall power.

In 2015, Hydro's net income of \$43.2 million consisted of (\$28.8) million from Hydro Regulated, \$44.3 million from Churchill Falls and \$27.7 million from recall power and other non-regulated activities. As a result of not receiving full regulatory approval of its cost deferral application, which included the deferral of certain 2015 electricity supply costs, Hydro Regulated incurred a loss of \$28.8 million for the twelve months ended December 31, 2015. The following chart summarizes the consolidated 2015 revenue and expenses for Hydro.

Table 2: Hydro Consolidated Revenue and Expenses 2015

<i>For the year ended December 31 (millions of dollars)</i>	\$	%
Revenue		
Energy sales	760.7	98.2
Other revenue	13.7	1.8
	774.4	
Expenses		
Fuels	192.8	26.4
Power purchased	99.5	13.6
Operating costs	224.9	30.8
Depreciation and amortization	78.9	10.8
Net finance (income) expense	72.7	9.9
Other (income) expense	2.6	0.4
Share of loss of joint arrangement	0.3	-
Regulatory adjustments	59.5	8.1
	731.2	
Profit for the year	43.2	

The 2015 Consolidated Financial Statements for Hydro are appended to this document (see Appendix 3).

2 SHARED COMMITMENTS

Nalcor works with a variety of agencies, departments and commissions to execute its mandate. During 2015, Nalcor worked closely with each of these organizations to advance the strategic directions of the Provincial Government related to the energy sector.

Department of Natural Resources

The Department of Natural Resources works with Nalcor in policy-related areas for the various energy sector activities in which Nalcor engages and supports the company's efforts to progress all the strategic issues outlined. For example, the acquisition of working interests in offshore oil fields and the company's exploration strategy were coordinated efforts between the department and Nalcor Energy – Oil and Gas. In 2015, Nalcor and the Department worked together to communicate insights from its exploration strategy to global exploration and production companies. These activities support fulfillment of the strategic direction of government related to the increased exploration and development of energy resources and realizing maximum benefits to the province through the strategic development of our resources. The ongoing administration of issues related to the electrical system throughout the province and the execution of key policy actions are also areas of significant collaboration that support fulfillment of the strategic directions of government related to a stable and competitive energy supply for domestic use and export to market.

Department of Finance

The Department of Finance works with Nalcor in relation to addressing requirements related to financial structure, dividend policies as well as providing guarantees for the company's debt financing activities. During 2015, Nalcor's financing plans and equity requirements as well as Hydro's debt and the related Provincial Government guarantee are examples of interactions between the Department and Nalcor.

Newfoundland and Labrador Board of Commissioners of Public Utilities

The Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) is responsible for regulatory oversight of Hydro's regulated utility activities. This responsibility covers a wide range of activities, including approval of its revenue requirements, rates, rate structure and capital program. The role of the PUB is detailed in the *Public Utilities Act*. Strategic issues related to electricity supply and safety are impacted by PUB.

During 2015, there was significant regulatory activity related to Hydro's 2013 General Rate Application (GRA) including an interim rate application, a 2015 Cost Deferral application and amendment, and a GRA hearing. In addition, 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.

Other Departments/Public Bodies

Nalcor also shares commitments with the Department of Environment and Conservation, Service NL, and the federal Department of Fisheries and Oceans and Environment Canada in relation to the environmental aspects of the company’s activities. During 2015, for example, Hydro interacted with the Department of Environment and Conservation regarding the environmental registration of the third transmission line from Bay d’Espoir to the western Avalon.

3 ISSUES

Nalcor drives performance excellence in its lines of business and functional support areas through its planning and performance monitoring processes. Nalcor focuses on five key areas - safety leadership, environmental leadership, business excellence, people and community. These focus areas drive goals, objectives and operational activities throughout the company.

The strategic issues outlined below will be addressed by Nalcor and/or Hydro in order to realize their mandates and visions. Consistent with the underlying philosophy of the multi-year performance-based planning required under the provisions of the *Transparency and Accountability Act*, these issues are at a governance level and reflect the priorities of the Nalcor and Hydro boards and support the Provincial Government's strategic directions for the energy sector. Other issues and focus areas, such as people excellence and corporate citizenship, will continue to drive operational activities of Nalcor and its lines of business and support efforts to address the issues outlined.

Issue 1: Safety leadership

Issue 2: Electricity supply

Issue 3: Upper Churchill asset management and Power Contract legal actions

Issue 4: Oil and gas interests, exploration and development

Issue 5: Lower Churchill development

Issue 6: Bull Arm Fabrication Site long-term strategy and lease management

Issue 7: Energy marketing portfolio management and long-term strategy

4 SUMMARY OF 2015 ACCOMPLISHMENTS AND HIGHLIGHTS

Outlined below is a summary of 2015 accomplishments related to Nalcor's and Hydro's strategic plans and work plans.

ISSUE 1: SAFETY LEADERSHIP

Nalcor's safety focus supports the Provincial Government's strategic direction toward building a culture of worker safety as part of responsible resource development.

- Many areas of the company had sustained zero lost time injuries over an extended period of time.
- Hydro received an award from the Canadian Electricity Association based on 2014 safety performance.
- Continued to enhance procedures and training for safely completing high-risk work.
- Employee Injury Prevention Awareness Campaign focused on driving safety, slips, trips and falls, hand safety, new and young workers and mental health awareness.
- Approximately 7,000 safety related observations commending safe behaviours, identifying hazards/unsafe conditions and acts, and outlining the results of safety inspections and assessments.
- Completed public education activities regarding power line safety, power outages safety and safety around hydroelectric dams.

ISSUE 2: ELECTRICITY SUPPLY

Hydro's accomplishments support fulfilment of the strategic directions of the Provincial Government related to a stable and competitive energy supply for domestic use and export to market. Hydro initiatives also support focus areas related to alternative energy research and development and advancement of renewable energy projects.

- Invested \$125 million to upgrade electricity generation, transmission and distribution assets as well as supporting technology and infrastructure and refreshed Hydro's long-term plan for capital investments.
- New 123.5 MW combustion turbine at the Holyrood generating station successfully connected to the power grid.

- Completed planned 2015 activities to prepare for transition of the Muskrat Falls project to operations.
- Ramea Wind-Hydrogen-Diesel Energy research and development project continued to offset diesel fuel consumption in the isolated community.
- Continued data collection to assess the feasibility of the hydroelectric potential in select coastal Labrador communities.
- Completed a wind assessment report of the potential of wind generation in five coastal Labrador communities.
- Relunched Hydro's Industrial Energy Efficiency Program and surveyed the four industrial customers regarding energy efficiency plans.
- Continued energy efficiency programs for residential and commercial customers:
 - Approved 191 rebates to Hydro's residential customers for insulation upgrades, thermostats, heat recovery ventilators and appliances. Hydro customers also saved by purchasing energy efficiency products from participating retailers under the takeCHARGE Instant Rebate Program.
 - Approved 2,977 rebates for efficient lighting technologies purchased by commercial customers through the takeCHARGE energy efficiency program.
 - Hydro's Isolated Systems Community Energy Efficiency benefitted over 965 residential customers in communities served by diesel electricity systems through the direct, free installation of energy efficient technologies.
 - Eight of Hydro's business customers availed of energy efficiency facility audits and technical support with four of these proceeding with capital upgrades and receiving financial support through the Business Efficiency Program.

ISSUE 3: UPPER CHURCHILL ASSET MANAGEMENT AND POWER CONTRACT LEGAL ACTIONS

Stewardship of the Upper Churchill asset supports the fulfilment of the strategic direction of the Provincial Government related to the export of surplus energy.

- Invested \$55 million as part of a long-term plan for renewal of assets and refreshed plan for future investments.
- Completed required preparations and activities for the Upper Churchill Power Contract/ Renewal Contract legal actions.

ISSUE 4: OIL AND GAS INTERESTS, EXPLORATION AND DEVELOPMENT

Oil and Gas activities and accomplishments support fulfilment of the strategic direction of the Provincial Government related to increased exploration and development of energy resources and realizing maximum benefits to the province from strategic development of our resources.

- Worked with partners in three offshore oil developments to support achievement of key project milestones:
 - Achieved first oil from South White Rose Extension.
 - Completed Unit Ben Nevis-Avalon Subsea infrastructure and a second water injection well at Hibernia South Extension.
 - Completed Hebron derrick equipment set and drilling support module fabrication.
 - Completed negotiations for inclusion in basin-wide transportation systems and commenced operations under the new system as of June 1, 2015.
- Advanced exploration strategy:
 - Completed the acquisition of 28,000 kilometres of seismic data bringing the total to 113,000 line kilometres – one of the largest regional seismic programs in the world.
 - Completed the acquisition of 4,600 square kilometres of 3D multi-client seismic data – marking the first time in the history of Newfoundland and Labrador’s offshore that 3D seismic data will be available to the global oil and gas industry in advance of an upcoming license round.
 - Released the results of the first regional metocean¹ study for the province.
 - Completed and announced resource assessment for Flemish Pass basin 2015 license round area – 12 billion barrels and 113 trillion cubic feet of gas in place in two per cent of the Newfoundland and Labrador offshore.
 - Achieved engagement with global exploration and production companies regarding Newfoundland and Labrador exploration prospectivity and upcoming license rounds.

¹ The metocean study is a comprehensive study of metocean conditions, including winds, waves, currents, fog, vessel icing, pack ice, icebergs and ice islands and influence of environmental changes on such conditions.

ISSUE 5: LOWER CHURCHILL DEVELOPMENT

The development of the Lower Churchill Project supports the strategic direction of the Provincial Government related to responsible resource development.

- Achieved key construction milestones for Muskrat Falls generating station and transmission in Labrador and on the island.
 - Muskrat Falls Generation
 - Completed concrete placement for the spillway piers (more than 48,000m³ of concrete poured).
 - Started work on the installation of spillway gates in preparation for river diversion in 2016.
 - Completed concrete placement on the separation wall and significant progress was made on the centre transition dams.
 - Started work on the north and south dams.
 - Progress continued on the manufacturing of the gates and turbines and generators.
 - Labrador Transmission Assets
 - Completed 100 per cent of the access roads and right-of-way clearing for the transmission line from Muskrat Falls to Churchill Falls.
 - Around 95 per cent of the transmission towers were assembled, 85 per cent of the towers were erected and some 68 per cent of the conductor (wire) stringing for the 500 kilometres of transmission line was completed.
 - Labrador Island Link
 - Completed around 91 per cent of the right-of-way access clearing in Labrador and 50 per cent on the island
 - In Labrador, 53 per cent of the foundations were installed, 61 per cent of the towers were assembled and 19 per cent were erected. The first tower foundation was installed on the island in December.
 - Started conductor stringing in Labrador in October and by year-end approximately 10 per cent of conductor was strung in Labrador.

- Strait of Belle Isle Marine Crossing
 - Completed manufacturing of the last of the three subsea marine cables for Strait of Belle Isle crossing.
 - All seven land cable reels were received and installed in Shoal Cove and Forteau.
 - Completed quarrying of approximately 450,000 tonnes of rock, which will be used for the rock berm which protects the subsea marine cable.
- Total employment peaked in September at 5,383, of which 4,552 (85 per cent) were residents of the province.
 - Employment of Labrador Innu workers peaked at 208; employment of women peaked at 664.
- An estimated \$9 million was returned to the provincial economy each week during construction through wages and business opportunities.

ISSUE 6: BULL ARM FABRICATION SITE LONG-TERM STRATEGY AND LEASE MANAGEMENT

The Bull Arm Fabrication site has facilitated growth of the province's fabrication capability and supports the strategic direction of the Provincial Government related to local industrial and employment benefits.

- Continued successful leasing arrangement with the Hebron project and achieved strong financial performance.
- Approved \$1.4 million in site infrastructure modifications and upgrades to be completed by the site tenant.
- Continued to progress long-term strategy for the Site and confirmed an operating model where Bull Arm Fabrication remains the Site landlord.

ISSUE 7: ENERGY MARKETING PORTFOLIO MANAGEMENT AND LONG-TERM STRATEGY

Nalcor's energy marketing activities and accomplishments support fulfilment of the focus area of the Provincial Government related to the export of surplus energy.

- Full-service energy trading operation including analytics, trading and scheduling functions as well as supporting processes and information systems went live as planned on April 1, 2015 selling electricity directly to markets outside the province.
- Identified and implemented measures to increase portfolio value and achieved revenue 27 per cent greater than market benchmark.

5 OUTCOMES OF OBJECTIVES

The 2014-2016 Strategic Plan for Nalcor and Hydro highlighted seven strategic issues around which goals and objectives were established. These issues encompass the activities of Nalcor and its subsidiaries. In general, the accomplishments outlined are for Nalcor, accomplishments specific to Hydro are noted.

For each strategic issue, the 2015 objectives, measures and indicators are provided along with a summary of related accomplishments.

ISSUE 1: SAFETY LEADERSHIP

A relentless commitment to safety drives all Nalcor lines of business as we strive to achieve world class safety and an injury free workplace. Achieving excellence in safety is Nalcor's number one priority and safety is a shared core value. For Nalcor, safety excellence is more than a way of operating; it is an integral part of Nalcor's identity and strategy for the future. By driving the company's strategy and operations in all lines of business, Nalcor's safety focus supports the Provincial Government's strategic direction toward building a culture of worker safety as part of responsible resource development.

Nalcor's pursuit of safety excellence encompasses the safety of employees, contractors and the general public. The company has established a safety framework that is built on seven key elements: leadership; procedures and equipment; competence; supportive culture; union management alignment; personal responsibility; and, reporting and continuous improvement. This framework guides processes such as joint union management safety leadership, safe workplace reporting and the investigation of safety incidents and high-potential near misses. The safety framework is also the basis for developing multi-year safety plans for communications, work procedures and training to ensure employee competence and promote a strong safety culture.

Sustained safety excellence is a journey. Many areas of Nalcor have sustained excellent safety performance with zero employee injuries for a number of years and the company is seeing its safety culture mature with Nalcor employees identifying and addressing unsafe conditions and behaviours and accepting personal responsibility for their safety and the safety of others. Safety reporting continued to be strong in 2015 increasing six per cent over 2014. Since 2005, Nalcor has experienced a decrease in all injury frequency of 63 per cent, while lost-time injury frequency has decreased by 85 per cent in the same period. While long-term safety trends are

positive, in 2015 Nalcor did not achieve the annual improvement targeted. 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. One of these lost-time incidents involved an employee who sustained serious burns while working at the Holyrood generating station.

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. In addition to maturing its safety culture, the company has focused on increasing employee competence through safety training and making processes for completing work safer.

Nalcor has strengthened its procedures for working around electrical and other energized equipment. The work protection code² (code) creates an isolated and de-energized safe work area. An updated code is fully implemented across all electricity lines and ongoing monitoring is in place for compliance. During 2015, Nalcor continued to complete assessments of work protection code implementation to confirm understanding of, and compliance with, the code. Documenting and verifying work methods for completing work safely, is also a focus in Nalcor's electricity operations. Starting in 2010, the company identified critical tasks, completed risk assessments, and began documenting and verifying work methods. The verification of documented work methods for completing high-risk tasks also continued through 2015. Also during the year, a grounding and bonding³ training program was completed by electricity employees involved in the operation and maintenance of generating plants, terminal stations and transmission and distribution lines. Assessments of grounding and bonding practices were completed for transmission and distribution line employees to confirm understanding and compliance with training. Training for high-voltage switching⁴ was also delivered throughout electricity operations to re-inforce the principles and practices associated with switching.

During 2015, Nalcor continued to implement its employee safety communications campaign - *Take a Moment for Safety*. The basis of the campaign is that every day, Nalcor employees encounter hazardous situations and they must be vigilant in reducing exposure to these hazards. The themes for injury prevention and awareness communications in 2015 reflected Nalcor's top-trending injuries - slips, trips and falls; hand-related injuries; new and young workers and driving related safety.

² The work protection code (code) establishes conditions that, when combined with appropriate work practices, procedures and work methods will provide workers with a safe work area when working on or around electrical and other energized equipment.

³ The grounding and bonding program identifies electrical grounding and bonding practices for temporary grounding of equipment to provide maximum protection for workers performing work on de-energized equipment.

⁴ High voltage switching is the process in which the electrical configuration of the power system is changed by the operation of devices in the field. Switching is performed to establish work protection for workers safety or for system integrity and reliability.

Also during the year, an Alcohol and Drug Program was fully implemented. The primary focus of the Program is the early identification of alcohol and drug 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. There were numerous activities that took place in support of this program which was launched in March of 2015. Over 300 supervisors received training on the Alcohol and Drug Program and employee sessions were also conducted across all lines of business and locations. To support the roll-out of the program a multi-faceted approach leveraging Nalcor's internal employee communication tools, channels and events was used to communicate the launch of the new program. Numerous communications were developed and delivered, such as safety moments and newswire articles, as well as presentations.

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 to be a focus in 2015. This campaign is delivered in partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and Workplace NL. Power line contacts remain a concerning trend with more than sixty contacts in Hydro's service areas in the past five years. In 2015, Hydro saw a total of 30 public incidents involving powerlines of which 20 were contacts with an energized portion of a line. In addition to power line safety awareness, additional safety communications addressed public safety around dams, dykes and hydroelectric facilities as well as power outage safety. In 2015, Nalcor also made improvements to the Contractor Safety Management Program that outlines safety expectations and requirements for contractors completing work for the company. Improvements included developing a contractor manual which describes the health, safety and environmental requirements that must be met by the contractor to be eligible to work for Nalcor.

Unless otherwise specified, the goal, objectives, measures, indicators and accomplishments outlined below apply to both Nalcor and Hydro. Nalcor's safety programs and initiatives are targeted to all its lines of business as well as support areas of the company. As a large electricity operation and the largest employer within Nalcor, Hydro's accomplishments are a significant component of the safety achievements of Nalcor as a whole.

ISSUE 1: SAFETY LEADERSHIP (cont'd)

Goal

By December 31, 2016, Nalcor and Hydro will have continued progress towards sustained safety excellence.

ISSUE 1: SAFETY LEADERSHIP (cont'd)

Measure	Continued progress towards sustained safety excellence.
Indicator	<ul style="list-style-type: none"> ▪ Advanced multi-year safety training plan for employees. ▪ Advanced multi-year plan for safety-related communications for employees, contractors and the general public.

Objective

By December 31, 2015, Nalcor and Hydro will have advanced safety training and communication programs to achieve long-term safety excellence.

Measure

Advanced employee safety training.

Indicators	2015 Accomplishments
<p>Advanced employee safety training.</p> <ul style="list-style-type: none"> ▪ Completed required technical and safety coaching training for new employees and employees taking on new roles. 	<p>During 2015, Nalcor and Hydro continued to build on previous efforts to provide safety training to enhance employee competence and the companies' safety culture. As part of this ongoing commitment, the following technical (e.g. work protection, high voltage switching) and safety coaching training was delivered as planned.</p> <p><i>Work protection code, confined space entry and working at heights training</i></p> <p>During 2015, required safety training for new employees, employees taking on new roles and responsibilities and employees requiring refresher training was completed. In total, 409 employees completed work protection code training (Hydro – 235), 102 employees completed confined space entry training (Hydro – 62), and 345 employees completed working at heights training (Hydro – 245).</p> <p><i>High voltage switching principles and practices training</i></p> <p>During 2015, 209 employees completed high voltage switching principles and practices training (Hydro – 148) to re-fresh knowledge related to this high risk work activity in electricity operations.</p> <p><i>Safety coaching training</i></p> <p>Safety coaching training helps build the skills required to take action on at-risk behaviours by outlining a consistent approach to safety interactions and providing an opportunity to practice the approach. The majority of Nalcor employees have already completed safety coaching training but the training is offered periodically to new employees and others who have not participated in the training. During 2015, 106 employees completed the training (Hydro – 100).</p>

Indicators	2015 Accomplishments
	<p><i>Safe workplace observation program (SWOP) and incident investigation training</i></p> <p>In 2015, planned SWOP and incident investigation training was completed with 66 employees participating in SWOP training and 72 completing incident investigation training (Hydro - 46 and 59).</p>
<ul style="list-style-type: none"> ▪ Delivered new grounding and bonding training program to employees involved in the operation and maintenance of generating plants and terminal stations. 	<p><i>Grounding and bonding training</i></p> <p>In 2015, training was delivered to 95 employees (Hydro – 75) for grounding and bonding by employees involved in the operation and maintenance of generating plants and terminal stations. The purpose of this training is to provide an awareness of temporary grounding and bonding practices for plants and stations in order to provide maximum protection for workers while performing de-energized work. The training focuses on the hazards of step and touch potential as well as static electricity.</p>
<p>Measure Advanced employee and public safety communications.</p>	
<p>Completed employee communication activities for the 2015 injury prevention and awareness campaign related to top injury trends and greater emphasis will be placed on vehicle safety.</p>	<p>During 2015, Nalcor continued implementation of its three-year plan for employee safety communications – <i>Take a Moment for Safety</i> and completed planned activities.</p> <p>Communication focused on promoting injury prevention and awareness around Nalcor’s top-trending injuries - slips, trips and falls; hand-related injuries; new and young workers and driving related safety. Specific activities relating to driving safety included, distracted driving seminars, defensive driving training for new employees, fact sheets and safety moments related to driver fatigue, distracted driving and driving in the winter months. The injury prevention campaign also included posters, fact sheets, safety moments, lunch and learns, all user emails as well as articles in Nalcor’s weekly internal employee newsletter. Nalcor also launched employee communication around mental health awareness.</p>
<p>Completed public safety communication activities related to power line safety, public safety around electrical facilities and outage safety.</p>	<p>In 2015, Nalcor completed public safety communication activities related to power line safety and safety around electricity facilities and also promoted power outage safety.</p> <p><i>Power line safety</i></p> <p>The Public Safety Campaign for Power Line Hazards continued to be a focus in 2015. This campaign, which is delivered in partnership with Newfoundland Power, the Newfoundland and Labrador Construction Safety Association, and Workplace NL, promotes power line safety to the general public as well as targeted audiences such as heavy equipment operators and contractors.</p>

Indicators	2015 Accomplishments
<p>Completed public safety communication activities related to power line safety, public safety around electrical facilities and outage safety. (cont'd)</p>	<p>The public campaign including print, radio, digital and social media was supplemented with presentations to contractors, apprentice line workers, and students training in the operation of heavy equipment. In addition, in 2015 Hydro sponsored the Newfoundland and Labrador Construction Safety Association's Annual Conference and had a key note speaking opportunity at the event. Hydro's efforts to prevent power line contacts were also featured in the Newfoundland and Labrador Construction Association journal.</p> <p><i>Public safety around electrical facilities</i></p> <p>Work continued in 2015 to promote public safety around dams, dykes and hydroelectric facilities. This past year, stakeholder education presentations were delivered to key stakeholder groups in Bay d'Espoir and Bishop's Falls. As part of its commitment to public safety around dams, safety advisories were issued throughout the year regarding changing water levels and recreational safety.</p> <p><i>Power Outage Safety</i></p> <p>As part of its winter readiness communications program, Hydro developed an animated video highlighting the specifics of power outage safety and developed new online content on the same subject. As well, Hydro continued to promote safety through www.hydrosafety.ca as well as through its social media channels, such as Twitter and Facebook.</p>

The objectives, measures and indicators for 2016 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

ISSUE 1: SAFETY LEADERSHIP (cont'd)

Objective

By December 31, 2016, Nalcor and Hydro will have continued progress towards sustained safety excellence by advancing safety programs.

Measure

Delivered safety training and complete planned assessments.

<p>Indicators</p>	<ul style="list-style-type: none"> ▪ Completed required safety training for new employees and employees taking on new roles. ▪ Completed planned assessments of employee competency to safely perform high-risk activities. ▪ Advanced occupational health and wellness employee assessments including hearing conservation and respiratory protection. ▪ Assessed implementation of select safety programs and identified required enhancements.
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ISSUE 1: SAFETY LEADERSHIP (cont'd)

Measure

Completed planned safety communications activities targeting employees and the public.

Indicators	<ul style="list-style-type: none">▪ Completed employee communication activities for the 2016 injury prevention and awareness campaign related to top injury trends with greater emphasis placed on driving safety, new and young workers and mental health awareness.▪ Completed public safety communication activities related to power line safety, public safety around electrical facilities and outage safety.
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ISSUE 2: ELECTRICITY SUPPLY

Nalcor's subsidiary, Newfoundland and Labrador Hydro, ensures there is a safe, reliable and cost-effective electricity supply available to meet current demand and future growth. These activities support fulfillment of the strategic directions of the Provincial Government related to a stable and competitive energy supply for domestic use and export to market. The initiatives outlined support focus areas related to alternative energy research and development, and advancement of renewable energy projects and related infrastructure.

Asset Management/Reliability

A key challenge in the Canadian utility industry is renewal of aging electricity infrastructure.

As with other utilities, many of Hydro's assets are over 40 years old and require significant investment to ensure a continued safe and reliable supply of electricity.

Asset management is the cornerstone of Hydro's approach for managing assets over their lifecycle and making the investments required for reliable, cost-effective electricity to meet the needs of customers. Keeping Hydro's electricity systems in reliable operating condition is accomplished through a combination of routine maintenance of existing assets and replacement or rehabilitation of assets that have reached the end of their useful life with new or renewed assets that result in lower life cycle costs or improved operational characteristics.

Hydro has developed long-term asset management plans for key generation, transmission, distribution assets and supporting technology and infrastructure. These plans reflect the service required of the asset combined with information about asset condition and operating and maintenance experience. Long-term asset management plans are the basis for developing a five-year capital plan that outlines more detailed scopes of work required and the estimated cost. The five year capital plan is a rolling plan that is refreshed annually as planned investments are completed and new information becomes available about the condition of Hydro's assets, the operating demands to be placed on them, and future load growth needs.

During 2015, Hydro invested \$125 million to provide safe, reliable and least-cost electricity to the people of the province. A significant portion of this investment included sustaining capital required to upgrade or replace existing terminal station equipment including power transformers and circuit breakers.⁵ The 2015 capital program also included the upgrading,

⁵ Circuit Breaker - A device used to interrupt or break an electrical circuit when an overload condition exists to protect electrical equipment. Transformer - A device used to transfer electric energy from one circuit to another, through a pair of multiply wound, inductively coupled wire coils that affect such a transfer with a change in voltage, current, phase, or other electric characteristic.

refurbishment and replacement of power transformers which are critical components of the transmission system.

During 2015, Hydro also implemented actions arising from the review of the January 2014 electricity system service disruptions. The company completed critical maintenance and winter preparations for all generating assets and continued significant capital investment.

Long-term Least-cost Supply

Hydro has a responsibility to assess electricity requirements in the province and recommend supply options to meet growing energy needs. When completed, the Muskrat Falls Project will provide power to electricity customers on the island.

During 2015, Nalcor continued to advance the implementation of processes and supporting organization structure to prepare for the transition of the Muskrat Falls Project to operations. The technical integration of new generating and transmission assets from the project to Hydro's longer-term electricity structure and readiness to operate and maintain these assets are key elements of the transition.

Hydro 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. During 2015, there was significant regulatory activity related to the General Rate Application (GRA) filed by Hydro in July 2013 including an interim rate application, a 2015 Cost Deferral application and amendment, and a GRA hearing. The public hearing of Hydro's GRA concluded at the end of November 2015⁶. In addition, in January 2015 the PUB informed Hydro that they would be conducting a "prudence" review of certain Hydro expenditures as part of its review of Hydro's GRA. There are approximately \$156.5 million in capital projects, the largest being cost recovery of the 123 MW combustion turbine, and approximately \$55.6 relating to 2014 cost deferrals subject to the prudence review.

Environmental Sustainability

During 2015, Hydro also continued to pursue a number of initiatives aimed at environmental sustainability. The investigation of alternative energy sources in communities that rely on diesel generation of electricity continued to advance during the year. In 2009, the Government of Newfoundland and Labrador and Hydro completed the Coastal Labrador Alternative Energy study to investigate the potential for the integration of alternative energy sources, including solar, wind and mini-hydroelectric facilities in isolated Labrador communities that rely on diesel

⁶ Final arguments were filed at the end of January, 2016 and Hydro is now awaiting the PUB's final GRA order.

as a primary means of electricity generation. It was recommended in the study that further measurement and analysis be carried out for high potential locations. This work began in 2013 and continued throughout 2015. Monitoring to assess hydroelectric potential was completed on the Gilbert River and the St. Lewis River near the communities of Charlottetown, Port Hope Simpson and Mary's Harbour in Labrador. The wind monitoring program collected data at sites in Nain, Makkovik, Hopedale, Cartwright and L'Anse au Loup. Wind data collection continued in these communities until the second quarter of 2015 when data collection equipment was decommissioned. A report on the wind conditions, preliminary costs and viability of implementing wind power generation in the communities was provided to Government at the end of 2015.

The Ramea Wind-Hydrogen-Diesel (WHD) research and development project was also advanced during 2015. The objective of this project is to integrate diesel generators with renewable generation technology and energy storage equipment. Integration is accomplished by the Energy Management System (EMS). The EMS was designed by Nalcor and provides complete automation and control of project equipment. Energy storage is provided by a hydrogen electrolyzer and a hydrogen fueled generator set (genset). Renewable generation is used to offset diesel fuel requirements and also reduce Hydro's carbon footprint as well as other emissions. The first phase of this project, which began in 2009, focused on integrating the community's existing diesel generators with wind turbines and the hydrogen technology.

During 2015, preliminary engineering continued for Phase II of the project which will see a hydrogen fuel cell integrated into the existing system. Specifications were completed for the hydrogen fuel cell and the tender and installation is planned for 2016. The hydrogen fuel cell will be used to increase the reliability of the hydrogen system and improve the overall system efficiency as fuel cell efficiency is double that of a hydrogen genset. In addition to the integration of the fuel cell, Phase II will also have an optimization component and a commercialization component. After the completion of the site optimization stage, the commercialization stage of the project will be used to explore potential markets for the EMS. In Canada alone there are over 290 remote diesel powered communities that could potentially benefit from the use of a system like the EMS.

Hydro's commitment to environmental sustainability also includes promoting energy conservation. During 2015, Hydro pursued initiatives to reduce energy consumption in its own facilities and delivered programs to help Hydro's rural electricity residential and commercial customers, as well as provincial industrial consumers, conserve energy.

Hydro also continued to partner with Newfoundland Power to deliver the takeCHARGE program that offers rebates and incentives to encourage residential and commercial customers to

reduce their electricity usage. Residential programs included rebates for insulation upgrades, electronic thermostats, and high efficiency heat recovery ventilators. As well, a small technology program that offers at-cash rebates for low cost energy efficient products (e.g. Energy Star® light bulbs) and mail-in rebates for energy efficient appliances and electronics were available for residential customers. Commercial programs included discounted high performance lighting, product rebates for heating and lighting controls, and a custom program that offers incentives based on economical energy saving improvement projects specific to individual customer facilities. As well, free technical support was offered to help commercial customers identify electricity savings projects. Hydro’s Isolated System Community Energy Efficiency Program, which helps residential and commercial customers in isolated communities save energy also continued in 2015.

Since 2010, Hydro has also delivered the Industrial Energy Efficiency Program which provides industrial electricity customers with financial assistance and technical support to complete feasibility studies and capital upgrades to achieve energy savings. The Industrial Energy Efficiency Program was relaunched in 2015 with a new marketing and communications strategy. Each of the four industrial customers was directly engaged regarding their interest in energy efficiency and surveyed to understand their future plans for efficiency improvements. In 2015, one industrial customer completed a compressed air feasibility study which was supported by funding through the program and another customer identified capital funds to undertake efficiency improvements over the next two year period.

ISSUE 2: ELECTRICITY SUPPLY (cont’d)

Goal

By December 31, 2016, Hydro will have advanced plans to ensure a reliable and cost-effective electricity supply for the province.

Measure

Advanced plans to ensure reliable, cost-effective electricity supply.

Indicators

- Advanced multi-year plans for asset investments.
- Advanced commercial arrangements and infrastructure planning related to Muskrat Falls.
- Progressed environmental sustainability programs.

Objective

By December 31, 2015, Hydro will have progressed electricity system investments, planning for integration of Muskrat Falls, and environmental sustainability initiatives.

Measure 1

Progressed electricity system investments.

Indicators	2015 Accomplishments
<p>Completed any required updates to Hydro five-year capital plan.</p>	<p>In 2015, Hydro completed updates to the five-year capital plan for 2016-2020. The updated plan outlines the timing, scope and cost for investments in the company’s electricity generation, transmission and distribution assets as well as supporting infrastructure and technology. The 2016 capital budget for Hydro is based on the 2016-2020 capital plan.</p> <p>Updates to the five-year capital plan can result when new information regarding asset condition or performance becomes available. During 2015, the decision to complete additional analysis of several projects in Hydro’s five-year capital plan supported the decision to defer the projects to future years. For example, the replacement of the penstock, turbine, generator and auxiliary systems for the Venams Bight generating station⁷ was originally scheduled to occur in 2016 and 2017. The project was deferred to allow for analysis of the value of future generation from an upgraded station; this analysis will be completed in 2016.</p>
<p>Completed planned investments in Hydro assets.</p>	<p>In 2015, Hydro invested \$125 million to upgrade or replace electricity generation, transmission and distribution equipment and supporting infrastructure. This expenditure was \$186 million below the \$311 million planned for 2015.</p> <p>The most significant element of this variance resulted from the lower than planned 2015 expenditures related to the construction of the third transmission line in Labrador. This project, intended to help supply power for planned new mining developments in Labrador West, was suspended in September 2014 due to delays in mining project activity and remained suspended through 2015. This resulted in a variance against budget of \$163 million.</p> <p>The second largest component of the variance in planned expenditures is a \$19 million reduction to the original 2015 budget for the new transmission line from Bay d’Espoir to Western Avalon. Following PUB approval in December 2014, the detailed planning for this project resulted in most of the 2015 cost moving into 2016.</p> <p>Other factors contributing to the lower than planned 2015 capital expenditures relate to the rescheduling of several projects to align with the revised timing of construction activities for the new transmission line between Bay D’Espoir and Western Avalon and cost recovery from insurance proceeds related to the</p>

⁷ Venams Bight is a 340 kilowatt hydro generating station built in 1956.

Indicators	2015 Accomplishments
<p>Implemented 2015 actions resulting from review of the January 2014 supply disruptions.</p>	<p>transformer replacement project at the Sunnyside Terminal Station.</p> <p>Hydro completed an extensive internal review of the January 2014 supply disruptions. As well, the PUB commissioned a consultant to conduct an assessment of the events and held a public hearing in March 2015.</p> <p>Hydro developed a comprehensive action plan to address the findings of these reviews. In 2014, priority actions were implemented to complete critical maintenance, capital upgrades and equipment testing to ensure improved winter availability. Customer and public communication was also enhanced in 2014 with these changes continuing in 2015. Other 2015 actions implemented included:</p> <ul style="list-style-type: none"> ▪ Completed winter preparation and availability program for all generating assets and a related maintenance program for the Holyrood thermal generating station. ▪ Continued significant capital investment for both the Hardwoods and Stephenville gas turbines, increased frequency of equipment inspection, and enhanced the planning and completion of maintenance for these assets. ▪ Completed planned demand management analysis with Newfoundland Power and submitted report to PUB. ▪ Completed investigation and report on methods to reduce duration of planned transmission outages. ▪ Further enhanced measurement and tracking of maintenance execution to ensure any issues or opportunities with the completion of planned maintenance are identified early. ▪ Developed a storm restoration protocol that includes process for assessing storm damage, measures to protect the public and prioritization of equipment restoration. ▪ Completed consultations with large industrial and commercial customers and developed key accounts management program. ▪ Initiated organizational changes with creation of President of Hydro role.
<p>Measure 2 Progressed planning for integration of Muskrat Falls Project.</p>	
<p>Advanced implementation of priority initiatives for transition of Muskrat Falls to operations.</p>	<p>During 2015, implementation of priority initiatives to prepare for the transition of the Muskrat Falls Project to operations was advanced as planned. Transitioning the Muskrat Falls Project to operations includes activities related to project completion and</p>

Indicators	2015 Accomplishments
	<p>final commissioning of the Muskrat Falls Project; organizational, commercial and legislative integration; technical system integration; and operations readiness.</p> <p>To support completion of these activities the Transition to Operations team was expanded in 2015 and team members were co-located with the Muskrat Falls Project team. During the year, the integration plan was also adjusted to have all integration activities – technical integration, operations readiness, and completions activities, linked to key project milestones to ensure progress on those activities is in step with Muskrat Falls Project milestones.</p> <p>Priority initiatives completed in 2015 included the first phase of the North American Electric Reliability Corporation/Federal Energy Regulatory Commission (NERC/FERC) standards review. As well, technical integration studies were advanced with the HVdc system vendor to ensure safe, reliable integration in the final design of Labrador-Island Transmission Link and Maritime Link.</p> <p>Also during the year, Nalcor participated in the Government of Newfoundland and Labrador Review of the Newfoundland and Labrador Electricity System. Input and advice was provided on potential legislative change, requirements for an open access transmission regime, reliability standards and other related changes required to support interconnection to the North American electricity grid.</p>
<p>Measure 3 Advanced planned environmental sustainability initiatives.</p>	
<p>Completed planned data collection regarding feasibility study of potential hydroelectric projects in Labrador coastal communities and identify next steps.</p>	<p>During 2015, data collection regarding the feasibility study of potential hydroelectric projects in Labrador coastal continued as planned.</p> <p>In 2013, Hydro completed a feasibility study of potential hydroelectric projects for southern and northern Labrador coastal communities. In that study, a requirement for additional data was identified. Stream gauges were installed on the St. Lewis River and Gilbert River where hydroelectric potential was deemed most economic, near the communities of Charlottetown, Port Hope Simpson and Mary’s Harbour. These gauges are collecting data regarding water levels and stream flows and will be used to validate the assumptions in the feasibility study. Data collection began in 2013 and continued throughout 2015. Data collection will continue until June 2016 and the data will be analysed to determine whether there is any impact on the feasibility study results.</p>

Indicators	2015 Accomplishments
<p>Completed data collection for Coastal Labrador Wind Monitoring Program and analyzed data to determine future plans.</p>	<p>The investigation of wind as an alternative energy source in communities that rely on diesel generation of electricity was advanced as planned in 2015.</p> <p>In 2013, wind assessment towers were installed in Nain, Makkovik, Hopedale, Cartwright and L'Anse au Loup to collect data regarding local wind conditions. This information is required to assess the feasibility of integrating wind energy into these isolated diesel communities.</p> <p>Data collection continued as planned until the end of the second quarter of 2015. The data was compiled and report was completed analyzing wind conditions, preliminary costs, and the viability of implementing wind power in these communities. This report was provided to Government at the end of 2015.</p>
<p>Re-launched Industrial Energy Efficiency Program.</p>	<p>In 2015, the Industrial Energy Efficiency Program (IEEP) was re-launched as planned with a new marketing and communications strategy. Industrial customers were surveyed to identify existing and future energy efficiency initiatives. In 2015, a Compressed Air Optimization Study was supported by the IEEP at one customer's site, and another has identified capital funds for efficiency improvements for the next two year period and is actively seeking potential projects.</p>
<p>Re-launched Industrial Energy Efficiency Program (cont'd)</p>	<p>The re-launched program places more emphasis on maintaining communications with customers and working with them to document future energy efficiency initiatives including projected budget, energy savings and payback period. The assistance available to industrial customers, including funding for a portion of the costs of energy audits and implementing identified projects, was not changed as part of the re-launch.</p>
<p>Continued to deliver initiatives to help residential and commercial electricity consumers conserve energy.</p>	<p>In 2015, Hydro continued to deliver initiatives to help residential and commercial electricity consumers conserve energy. During the year, the company implemented the activities outlined in the Five Year Conservation and Demand Management Plan filed with the PUB in 2012. These activities included the joint utility program offerings for residential and commercial customers through the takeCHARGE program delivered in partnership with Newfoundland Power as well as Hydro's own energy efficiency programs.</p>

Indicators	2015 Accomplishments
<p>Continued to deliver initiatives to help residential and commercial electricity consumers conserve energy. (cont'd)</p>	<p><i>TakeCHARGE program</i></p> <p>In 2015, the takeCHARGE energy efficiency program continued to see success with 191 rebates to Hydro’s residential customers for insulation upgrades, thermostats, heat recovery ventilators, and appliances, and 2,977 rebates for efficient lighting technologies purchased by Hydro’s commercial customers.</p> <p><i>Isolated Systems Community Energy Efficiency Program</i></p> <p>In 2015, Hydro also continued delivery of the Isolated Systems Community Energy Efficiency Program. This program promotes energy efficiency to residential and commercial customers in communities served by diesel electricity systems in Labrador and on the island. During 2015, 965 residential and business customers benefited from the direct, free installation of energy efficient technologies with a total annual energy savings of 1,426 MWh.</p> <p>Hydro also delivered programs to business customers in the company’s interconnected and isolated areas in 2015. These programs provide facility audits and technical support to identify economical energy efficiency opportunities, and provide financial support for capital upgrades. In 2015, eight commercial facility audits were completed to inform customers of opportunities for incentives and four projects were completed resulting in annual savings of 775 MWh.</p>
<p>Progressed development of study to assess the potential for conservation and management of electricity demand in the province.</p>	<p>In 2015 Hydro and Newfoundland Power contracted with ICF International to undertake a conservation and demand management (CDM) potential study to identify the achievable, cost-effective electric energy efficiency and demand management potential in the Province. The study was completed in 2015 and included consultation with customers, trade allies, retail partners, and other interested parties. The CDM potential study was filed with the PUB in September 2015. The utilities also developed a new Five-Year Conservation Plan 2016-2020, which was filed with the PUB in October 2015. The new plan builds on the experience of the utilities under the takeCHARGE brand since 2009, and on opportunities identified in the potential study, including a new behavioural-based program for residential customers, and expansion of existing commercial programs. The total provincial estimated aggregate energy savings in the plan for 2016 through 2020 is 883 GWh.</p>

The objectives, measures and indicators for 2016 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

ISSUE 2: ELECTRICITY SUPPLY (cont'd)

Objective

By December 31, 2016, Hydro will have further advanced electricity system investments, planning for integration of Muskrat Falls, and environmental sustainability initiatives.

Measure

Further advanced electricity system investments.

Indicators	<ul style="list-style-type: none"> ▪ Updated the Hydro five-year capital plan as required. ▪ Completed planned 2016 investments in Hydro assets.
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Measure

Further advanced planning for integration of Muskrat Falls Project.

Indicators	<ul style="list-style-type: none"> ▪ Progressed implementation of priority activities to prepare for transition of Muskrat Falls Project to operations.
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Measure

Further progressed environmental sustainability initiatives.

Indicators	<ul style="list-style-type: none"> ▪ Provided technical expertise as required to the Department of Natural Resources to advance alternative energy research in Labrador. ▪ Progressed Ramea Wind-Hydrogen-Diesel research and development project Phase II. ▪ Continued engagement with industrial customers through the Industrial Energy Efficiency Program. ▪ Delivered initiatives to help residential and commercial electricity consumers conserve energy.
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ISSUE 3: UPPER CHURCHILL ASSET MANAGEMENT AND POWER CONTRACT LEGAL ACTIONS

The Churchill Falls generating station is one of the largest underground hydroelectric powerhouses in the world with 5,428 MW of capacity used by millions of consumers in North America. Nalcor, through its subsidiary, Hydro, holds a 65.8 per cent interest in Churchill Falls (Labrador) Corporation Limited (CF(L)Co), with Hydro-Québec holding the remainder. In 2015, Churchill Falls net income was \$44.3 million. Stewardship of the Upper Churchill asset supports the fulfillment of the strategic direction of the Provincial Government related to the export of surplus energy.

Asset Management

In 2011, Churchill Falls celebrated 40 years since first power. With the plant and related infrastructure aging, asset management is critical to keeping assets in reliable operating condition to provide reliable service to customers for the long-term and to ensure assets are fully functional well beyond the expiry of current commitments in 2041. From 2005-2015, \$289.6 million was invested to upgrade or replace Churchill Falls assets with annual capital expenditures increasing during the period from \$9.1 million in 2005 to \$55 million in 2015.

Taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment is a key element of its strategy. A long-term asset management plan has been developed that reflects the level of service required of the plant combined with key asset information including condition assessments and operating and maintenance experience. This long-term plan is the basis for developing five-year capital plans that outline more detailed scope of the work required and the estimated cost. The Churchill Falls five-year capital plan informed the increased investment noted above and the plan is reviewed annually and updated to reflect new information that could impact the timing or scope of future asset investments.

Upper Churchill Power Contract/Renewal Contract – Legal Actions

A power contract with Hydro-Québec dated May 12, 1969, provides for the sale of the majority of the energy from the Churchill Falls facility to Hydro-Québec. When the Power Contract (Contract) was signed, the price to be paid by Hydro-Québec represented approximately one-third of the average price Hydro-Québec charged its customers. Presently the purchase price under the Contract is one-quarter of one cent per kilowatt hour. Upon the commencement of the Renewal Contract between CF(L)Co and Hydro-Quebec on September 1, 2016, the purchase price is fixed at one-fifth of one cent for the 25 year period of that contract. This will mean that

under the terms of the Renewal Contract, power will continue to be sold to Hydro-Québec significantly below its present commercial value to 2041.

On November 30, 2009, CF(L)Co called on Hydro-Québec to renegotiate a fair and equitable purchase price for the remaining term of the 1969 Power Contract and the term of the Renewal Contract. Hydro-Québec did not respond. As a result, CF(L)Co commenced proceedings against Hydro-Québec to address disparities in the pricing under those contracts.

CF(L)Co filed a motion with Quebec Superior Court on February 23, 2010, requesting the court to amend the pricing terms, effective November 2009, of the Contract and the Renewal Contract between CF(L)Co and Hydro-Québec, to permit a more equitable sharing of the value of the power from Churchill Falls. Since the Contract was initiated, circumstances have changed in a way that could not have been reasonably foreseen at the time it was executed.

On July 24, 2014, CF(L)Co received judgment from the Quebec Superior Court on the motion it filed in February 2010 regarding the disparities of the 1969 Power Contract and Renewal Contract between CF(L)Co and Hydro-Québec. The trial judge dismissed the claim of CF(L)Co. In August 2014, following a comprehensive review of the judgment and a thorough consultation with its external legal advisors, CF(L)Co filed an Inscription in Appeal with the Quebec Court of Appeal regarding the decision received on July 24, 2014 from the Quebec Superior Court. A hearing was held on April 25, 2016.

In July of 2013 Hydro-Québec filed a Motion in Quebec Superior Court seeking a Declaratory Judgement with respect to the Power Contract and Renewal Contract. Hydro-Québec is seeking declarations with respect to i) "Continuous Energy" under the Renewal Contract (commencing September 1, 2016 and expiring August 31, 2041) and whether, as CF(L)Co contends, it limits Hydro-Québec's energy entitlement to a specific (and equal) amount during each month of the term of the Renewal Contract and ii) whether CF(L)Co can sell to a third party amounts of power beyond the 300 MW recall block provided for in the Contract and Renewal Contract. The hearing was held in the fall of 2015, the decision is anticipated in 2016.

ISSUE 3: UPPER CHURCHILL ASSET MANAGEMENT AND POWER CONTRACT LEGAL ACTIONS (cont'd)

Goal

By December 31, 2016, CF(L)Co will have advanced opportunities for the Upper Churchill to make a greater economic contribution to the province.

Measure

Pursued opportunities for the Upper Churchill to make a greater economic contribution to the province.

ISSUE 3: UPPER CHURCHILL ASSET MANAGEMENT AND POWER CONTRACT LEGAL ACTIONS (cont'd)

Indicators	<ul style="list-style-type: none"> ▪ Advanced multi-year plan for renewal of assets. ▪ Advanced preparations for the Upper Churchill Power Contract legal actions.
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Objective

By December 31, 2015, CF(L)Co will have completed planned 2015 capital investments to support long-term asset reliability and continued to advance required preparations for Upper Churchill Power Contract legal actions.

Measure

Continued to advance multi-year plan for asset renewal.

Indicators	2015 Accomplishments
Reviewed and updated five-year capital plan.	<p>During 2015, CF(L)Co refreshed the 2015-2019 capital plan to create a plan for 2016-2020. This process involved reviewing the scope and timing of planned projects based on condition monitoring and risk assessments.</p> <p>An example of an update to the 2016-2020 five-year capital plan is the addition of a multi-year generating unit minor refurbishment program. This program involves dismantling, inspecting and replacing components on each of the 11 generating units. The scope of the program was determined in 2015 based on a review of previous refurbishment activities and the program was then added to the 2016-2020 plan.</p>
Completed planned 2015 asset investments of \$55 million	<p>During 2015, CF(L)Co completed capital investments of \$55 million compared to a budget of \$55.6 million. Lower than budgeted actual costs for completed projects was partially offset by advancing some project expenditures planned for 2016,</p> <p>Key capital projects including generating unit modernization, transformer replacement, switchyard rehabilitation, and other priority investments were successfully completed while staying within the approved budget</p>

Measure

Advanced preparations for Upper Churchill Power Contract/Renewal Contract legal actions.

Completed required preparations for the Upper Churchill Power Contract/Renewal Contract legal actions.	<p>During 2015, required preparations and activities for the Upper Churchill Power Contract/Renewal Contract legal actions were completed as planned.</p> <p>On July 24, 2014, CF(L)Co received judgment from the Quebec Superior Court on the motion it filed in February 2010 regarding the disparities of the 1969 Power Contract and Renewal Contract between CF(L)Co and Hydro-Québec. The trial judge dismissed the claim of CF(L)Co. In August 2014, following a comprehensive review of the judgment and thorough consultation with its external legal advisors, CF(L)Co filed an Inscription in Appeal with the Quebec Court of appeal regarding the decision received</p>
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Indicators	2015 Accomplishments
	<p>on July 24, 2014. During 2015, preparations were undertaken for the hearing of this appeal which was held in April 2016.</p> <p>Also during 2015, CF(L)Co completed activities to defend the July 2013 Motion filed by Hydro-Québec seeking Declaratory Judgement with respect to the Power Contract and Renewal Contract. Specifically, the discovery of representatives of CF(L)Co., Nalcor and Hydro, responding to undertakings from these discoveries, extensive filing of documents with the court, responding to procedural filings brought by Hydro-Québec and the court hearing held October- December, 2015.</p>

The objectives, measures and indicators for 2016 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

ISSUE 3: UPPER CHURCHILL ASSET MANAGEMENT AND POWER CONTRACT LEGAL ACTIONS (cont'd)

Objective

By December 31, 2016, CF(L)Co will have advanced Churchill Falls asset renewal and further advanced required preparations for Upper Churchill Power Contract legal actions.

Measure

Advanced multi-year capital investment plan for asset renewal.

Indicator	<ul style="list-style-type: none"> ▪ Reviewed the Churchill Falls five-year capital plan and completed any required updates. ▪ Completed planned 2016 asset investments of \$60 million.
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Measure

Progressed activities related to Upper Churchill Power Contract/Renewal Contract legal actions.

Indicators	<ul style="list-style-type: none"> ▪ Completed required preparations for Upper Churchill Power Contract/Renewal Contract legal actions – specifically the appeal hearing for the case regarding the power contract price. ▪ Completed required preparations for the implementation of terms of the Declaratory Judgment decision in relation to the Renewal Contract coming into effect September 1, 2016.
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ISSUE 4: OIL AND GAS INTERESTS, EXPLORATION AND DEVELOPMENT

The mandate of Nalcor, established under the *Energy Corporation Act (2008)* includes exploring for, developing, producing, refining, marketing and transporting hydrocarbons and products from hydrocarbons. These activities support fulfillment of the strategic direction of the Provincial Government related to the increased exploration and development of energy resources and realizing maximum benefits to the province through the strategic development of our resources.

Offshore Developments

Nalcor's subsidiary, Nalcor Energy – Oil and Gas (Oil and Gas) currently manages oil and gas interests in three developments offshore Newfoundland and Labrador. Oil and Gas holds a five per cent working interest in the White Rose Growth Project which includes the North Amethyst field, West White Rose Extension and South White Rose Extension. The company also has a 10 per cent working interest in the Hibernia Southern Extension (HSE), a subsea development with tiebacks to the Hibernia platform. Oil and Gas is also a co-venturer in the Hebron oil field holding a 4.9 per cent working interest in the province's fourth offshore oil project.

In addition to the economic value provided through equity, the ownership position provides Oil and Gas with a seat at the decision-making table and direct involvement in the management of the development of the province's resources. The knowledge, information and understanding that this participation brings enables the company to foster relationships helping ensure better alignment between the provincial interest and the project partners.

The three offshore developments in which Oil and Gas is a partner reached significant milestones in 2015 including first oil from the South White Rose Extension and the delivery of several Hebron Project topsides modules to Bull Arm.

Exploration Strategy

Oil and Gas has developed and is executing an exploration strategy based on global best practices to find and deliver new oil and gas resources for the benefit of the people of Newfoundland and Labrador.

Oil and Gas undertakes strategic investments in new data acquisition and analysis at the front end of the exploration cycle to find and quantify new oil and gas resource potential in offshore Newfoundland and Labrador's frontier basins, open new areas to industry exploration, and increase Newfoundland and Labrador's global competitiveness to attract exploration investment. Oil and Gas is not competitive with industry and therefore does not participate in

bidding on land; the company participates on behalf of the province in future projects through equity ownership in new successful developments.

Oil and Gas takes a systematic and scientific approach to evaluating Newfoundland and Labrador's frontier basins. Through its proprietary Nalcor Exploration Strategy System (NESS), the company consistently evaluates all of Newfoundland and Labrador's basins (over 20) on the key elements that make up a commercial grade petroleum deposit. This process identifies critical knowledge gaps that may exist and highlights key risks holding back industry investment.

Oil and Gas will continue to make investments and design geoscience programs to address the key risks in a basin-by-basin approach. As more is learned about a region, some basins will likely look less prospective – a reality of exploration. However, by guiding investments strategically, the company is positioned to make the right investments at the right time to unlock the next areas of offshore Newfoundland and Labrador that may contain material prospectivity, ultimately delivering new resources for the benefit of the people of Newfoundland and Labrador.

The availability of quality well and seismic data is a critical first step to exploration. To date, the amount of geoscientific data collected and the number of exploratory wells drilled in offshore Newfoundland and Labrador are significantly lower than in areas such as offshore United Kingdom or Norway. Despite similar discovery rates and larger sedimentary basin areas in offshore Newfoundland and Labrador, historic exploration activity in our offshore has only been about five to ten per cent of the exploration activity that has taken place in the North Sea.

To evaluate our resource potential and help attract interest to offshore Newfoundland and Labrador, Oil and Gas with initial funding from the province's Offshore Geoscience Data Program, is strategically investing in new seismic data as well as providing additional analysis and study work to data license holders. These investments have seen the mapped basin area in offshore Labrador more than double in size. Three new deep water basins (Chidley, Holton and Henley) were identified and the previously established Hawke Basin substantially increased in size. Many play types (rock formations that may hold oil) have been identified that are similar to those that have yielded some of the leading discoveries in other regions of the world.

During 2015, Oil and Gas made significant progress in executing its exploration strategy. The company continued its partnership with global seismic companies TGS-NOPEC Geophysical Company (TGS) and Petroleum Geo-Services (PGS) and acquired an additional 28,000 kilometres of 2D seismic data. To date, a total of 113,000 kilometres has been acquired, one of the largest regional seismic programs in the world. These investments are already beginning to

pay a return as Oil and Gas shares in the revenue as the new data is licensed by the global exploration and production industry.

In 2015, the company 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.

Also during the year, Oil and Gas in partnership with MG3 (Survey) UK Limited and Amplified Geochemical Imaging completed a multi-client seabed coring program for offshore Newfoundland and Labrador. The data collected will provide new perspective and insight into working petroleum systems supporting both ongoing licensing rounds and future exploration.

In 2015, the Government of Newfoundland and Labrador, Oil and Gas and Beicep Franlab⁸ announced that the in place oil and gas potential is 12 billion barrels of oil and 113 trillion cubic feet of gas for the 2015 Flemish Pass basin license round area in offshore Newfoundland and Labrador. The area covered by the resource assessment represents approximately 1.6 per cent or 24,000 square kilometres of Newfoundland and Labrador's offshore area. Resource assessments will be carried out on future license rounds with the results released to the global oil and gas industry prior to license round bid closing.

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 (NESS), 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.

Oil and Gas, with the Department of Natural Resources, is communicating the insights from its exploration strategy with a focused marketing and engagement plan to bring this new information on Newfoundland and Labrador's prospectivity to global exploration and production companies.

⁸ Beicep-Franlab is a leading independent consultant with 45 years of experience in exploration and production and geoscience software. The company offers a full range of petroleum upstream consulting services and has hands-on expertise in most of the oil and gas jurisdictions around the world.

ISSUE 4: OIL AND GAS INTERESTS, EXPLORATION AND DEVELOPMENT (cont'd)

Goal 1

By December 31, 2016, Nalcor Energy-Oil and Gas will have advanced opportunities to increase the exploration and development of the province's oil and gas resources.

Measure	Advanced oil and gas development and exploration opportunities.
Indicators	<ul style="list-style-type: none"> ▪ Managed offshore interests. ▪ Advanced knowledge of resource potential through execution of multi-year exploration strategy.

Objective 1

By December 31, 2015, Nalcor Energy-Oil and Gas will have supported partners' efforts to further advance offshore project milestones and enhanced knowledge of the province's oil and gas resource potential

Measure

Worked with partners to further advance offshore project milestones.

Indicators	2015 Accomplishments
<p>Worked with partners in the three offshore developments toward planned project milestones:</p> <p>White Rose Extension</p> <ul style="list-style-type: none"> ▪ Evaluation of development options for West White Rose. ▪ Achieved first oil for South White Rose Extension. 	<p>During 2015, Oil and Gas worked with its partners to progress planned project milestones. As a working interest partner, the company participates in management, technical, commercial and financial committees for each respective project in which it has a working interest. Through these interests Oil and Gas has the right to receive information and project detail available only to equity owners. This information provides the company with the opportunity to participate in decision-making and provide technical and commercial input to the project operator and joint venture partners to help achieve project milestones. Additionally, the minority working interest provides the company with voting rights on decisions such as project scope and expenditure authorizations, supply/service/fabrication contracts, well/drilling approvals, work plans and budgets and many other project governance matters.</p> <p>White Rose Extension</p> <ul style="list-style-type: none"> ▪ The White Rose partners continued to evaluate options of the White Rose Extension Project, including both subsea and wellhead platform options. ▪ South White Rose Extension achieved first oil in June 2015

Indicators	2015 Accomplishments
<p>Hibernia Southern Extension</p> <ul style="list-style-type: none"> ▪ Installed subsea infrastructure for Ben Nevis-Avalon Project at Hibernia Unit. ▪ Completed second water injection well. 	<p>Hibernia Southern Extension</p> <ul style="list-style-type: none"> ▪ The Hibernia South Extension installation of the Unit Ben Nevis-Avalon (BNA) Subsea infrastructure was successfully completed. As well, the second water injection well was successfully drilled in 2015 and its associated producer well began producing at a gross rate of approximately 18,000 barrels per day.
<p>Hebron</p> <ul style="list-style-type: none"> ▪ Progressed all critical path scopes in order to achieve 2016 module integration for Hebron. 	<p>Hebron</p> <ul style="list-style-type: none"> ▪ During 2015, critical path scopes to achieve 2016 module integration were progressed as planned. 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 of integration.

Measure

Further enhanced knowledge of the province’s oil and gas resource potential.

<p>Acquired and analyzed geoscience data</p> <ul style="list-style-type: none"> ▪ Completed detailed resource assessment (oil, gas volumes) for offshore area in advance of license round close (Flemish Pass area quarter four 2015) with leading, global independent resource evaluation firm. ▪ Invested with global partners in acquisition of planned 2D and 3D seismic to target areas for upcoming license rounds. 	<p>During 2015, Oil and Gas acquired and analyzed geoscience data to enhance knowledge of the province’s oil and gas resource potential. Achievements related to planned 2015 indicators are outlined below.</p> <p>Resource assessment: The detailed resource assessment was completed as planned and released in advance of the 2015 license round close. On October 1, 2015, the Government of Newfoundland and Labrador, Oil and Gas and Beicep-Franlab announced that the “in-place⁹” oil and gas resource potential is 12 billion barrels of oil and 113 trillion cubic feet for the Flemish Pass 2015 license round area in offshore Newfoundland and Labrador.</p> <p>Seismic data acquisition: Oil and Gas invested with its global partners to acquire 2D and 3D seismic data. The companies successfully completed the acquisition of 28,000 kilometres of seismic data to bring the five year total to 113,000 line kilometres – one of the largest regional seismic programs in the world.</p> <p>During the year, the company along with its global seismic partners acquired 4,600 square kilometres of 3D multi-client seismic data. Oil and Gas worked with its global partners to accelerate the processing of the data for release to the global</p>
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⁹ In place: Total estimated amount of oil and gas, including both producible and non-producible quantities.

Indicators	2015 Accomplishments
<ul style="list-style-type: none"> ▪ Invested in next phase of 3D electromagnetic survey to target areas for upcoming license rounds. ▪ Continued evaluation of satellite slick data. ▪ Issued reports on Rock Physics and Metocean conditions to reduce uncertainty for offshore exploration companies¹¹. 	<p>industry in advance of an upcoming license round.</p> <p>Electromagnetic survey: The planned 3D electromagnetic (EM) survey targeting areas for upcoming license rounds was not completed as planned. Feedback early in 2015 from exploration and production companies identified limited intent to purchase/subscribe to 3D EM data as a result of low oil prices and related market uncertainty. This contributed to the survey being cancelled.</p> <p>Satellite slick data¹⁰: Oil and Gas continued the planned evaluation of satellite slick data. New satellite images were acquired across frontier areas of the offshore and are being processed for potential oil slick signatures.</p> <p>Reports issued: Both the Rock Physics and Metocean conditions reports were issued as planned. The insights provided through this research continues to provide knowledge to the global oil and gas industry thereby reducing uncertainty of operating in Newfoundland and Labrador's offshore.</p> <p>Also during the year, Oil and Gas in partnership with MG3 (Survey) UK Limited and Amplified Geochemical Imaging completed a multi-client seabed coring program for offshore Newfoundland and Labrador. The data collected will provide new perspective and insight into working petroleum systems supporting both ongoing licensing rounds and future exploration.</p>
<p>Communicated Nalcor's geoscience results to the global oil and gas industry</p> <ul style="list-style-type: none"> ▪ Continued presentations to global exploration conferences. 	<p>During 2015, geoscience results were communicated as planned to the global oil and gas industry. Oil and Gas presented the insights on Newfoundland and Labrador's prospectivity to the key exploration conferences around the world. In addition to conference presentations, the company progressed engagement and continued meetings with global oil and gas companies to inform them of the new data insights on the prospectivity in the province's offshore.</p>

¹⁰ The mapping and classifying of oil slicks is a tool in the analysis of the prospectivity for both under-explored and mature offshore basins.

¹¹ Rock Physics: Nalcor's Rock Physics project is a partnership with Ikon Science (UK) to study and quantify the rock physics relationships offshore Newfoundland and Labrador in a global context. The rock physics data will be used to interpret the new regional 2D and 3D seismic data offshore Newfoundland and Labrador. It will provide insight into the pre-drill estimation from seismic of predicting properties such as sand versus shale, and potential reservoir fluid content (water, oil, gas) thereby reducing both uncertainty and risk prior to drilling.

Metocean: Nalcor has partnered with C-Core in a comprehensive project to study metocean conditions from the Labrador Sea to the Flemish Pass. This project will quantify regional metocean conditions on exploration and production criteria such as wind, waves, currents, sea ice, icebergs, etc. The study will illustrate what is known about the existing metocean conditions and how the region ranks compared to both itself (Area X vs. Hibernia, Flemish Pass, etc.) and to other globally comparable regions (Area X vs. Barents Sea, Northern North Sea, West Greenland, Sakhalin Island, etc.).

Indicators	2015 Accomplishments
<ul style="list-style-type: none"> ▪ Progressed engagement and continued meetings with global exploration and production companies. 	<p>Oil and Gas also completed a number of additional initiatives to communicate geoscience results. The Nalcor Energy – Oil and Gas exploration website was redesigned to highlight each of the upcoming scheduled license rounds (2016, 2017 and 2019) for offshore Newfoundland and Labrador and the multi-client data and the company invested geoscience studies and reports available for each area. In addition to geoscience data information, detailed maps for each of the license round areas, information about the regulatory license process, and details about each specific license round were also added to the site.</p> <p>To help facilitate the use of the vast amount of data associated with the metocean study, the company released an interactive, map-based system, called the Nalcor Exploration Strategy System (NESS). This system was developed by the Oil and Gas exploration team in partnership with local company, ICI Innovations, to help capture data and scientific insights from the work the team is undertaking in the frontier regions of offshore Newfoundland and Labrador. In addition to the metocean data, NESS also includes other geographic and geophysical data for Newfoundland and Labrador’s offshore, including sedimentary basins, offshore boundaries, well data, as well as licenses.</p>
<ul style="list-style-type: none"> • Integrated data and analysis from Nalcor's regional exploration programs to submit nominations to the CNLOPB for where future license rounds (scheduled for 2019) should occur and nominations for the definition of parcels for the 2016 license round. (Nalcor reviews these nominations with the Department of Natural Resources prior to formal submission to the CNLOPB.) 	<p>All planned work completed. During 2015, Oil and Gas completed planned analysis and submitted nominations to the CNLOPB regarding the 2019 license round in the Labrador South region and the 2019 license round in the South East Newfoundland region. The areas of interest outlined by the company reflect areas that contain potential prospectivity that supports being included in a license round.</p> <p>As well, Oil and Gas provided the nomination for the definition of parcels for the 2016 license round. The company’s approach to defining parcels would allow for major play trends to be broken into multiple parcels and individual prospects are retained in a single block to the degree possible.</p>

The objectives, measures and indicators for 2016 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

ISSUE 4: OIL AND GAS INTERESTS, EXPLORATION AND DEVELOPMENT (cont'd)

Objective

By December 31, 2016, Nalcor Energy-Oil and Gas will have continued to support partners' efforts to advance offshore project milestones and further enhanced knowledge of the province's oil and gas resource potential.

Measure

Supported partners' efforts to progress offshore project milestones.

Indicators	<p>Worked with partners in the three offshore developments toward planned project milestones:</p> <p>White Rose Extension</p> <ul style="list-style-type: none"> ▪ Continued evaluation of development options for West White Rose toward reaching a final investment decision. ▪ Continued implementing the South White Rose Extension Development Plan with the drilling of the first oil producer. <p>Hibernia Southern Extension</p> <ul style="list-style-type: none"> ▪ Completed initial platform drilling program. ▪ Completed third subsea water injection well to provide pressure support to producing wells. <p>Hebron</p> <ul style="list-style-type: none"> ▪ Progressed critical path scopes including delivery of additional modules to the Bull Arm Fabrication site and commenced module integration.
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Measure

Further enhanced knowledge of the province's oil and gas resource potential through the execution of the exploration strategy.

Indicators	<p>Acquired and analyzed geoscience data</p> <ul style="list-style-type: none"> ▪ Completed updates to the multi-year exploration strategy. ▪ Completed detailed resource assessment (oil, gas volumes) for offshore area in advance of license round close (Eastern Newfoundland Region quarter four 2016) with leading, global independent resource evaluation firm. ▪ Invested with global partners in acquisition of planned seismic data to target areas for upcoming license rounds. ▪ Planned and executed field survey to capture satellite slicks and targeted seabed cores. <p>Communicated geoscience results to the global oil and gas industry</p> <ul style="list-style-type: none"> ▪ Continued presentations at global exploration conferences. ▪ Progressed engagement and continued meetings with global exploration and production companies.
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ISSUE 4: OIL AND GAS INTERESTS, EXPLORATION AND DEVELOPMENT (cont'd)

	Integrated data and analysis from Oil and Gas' regional exploration programs to submit nominations to the CNLOPB for future license rounds and nominations for the definition of parcels for the 2017 license round.
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ISSUE 5: LOWER CHURCHILL DEVELOPMENT

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America and is a key component of the province's energy portfolio. The lower Churchill development's two sites at Muskrat Falls and Gull Island will have a combined capacity of over 3,000 MW. Phase I of the lower Churchill development, currently under construction includes an 824 MW hydroelectric generating facility at Muskrat Falls, over 1,600 kilometres of associated transmission lines in Newfoundland and Labrador and the Maritime Link between the island of Newfoundland and Cape Breton, Nova Scotia. Phase II of the lower Churchill development includes the proposed 2,250 MW Gull Island generating facility and associated transmission.

The lower Churchill development plays a key role in supporting the fulfillment of several strategic directions of the Provincial Government. The development of clean, renewable energy through the Lower Churchill Project supports the strategic direction related to responsible resource development. The project will also continue to support social license through adequate stakeholder consultation and engagement. Increased participation in energy developments supports the outcome of ensuring maximum benefits to the province through the strategic development of the province's resources, while providing a stable and competitive energy supply for domestic use and export to markets.

Muskrat Falls Project

The Muskrat Falls Project will provide a clean, renewable source of electricity to meet the province's growing energy demands and will displace thermal generation from the oil-fired generation facility at Holyrood. The Project will provide Newfoundland and Labrador homes and businesses with stable electricity rates well into the future and will be a valuable power-producing asset for the province for many decades.

On September 29, 2015, Nalcor provided an updated capital cost forecast for the Muskrat Falls 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 forecast for the project of \$7.65 billion as compared to the \$6.99 billion capital estimate in June 2014.

Impact and Benefits

The Muskrat Falls Project will meet Newfoundland and Labrador's long-term energy needs and deliver significant long-term value to the people of the province. It will provide the province with energy independence and a return of savings and revenue of more than \$60 billion over the next 50 years. It will also mean the closure of the Holyrood oil-fired generating station and elimination of significant greenhouse gas emissions, thereby protecting our environment. Over the life of the project, significant value and cash flows will be generated by the project.

The construction of the Muskrat Falls Project is driving the provincial economy today – with over 4,500 Newfoundland and Labrador residents working at peak in 2015 and over one billion dollars returned to the provincial economy since construction began in 2013.

In 2015, employment on the Muskrat Falls Project peaked in November with 5,383 people working on all components of the project. During that month, 4,552 of the total project workforce were Newfoundland and Labrador residents accounting for 85 per cent of the total peak workforce in that month. There were more than 1,300 Labrador residents working at peak in 2015 and peak employment of women reached 664.

Since the start of construction in January 2013, more than \$1 billion has been spent with Newfoundland and Labrador based companies and \$1.14 billion in wages has been paid to Newfoundland and Labrador workers. An estimated \$9 million is returned to the provincial economy each week during construction through wages and business opportunities.

Aboriginal Affairs

Following execution and ratification of the Tshash Petapen (New Dawn) Agreements, Nalcor commenced implementation of the Impact and Benefits Agreement (IBA) with the Innu Nation.

All joint Nalcor-Innu Nation committees required under the IBA have been established. By the end of December 2015, the \$140 million procurement commitment outlined in the IBA with the Labrador Innu Nation was exceeded with more than \$500 million in contract value awarded to Innu-owned businesses or joint ventures.

Processes and personnel have been put in place to support Innu employment in compliance with IBA commitments. Reflecting Nalcor's commitments outlined in the Lower Churchill Project Gender Equity and Diversity Program, in 2015, employment of Newfoundland and Labrador people who self-identified as a member of an Aboriginal group reached a peak of 594 workers. Employment of Labrador Innu peaked at 212 workers in 2015.

Recognizing the need to build local capacity in central Labrador where the Muskrat Falls hydroelectric generation facility is being built, in early 2010, the Labrador Aboriginal Training

Partnership (LATP) was established with support from Nalcor Energy, the provincial and federal governments, and Labrador's three Aboriginal organizations. The LATP provided funds and in-kind contributions to support education and training initiatives to help Labrador aboriginal people gain the skills and qualifications needed for employment opportunities with the Muskrat Falls Project.

In 2015, the LATP received a one-year extension to the existing funding program. During the year, 120 program clients gained employment on the Muskrat Falls Project – doubling Nalcor's original employment target for 2015. The current funding program extension for LATP is in effect until March 31, 2016.

Environment

Nalcor is committed to maintaining a high standard of environmental responsibility that will help to sustain a diverse and healthy environment for generations of Newfoundlanders and Labradorians. Environmental protection plans have been developed for the generation and transmission projects have been submitted to, and approved by, the Provincial Government.

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

Joint Nalcor-Innu Nation environmental management initiatives are also ongoing, including Innu environmental monitors working on site.

Engineering, Procurement and Construction

Detailed engineering work for the Muskrat Falls Project was 98 per cent completed at the end of 2015 with carry-on engineering work that will support the construction effort continuing through to project completion. Also in 2015, significant procurement activities continued with several large contracts awarded. At the end of the year over 90 per cent of total contract value had been committed. All awarded contracts and procurement information is reported in the Muskrat Falls Project's Monthly Reports and available at muskratfalls.nalcorenergy.com.

Construction activity ramped up in all areas of the project across the province throughout the year. At the Muskrat Falls hydroelectric generation site in Labrador, the contractor, Astaldi Canada, continued to make progress in the areas of concrete placement, foundation preparation, installation, formwork and rebar placement. Concrete placement for the spillway piers was completed, the powerhouse and intake base slabs were poured and the draft tube

formwork was erected and concrete works progressed. As well, by year-end the manufacturing of the spillway gates and the turbines and generators advanced. The contract for the north and south dams was also awarded in 2015 and work was started on the cofferdam that will close and divert the river.

During 2015, work also continued on the Labrador Transmission assets and the Labrador-Island Transmission Link. By the end of the year, nearly all of the foundations were installed for the Labrador Transmission assets with 95 per cent of the towers assembled and 85 per cent erected. Additionally, 68 per cent of the power line wire (conductor) for these transmission assets was strung. Clearing work for the Labrador-Island Transmission Link was started in 2015 and by year-end, some 91 per cent of the Labrador and 50 per cent of the island right-of-way access was cleared. Tower foundation installation, tower assembly and installation also progressed and by year-end 10 per cent of the conductor was strung in Labrador. For the Strait of Belle Isle marine cable crossing, manufacturing of the three 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. For the HVdc specialities work, manufacturing of the 13 power transformers was completed and all units were delivered to their respective sites, construction for both the L'Anse au Diable, in Labrador, and the Dowden's Point, in Conception Bay South, grounding was completed, and construction was underway for the new substations at Churchill Falls, Muskrat Falls, and Soldiers Pond and for the HVdc converter stations at Muskrat Falls and Soldiers Pond. Last year also marked the completion of the manufacturing of the last of the three subsea marine cables for the Strait of Belle Isle crossing.

Lower Churchill Phase 2 – Gull Island

The lower Churchill development's second hydroelectric installation is proposed at Gull Island with a capacity of 2,250 MW and average annual energy 11.9 terawatt hours. During 2015, Nalcor monitored and assessed external market opportunities for Gull Island – this included engagement in Ontario, New England and the Maritime markets. In addition there is ongoing monitoring of potential opportunities for new large-scale industrial requirements in the province. Also during 2015, Hydro and Nalcor Energy Marketing, in their respective capacities as transmission customer of Hydro-Québec, engaged in transmission open access regulatory activities in Quebec through its participation in Open Access Transmission Tariff (OATT) hearings before the Régie de l'énergie.

ISSUE 5: LOWER CHURCHILL DEVELOPMENT (cont'd)

Goal

By December 31, 2016, Nalcor will have advanced development of clean, renewable energy

ISSUE 5: LOWER CHURCHILL DEVELOPMENT (cont'd)

from the lower Churchill River hydroelectric resource.

Measure

Advanced development of lower Churchill River hydroelectric resource.

Indicators

- Advanced construction of the Muskrat Falls Project.
- Progressed Gull Island consistent with market opportunities.

Objective

By December 31, 2015, Nalcor will have progressed construction of Muskrat Falls hydroelectric facility and transmission infrastructure and continued to progress Gull Island consistent with market opportunities.

Measure

Progressed construction of Muskrat Falls hydroelectric facility and transmission infrastructure.

Indicators	2015 Accomplishments
Continued joint Nalcor-Innu Nation Impact and Benefits Agreement (IBA) monitoring and reporting.	<p>During 2015, Nalcor and Innu Nation representatives met regularly to review achievement of IBA commitments. Both parties reviewed employment, procurement and environmental management commitments to assess IBA compliance and to identify areas for future initiatives. In addition to reporting the status of IBA commitments through the joint Nalcor-Innu Nation IBA committees, the information is communicated through the public monthly benefits reports.</p> <p>Significant achievements were made with respect to Innu employment on the project and contracts awarded to Innu businesses. Innu employment reached a peak of 212 in August 2015. By the end of December 2015, the \$140 million procurement commitments outlined in the IBA with the Labrador Innu Nation was exceeded with more than \$500 million in contract values being awarded to Innu-owned businesses or joint ventures.</p> <p>Other key 2015 milestones related to the IBA included:</p> <ul style="list-style-type: none"> ▪ In cooperation with Innu Nation, held a contractor summit at Muskrat Falls to highlight key elements of the IBA, including: Innu cultural awareness, respectful workplace, and procurement opportunities. ▪ Participated in the following joint Nalcor-Innu Nation IBA Committees: Tshiashkueish (IBA Implementation) Committee, Environmental Management Committee, Innu Employee Advisory Committee, and Leadership Committee. ▪ Delivered Innu cultural awareness training to approximately 4,500 personnel, including LCP management, contractors and

Indicators	2015 Accomplishments
	site workers.
Continued joint Nalcor-Innu Nation Impact and Benefits Agreement (IBA) monitoring and reporting (cont'd)	<ul style="list-style-type: none"> ▪ Supported the LATP in the delivery of targeted training programs to assist Labrador Innu to qualify for Muskrat Falls Project positions including: commercial truck driver, housekeeping and construction, and safety certification courses. ▪ Provided shop steward training to 35 Innu workers to enhance their opportunities to be appointed as shop stewards by the unions. ▪ Awarded four Lower Churchill Project IBA scholarships to Labrador Innu post-secondary students.
Continued implementation of Environmental Management and Environmental Effects Monitoring programs.	<p>The implementation of the Environmental Management and Environmental Effects Monitoring program continued as planned in 2015.</p> <p>Achievement of 100 per cent of Environmental Management system targets including:</p> <ul style="list-style-type: none"> ▪ Compiled lessons learned by the environmental and regulatory compliance team. ▪ Implemented Waste Reduction Strategy. ▪ Implemented measures at the construction sites to enhance environmental awareness. ▪ Delivered initiatives of the Environmental Awareness Committee. ▪ Issued Environmental Assessment Status Report. <p>More than 20 environmental effects monitoring plans have been implemented and are ongoing. Some of the initiatives undertaken as part of the Environmental Effects Monitoring Program included:</p> <ul style="list-style-type: none"> ▪ Aquatic sampling program for Goose Bay and Lake Melville (fish, water, and sediment). ▪ Furbearer surveys along the Labrador Transmission Assets within the reservoir. ▪ Aerial surveys of the Red Wine Mountains caribou herd and the Mealy Mountain caribou herd. ▪ Pine marten surveys in island habitat areas. ▪ Newfoundland caribou surveys including the monitoring of collared animals. ▪ Baseline dietary survey and human hair sampling program was completed.

Indicators	2015 Accomplishments
<p>Achieved key project milestones for the Muskrat Falls Hydroelectric Facility, Labrador Transmission Assets, Strait of Belle Isle Crossing, and Labrador-Island Transmission Link.</p>	<p>During 2015, the Muskrat Falls Project achieved key project milestones. Many areas of the project are progressing well and the majority of the work is on track or ahead of schedule including reservoir preparation, spillway gates, North Spur stabilization, and construction of the north and south dams.</p> <p>Despite significant progress on many areas of the project, there continues to be cost and schedule pressures related to the completion of the Muskrat Falls powerhouse. Performance of Astaldi Canada throughout 2015 showed a marked improvement with concrete placement volumes meeting industry norms.</p> <p>Key milestones achieved included:</p> <ul style="list-style-type: none"> ▪ Gilbert Newfoundland and Labrador Contracting was selected to execute the work required for stabilization of the North Spur. ▪ Transmission line construction activities for the Labrador-Island Link commenced on the island in January with the start of clearing work for the project. ▪ Conductor (wire) stringing for the Labrador Transmission Assets began in March. ▪ The first tower on the LIL was safely erected by Valard near the Muskrat Falls site. ▪ September marked the completion of concrete placement in the spillway with more than 48,000 cubic metres of concrete poured for the structure by the contractor constructing the powerhouse and spillway, Astaldi Canada. ▪ In May, excavation got underway at Soldiers Pond for the foundation of the synchronous condenser facility by Alstom Power and its subcontractor H.J. O’Connell. Also, Alstom Grid started mobilization efforts at Churchill Falls and Muskrat Falls with the placement of office trailers at the lay down areas of both sites. ▪ In July, the project’s second marshalling yard, which is storing materials required for transmission construction on the island, became operational in Argentia. The yard provides approximately 17 acres of fenced laydown area and will house all HVdc transmission line materials needed to build the 700 km island portion of the LIL. ▪ Stringing power line wire (conductor) for the HVdc transmission line being built between Muskrat Falls and Soldiers Pond started in October. ▪ Following almost three years of manufacturing at Nexans

Indicators	2015 Accomplishments
	<p>plant in Japan, October marked the completion of the last of the three subsea marine cables. In addition, the quayside where the rock-laying vessel will be loaded was also completed in October, as well as the quarrying of the approximately 450,000 tonnes of rock that will be used for the rock berm.</p> <ul style="list-style-type: none"> ▪ Also in October, Andritz Hydro started installing spillway gate guides at Muskrat Falls in preparation for river diversion next year. Work commenced on structures that will form part of the cofferdam across the Churchill River that will be needed to divert the river through the spillway in 2016. Construction of the upstream cut-off wall for the North Spur stabilization works was completed. ▪ In December, the first tower foundation was installed on the island portion of the HVdc transmission line. Also, the first two towers were installed on the existing transmission line near Soldiers Pond that is being worked on to meet project requirements.
<p>Achieved key project milestones for the Muskrat Falls Hydroelectric Facility, Labrador Transmission Assets, Strait of Belle Isle Crossing, and Labrador-Island Transmission Link. (cont'd)</p>	<p>Muskrat Falls Hydroelectric Facility</p> <p>In 2015, Astaldi Canada continued to make progress in the areas of concrete placement, foundation preparation, installation, formwork and rebar placement. Concrete placement for the spillway piers was completed, the powerhouse and intake base slabs were poured and the draft tube formwork was erected and concrete works progressed. As well, by the end of the year the manufacturing of the spillway gates and the turbines and generators advanced. The contract for the north and south dams was also awarded in 2015 and work was started on the cofferdam that will close and divert the river.</p> <p>Labrador Transmission Assets</p> <p>By the end of the year, nearly all (99 per cent) of the foundations were installed for the Labrador Transmission assets with 95 per cent of the towers assembled and 85 per cent erected. Additionally, 68 per cent of the power line wire (conductor) for these transmission assets was strung.</p> <p>Strait of Belle Isle Crossing</p> <p>Last year also marked the completion of the manufacturing of the last of the three subsea marine cables for the Strait of Belle Isle crossing. Other planned milestones were achieved including the delivery of the land cable and cable installation and backfilling was completed on both sides of the Straits. The quarrying of approximately 450,000 tonnes of rock that will be used for the rock berm for the marine cable was completed as was the</p>

Indicators	2015 Accomplishments
	<p>quayside where the rock-laying vessel will be loaded.</p> <p>Labrador-Island Transmission Link (LIL)</p> <p>Clearing work for the Labrador-Island Transmission Link was started in 2015 and by year-end some 91 per cent of the Labrador and 50 per cent of the island right-of-way access was cleared. Tower foundation installation, tower assembly and installation also progressed and by year-end 10 per cent of the conductor was strung in Labrador. Other planned work was completed including construction of the grounding stations and manufacturing and delivery of the power transformers.</p>
Measure	
Further advanced Gull Island consistent with market opportunities.	
<p>Assessed and engaged potential customers on identified export and industrial market opportunities.</p>	<p>During 2015, Nalcor completed planned market assessment and engagement activities related to Gull Island. These activities included:</p> <ul style="list-style-type: none"> ▪ Monitoring market developments in northeast North America related to electricity demand, plant retirements and clean energy policy and legislation; and ▪ Engaging with governments, market participants, and transmission providers. These engagements included the Ontario/Newfoundland and Labrador Working Group on Electricity Trade and New England policy makers regarding clean energy procurement opportunities.
<p>Continued efforts to advocate for policy initiatives that support procurement of new hydro development as a clean energy supply in the northeast region.</p>	<p>During 2015, Nalcor continued efforts to advocate for policy initiatives that support procurement of new hydro development as a clean energy supply option in the northeast region.</p> <p>In September 2015, Nalcor presented before the Massachusetts Joint Committee on Telecommunications, Utilities and Energy to express support for Senate Bill 1965 <i>An Act Relative to Energy Sector Compliance with the Global Warming Solutions Act</i>. If enacted, the bill would require the state’s electric utility companies to solicit long-term contracts for large quantities of ‘clean energy resources’ and proposals for transmission.</p> <p>In March 2015, Nalcor also expressed interest in, and provided comments on, the tri-state (Connecticut, Massachusetts, Rhode Island) <i>Draft Request for Proposals for Clean Energy and Transmission</i>. The purpose of this three-state procurement is for parties in each state to identify any projects that offer the potential to meet clean energy goals in a cost-effective manner that brings additional regional benefits.</p>

Indicators	2015 Accomplishments
<p>Identified and completed required market access and project readiness activities consistent with progress of market opportunities.</p>	<p>During 2015, continued to pursue activities related to market access. These activities supported efforts to identify and evaluate transmission options to access potential markets for the province's surplus energy. Hydro participated in Hydro-Québec TransÉnergie's (HQT) open access transmission tariff hearing before the Régie de l'énergie as a current customer of the HQT system; and Nalcor also explored transmission access options with potential developers into the United States Northeast region.</p> <p>From a project readiness perspective, Nalcor continued baseline data collection for future environmental effects monitoring in accordance with <i>Lower Churchill Hydroelectric Generation Project Undertaking Order</i> under the <i>Environmental Protection Act</i>. The environmental effects monitoring plans specified in the Order include a scope approved to ensure construction and operational environmental effects are understood.</p>

The objectives, measures and indicators for 2016 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

ISSUE 5: LOWER CHURCHILL DEVELOPMENT (cont'd)

Objective

By December 31, 2016, Nalcor will have further advanced development of Muskrat Falls construction and continued to progress Gull Island consistent with market opportunities.

Measure

Further advanced development of Muskrat Falls hydroelectric facility and transmission infrastructure.

<p>Indicators</p>	<ul style="list-style-type: none"> ▪ Continued joint Nalcor-Innu Nation Impact and Benefits Agreement (IBA) monitoring and reporting. ▪ Continued implementation of Environmental Management and Environmental Effects Monitoring programs. ▪ Achieved key 2016 project milestones for the Muskrat Falls Hydroelectric Facility, Labrador Transmission Assets, Strait of Bell Isle Crossing, and Labrador-Island Transmission Link.
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Measure

Progressed Gull Island consistent with market opportunities.

<p>Indicators</p>	<ul style="list-style-type: none"> ▪ Completed market assessment and engagement activities with potential customers related to Gull Island.
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ISSUE 5: LOWER CHURCHILL DEVELOPMENT (cont'd)

- Monitored policy initiatives that support procurement of new hydro development as a clean energy supply in the northeast region and advocated as appropriate.
- Advanced project readiness activities consistent with progress of market opportunities.

ISSUE 6: BULL ARM FABRICATION SITE LONG TERM STRATEGY AND LEASE MANAGEMENT

The Bull Arm Fabrication site is an important asset for industrial development in Newfoundland and Labrador and the advancement of the province's fabrication capability. Bull Arm has capabilities for steel fabrication and concrete construction, outfitting installation, at-shore hook-up and deep water commissioning. The site has facilitated growth of the province's fabrication capability through participation in the Hibernia, Terra Nova and White Rose oil projects and the Voisey's Bay project.

The Bull Arm site is leased to ExxonMobil Canada Properties for the duration of the Hebron Project which is expected to produce first oil in 2017. Bull Arm Fabrication is focused on utilization of the Bull Arm Site during the short term for the Hebron project, while planning for a competitive operation with a sustained workforce in the long-term.

Under the current operating model, Bull Arm Fabrication owns the site infrastructure and leases same to a tenant with the roles and responsibilities of the company and the site tenant specified in a lease agreement. Bull Arm Fabrication has evaluated this and other operating models to identify a preferred model for operating the site in the long-term to implement at the conclusion of the current lease. Moving forward, Bull Arm Fabrication plans to remain as landlord for the site with flexibility to provide a range of specific site services depending on the requirements of potential tenants. In addition, the company has established parameters for maintaining and investing in key assets (e.g. roads, electrical, water and sewer) that are critical for sustaining the value and future utilization of the site.

In 2011, Bull Arm Fabrication executed a site lease with ExxonMobil Canada Properties and in the fall of that year, work began to prepare the site for construction related to the Hebron project. During 2012, the early works phase of the project began in preparation for the construction of the gravity-based structure (GBS) and fabrication of the living quarters module. During 2015, employment at the site peaked at over 2,265 people and significant progress was made on construction and fabrication work.

A key provision of the current lease is the management of change process. This process allows Bull Arm Fabrication to assess, approve and monitor all site infrastructure modifications. The intent is to meet tenant requirements to customize the site while ensuring that at the end of lease, the modifications completed by the tenant provide ongoing value or are removed. As well, the process provides the company with information about the site infrastructure modifications required to manage site assets in the future. During 2015, \$1.4 million in site upgrades or modifications were approved bringing the total investment since 2011 to \$40

million. The 2015 expenditure is a reduction from prior years as the site development stage of the Hebron project is significantly complete.

ISSUE 6: BULL ARM FABRICATION SITE LONG-TERM STRATEGY AND LEASE MANAGEMENT (cont'd)

Goal

By December 31, 2016, Nalcor will have enhanced Bull Arm Fabrication site's position as a competitive, successful fabrication site for the long-term.

Measure	<ul style="list-style-type: none"> Advanced Bull Arm Fabrication site's long-term competitiveness.
Indicators	<ul style="list-style-type: none"> Completed the analysis of alternate site operating models to inform the Bull Arm long-term strategy and initiated development of an implementation plan. Continued successful management of current lease.

Objective

By December 31, 2015, Nalcor will have progressed development of the Bull Arm long-term strategy and successfully managed the current lease.

Measure

Further advanced engagement and evaluation activities to inform long-term strategy for Bull Arm Fabrication site and progressed implementation plan.

Indicators	2015 Accomplishments
Completed planned 2015 engagement activities outlined in the multi-year engagement strategy, including site visits with potential customers, and discussions with external stakeholders.	Planned 2015 engagement activities outlined in the multi-year engagement strategy were completed including site visits with potential customers and meetings with external stakeholders and regional community representatives. Representatives of the Bull Arm Site also attended the Offshore Technology Conference for marketing plan development research and participated in an Atlantic Canada Opportunities Agency lead mission to Norway. The purpose of the mission was to learn more about Norway's approach to deep and ultra-deep water developments and how these developments contribute to local supplier development.
Progressed development of a comprehensive implementation plan for potential long-term operating models.	During 2015, Bull Arm Fabrication progressed the development of a comprehensive implementation plan for the potential long-term operating model for the site. The operating model entails Bull Arm Fabrication remaining the landlord but with increased flexibility to accommodate tenant needs and site maintenance requirements. The company developed an implementation plan which outlines the steps needed to be taken to prepare to execute this operating model. The implementation plan provides consideration for long term operating requirements as they relate to safety, environmental stewardship, commercial

Indicators	2015 Accomplishments
	operations, asset management, marketing, human resources planning and community engagement.
Measure	
Successful management of lease through lease monitoring activities.	
Continued management of change process for approval and monitoring of all site infrastructure modifications.	During 2015, the management of change process continued enabling Bull Arm Fabrication to assess, approve, monitor and close-out all site infrastructure modifications made by the tenant. Some \$1.4M in investments were made in site upgrades/refurbishments for the year. This investment was significantly lower than previous years due to substantial completion of site development work. In 2015, the change process effort shifted to close out of tenant upgrades/modifications through site inspections and verification checks that all required handover documentation was delivered. All change requests from the tenant were reviewed and addressed by Bull Arm Fabrication within the targeted timeline.
Continued participation in tenant safety and environment meetings to share Nalcor and tenant lessons learned and best practices.	During 2015, Bull Arm Fabrication continued to participate in regular safety and environment meetings with the site tenant. These meetings focused on site safety and environmental performance and provided an opportunity for both the company and the tenant to discuss incident investigations, high-potential near misses, as well as safety and environmental programs and activities. Bull Arm Fabrication also fully instituted an environmental inspection program and communicated any observations to the tenant.
Completed annual planned review and update of Nalcor's emergency response plan and environmental management framework.	<p>During 2015, Bull Arm Fabrication completed an annual review of its emergency response plan including execution of a tabletop exercise, participation in a tenant led exercise and incident interaction with the site tenant. The plan was updated to reflect the transition in project operations to deepwater, integration and hook-up work, changes to the incident report form and updating of contact information.</p> <p>The environment management framework, which provides operational direction regarding oversight of the environmental terms of the lease, is reviewed annually. This review focuses on ensuring the framework reflects actual activities at site including subtenant deliverables as well as roles and responsibilities, communication, and reporting procedures and environmental documentation and reporting.</p>

The objectives, measures and indicators for 2016 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

ISSUE 6: BULL ARM FABRICATION SITE LONG-TERM STRATEGY AND LEASE MANAGEMENT (cont'd)

Objective

By December 31, 2016, Nalcor will have completed the analysis of alternate site operating models to inform the Bull Arm long-term strategy, initiated development of an implementation plan and continued successful management of the current lease.

Measure

Completion of the 2016 components of the Bull Arm marketing strategy and long-term operating model implementation plan.

Indicators	<ul style="list-style-type: none"> ▪ Completed 2016 priorities in the long-term operating model implementation plan related to safe operations, environmental stewardship, financial modelling, long term capital planning, tenant demobilization, and community engagement. ▪ Issued an expression of interest to assess post-Hebron leasing opportunities for the site.
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Measure

Continued lease monitoring activities.

Indicators	<ul style="list-style-type: none"> ▪ Continued execution of the management of change process for approval, monitoring and close-out of all site infrastructure modifications. ▪ Continued participation in tenant safety meetings to share Bull Arm Fabrication and tenant lessons learned and best practices. ▪ Completed planned environmental activities including environmental site inspections and annual review of Bull Arm Fabrication's emergency response plan.
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ISSUE 7: ENERGY MARKETING PORTFOLIO MANAGEMENT AND LONG TERM STRATEGY

In 2009, Nalcor established an energy marketing team to sell energy from existing and future developments and build expertise as a participant in competitive energy markets in Canada and the United States. Nalcor's energy marketing activities support fulfillment of the strategic direction of the Provincial Government related to a stable and competitive energy supply for domestic use and exports to market and, more specifically, the focus area related to the export of surplus energy.

To access export markets, Nalcor, through its subsidiary, Hydro, signed a Transmission Service Agreement with Hydro-Québec TransÉnergie (HQT) under HQT's Open Access Transmission Tariff in 2009 and in 2013, Nalcor renewed that agreement for another 10 years. The agreements provide for long-term power transmission capacity from Labrador through Quebec to the New York border with the ability to transmit electricity to other markets. At the same time Nalcor, through Hydro, also entered into a contract with a third-party energy marketer to bring its surplus energy from Churchill Falls to markets outside the province. Under this arrangement power was sold on the Canadian side of the US border to the third-party energy marketer.

Since 2011, Nalcor has developed the necessary procedures, systems and expertise to establish an energy marketing line of business that will participate directly in energy markets in northeast North America. In early 2014, Nalcor formed a wholly-owned subsidiary, Nalcor Energy Marketing, to manage the company's participation in energy markets outside the province. On April 1, 2015, Nalcor concluded the contract with the third-party energy marketer and transitioned electricity export activities to Energy Marketing.

To date, Nalcor's energy marketing operations have focused on exporting surplus recapture electricity from Churchill Falls and in 2015, some 1.6 terawatt hours¹² of hydroelectricity was delivered to markets in eastern Canada and the northeast United States.

During 2015, Nalcor Energy Marketing continued to pursue opportunities to maximize the overall value of sales creating net income of over \$22 million. Energy Marketing continually monitors all markets and the ability to transmit electricity to those markets in order to identify opportunities to achieve premium prices. Nalcor balances its participation in the day-ahead and real time spot markets and regularly assesses opportunities to increase value through term contracts.

¹² Terawatt hour (TWh) is a unit of bulk energy; 1,000,000,000 kilowatt hours.

Nalcor’s energy portfolio will continue to grow over the coming years with the development of the lower Churchill River hydroelectric resource. In the long-term, it is also planned that Energy Marketing will market the production from Nalcor Energy-Oil and Gas’ interests to global markets. Moving forward, Nalcor Energy Marketing will continue to execute a strategy aimed at maximizing the value of Nalcor’s existing and future assets.

ISSUE 7: ENERGY MARKETING PORTFOLIO MANAGEMENT AND LONG-TERM STRATEGY (cont’d)

Goal

By December 31, 2016, Nalcor will have enhanced its energy marketing capability to extract maximum value from the energy marketing portfolio.

Measure	Enhanced energy marketing capability.
Indicators	<ul style="list-style-type: none"> ▪ Completed planned implementation activities for long-term energy marketing operations. ▪ Increased value from the energy marketing portfolio.

Objective

By December 31, 2015, Nalcor will have continued to advance its long-term implementation plan for energy marketing operations and pursued opportunities to maximize the value of the current portfolio.

Measure

Advanced long-term implementation plan for energy marketing operations.

Indicators	2015 Accomplishments
<p>Completed 2015 planned activities outlined in the long-term implementation plan for energy marketing operations:</p> <ul style="list-style-type: none"> ▪ Concluded third-party energy marketing contract; and, ▪ Recruited required additional personnel. 	<p>Completed planned 2015 activities outlined in the long-term implementation plan for energy marketing operations. On April 1, 2015 Nalcor concluded the contract with the third-party energy marketer and transitioned electricity export activities to Nalcor Energy Marketing. Nalcor Energy Marketing now performs the analytics, trading and scheduling functions required to sell electricity to markets in key markets in eastern Canada and the northeast United States.</p> <p>Planned recruitment was successful in 2015. A Manager of Regulatory and Compliance was hired with overall accountability for managing the regulatory and compliance processes necessary for the energy marketing business to operate in each of its target markets. In addition, a Software Specialist role was filled to support the specialized software used in energy marketing activities.</p>
<p>Continued management of contracts related to Muskrat Falls, Nalcor-Emera formal agreements.</p>	<p>During 2015, Nalcor Energy Marketing continued management of contracts related to Muskrat Falls, Nalcor-Emera formal transmission agreements. Efforts focused on further defining the commercial terms and conditions outlined in the formal</p>

Indicators	2015 Accomplishments
	transmission agreements in the detailed supporting agreements that will guide interactions and operations when the Muskrat Falls project is complete.
Measure Advanced opportunities to increase portfolio value.	
Identified opportunities to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark.	During 2015, Nalcor successfully identified and implemented measures to maximize portfolio value. Efforts to increase portfolio value in 2015 focused on supplying energy to premium markets to capture higher prices resulting in revenues more than 27 percent, or \$5.6 million, above the New York market benchmark. ¹³

The objectives, measures and indicators for 2016 are consistent with the direction outlined in the 2014-2016 Strategic Plan.

ISSUE 7: ENERGY MARKETING PORTFOLIO MANAGEMENT AND LONG-TERM STRATEGY (cont'd)

Objective

By December 31, 2016, Nalcor will have further enhanced its long-term implementation plan for energy marketing operations and continued to pursue opportunities to increase the value of the current portfolio.

Measure

Pursue opportunities to increase portfolio value.

Indicators	<ul style="list-style-type: none"> ▪ Identified opportunities to maximize portfolio value such as targeting higher priced markets and times to exceed the energy price benchmark. ▪ Pursued activities to enhance access to premium markets.
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Measure

Advanced readiness for interconnection of Newfoundland and Labrador electricity system into the North American electricity market.

Indicators	<ul style="list-style-type: none"> ▪ Completed planned activities to prepare for broader interconnection of Newfoundland and Labrador electricity system into the North American electricity market. ▪ Recruited required additional personnel. ▪ Continued management of contracts related to Muskrat Falls, Nalcor-Emera formal transmission agreements to prepare for sale of power.
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¹³ Nalcor compares its export sales performance to benchmark pricing at an interface in the New York Independent System Operator (NYISO) which corresponds to the delivery point of Nalcor's firm annual transmission booking.

6 OPPORTUNITIES AND CHALLENGES

Implementing the remaining priorities in the 2014-2016 strategic plan will require that Nalcor and Hydro build on accomplishments of the past and address future challenges and opportunities. The key challenges and opportunities outlined below reflect the next phase of Nalcor's strategy execution in support of the Provincial Government's energy sector strategic directions.

Safety leadership

Nalcor's relentless commitment to safety drives all its lines of business. Achieving excellence in safety is Nalcor's number one priority and safety is also a shared core value. For Nalcor and Hydro, safety excellence is more than a way of operating; it is an integral part of the companies' strategy for the future. Achieving and maintaining excellent safety performance in all areas of the company is an ongoing challenge. During 2016, Nalcor and Hydro will continue to implement initiatives to move forward on the journey to sustained safety excellence.

Electricity supply

Nalcor's subsidiary, Hydro, ensures there is a safe, reliable and cost-effective electricity supply available to meet current demand and future growth. During 2016, Hydro will continue to increase investment to renew aging assets and will implement programs to support safety and environmental sustainability. Hydro will also prepare for the timely and effective integration of the Muskrat Falls Project into the provincial electricity system.

Upper Churchill asset management and Power Contract/Renewal Contract legal actions

The Churchill Falls generating station is one of the largest underground hydroelectric powerhouses in the world. The generating plant and related infrastructure have been in service for over 40 years and taking steps to ensure the continued performance of the Churchill Falls facilities through planning and strategic investment will drive the company's strategy for 2016 and future planning periods. Churchill Falls will also continue to carry out the required activities for Upper Churchill Power Contract/Renewal Contract legal actions.

Oil and gas interests, exploration and development

Nalcor's subsidiary, Nalcor Energy – Oil and Gas, currently manages oil and gas interests in three developments offshore Newfoundland and Labrador. Nalcor is also executing an exploration strategy based on global best practices to find and deliver new oil and gas resources for the benefit of the people of the province. In 2016 and beyond, Nalcor will continue to

support partners' efforts to advance offshore project milestones and further enhance knowledge of the province's oil and gas resource potential.

Lower Churchill development

The lower Churchill River is one of the most attractive undeveloped hydroelectric resources in North America. The two sites at Muskrat Falls and Gull Island have a combined capacity of over 3,000 MW. The Muskrat Falls Project includes construction of an 824 MW hydroelectric dam and more than 1,600 kilometres of transmission lines. During 2016, Nalcor will continue to advance the construction of Muskrat Falls generation and transmission and progress Gull Island consistent with progress on market opportunities.

Bull Arm Fabrication site long-term strategy and lease management

The Bull Arm Fabrication site has facilities for steel fabrication and concrete construction, outfitting installation, at-shore hookup and deepwater commissioning. The site is leased by ExxonMobil Canada Properties for the duration of the Hebron project which is expected to produce first oil in 2017. In 2016, Nalcor will advance the long-term strategy by assessing post-Hebron leasing opportunities and continue the successful management of the current lease.

Energy marketing portfolio management and long-term strategy

Nalcor's energy marketing portfolio currently includes Churchill Falls recapture power that is surplus to Newfoundland and Labrador's needs. This portfolio will continue to grow with the development of the lower Churchill River hydroelectric resource and production from Nalcor's oil and gas interests. In 2015, Nalcor's wholly owned subsidiary, Nalcor Energy Marketing participated directly in energy markets in northeast North America. During 2016 and beyond, Nalcor Energy Marketing will continue to pursue opportunities to increase the value of the energy portfolio and prepare for the interconnection of the Newfoundland and Labrador electricity system into the North American electricity market.

Appendix 1
Energy Portfolio

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



Appendix 2

Nalcor Energy Consolidated Financial Statements

NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

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

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

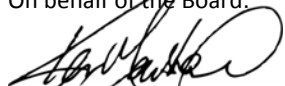
<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2015	2014 (Note 33)
ASSETS			
Current assets			
Cash and cash equivalents	5	148.5	60.8
Restricted cash		1,836.3	1,130.6
Short-term investments		1,026.2	1,790.0
Trade and other receivables	6	270.9	249.2
Inventories	7	77.9	97.1
Current portion 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)

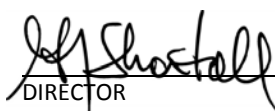
Subsequent event (Note 34)

See accompanying notes

On behalf of the Board:



DIRECTOR



DIRECTOR

NALCOR ENERGY
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2015	2014
			(Note 33)
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

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(millions of Canadian dollars)</i>	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

¹Subsequently reclassified to profit or loss on derecognition

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2015	2014
Cash provided from (used in)			(Note 33)
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

NALCOR ENERGY
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.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
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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, 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 plant, property 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.

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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

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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.

Classification of Financial Instruments

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.

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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) Effective Interest Method

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.

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(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.

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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.

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(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.

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(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

¹Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

²Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

³Effective 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.

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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

<i>As at December 31 (millions of Canadian dollars)</i>	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

<i>As at December 31 (millions of Canadian dollars)</i>	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

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

<i>As at December 31 (millions of Canadian dollars)</i>	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

<i>As at December 31 (millions of Canadian dollars)</i>	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.

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8. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of Canadian dollars)</i>	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%

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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	
	1% Decrease	1% Increase	5% Decrease	5% Increase
<i>(in millions of Canadian dollars)</i>				
Impairment of CGU	(1.5)	1.5	(8.6)	8.7

9. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	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%.

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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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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

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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.

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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

<i>As at December 31 (millions of Canadian dollars)</i>		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.

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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:

<i>As at December 31 (millions of Canadian dollars)</i>	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:

<i>As at December 31 (millions of Canadian dollars)</i>	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:

<i>(millions of Canadian dollars)</i>	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.

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<i>As at December 31 (millions of Canadian dollars)</i>	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

<i>As at December 31 (millions of Canadian dollars)</i>	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 Kroner.

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.

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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.

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15.2 Long-term Debt

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

<i>As at December 31 (millions of Canadian dollars)</i>	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

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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:

<i>(millions of Canadian dollars)</i>	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.

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<i>As at December 31 (millions of Canadian dollars)</i>	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 year	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.

<i>(millions of Canadian dollars)</i>	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.

<i>As at December 31 (millions of Canadian dollars)</i>	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.

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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:

<i>As at December 31 (millions of Canadian dollars)</i>	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.

<i>As at December 31 (millions of Canadian dollars)</i>	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

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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.

<i>As at December 31 (millions of Canadian dollars)</i>	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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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

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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:

<i>Increase (thousands of Canadian dollars)</i>	2015	2014
Current service and interest cost	2.8	2.4
Accrued benefit obligation	25.3	30.9
<i>Decrease (thousands of Canadian dollars)</i>	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

<i>As at December 31 (millions of Canadian dollars)</i>	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

<i>As at December 31 (millions of Canadian dollars)</i>	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).

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23. REVENUE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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

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26. OTHER (INCOME) EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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.

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	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		December 31, 2015	December 31, 2015	December 31, 2014	December 31, 2014
<i>(millions of Canadian dollars)</i>					
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.

	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
<i>(millions of Canadian dollars)</i>				
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.

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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

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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:

<i>(millions of Canadian dollars)</i>	< 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

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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	
	0.5% Decrease	0.5% Increase
<i>(millions of Canadian dollars)</i>		
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:

	0.5%	0.5%
	Decrease	Increase
<i>(millions of Canadian dollars)</i>		
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

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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.

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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 contracts 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.

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- (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.

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- (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.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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:

<i>(millions of dollars)</i>	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

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

<u>Type</u>	<u>Rating</u>	<u>In-service Date</u>	<u>Term</u>
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:

<i>(millions of dollars)</i>	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.

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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:

<i>As at December 31 (millions of Canadian dollars)</i>	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.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

<i>(millions of Canadian dollars)</i>	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.

NALCOR ENERGY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>(millions of Canadian dollars)</i>	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.

NALCOR ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

<i>(millions of Canadian dollars)</i>	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 EVENT

On February 22, 2016, Nalcor, on behalf of Oil and 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.

Appendix 3

Newfoundland and Labrador Hydro Consolidated Financial Statements

NEWFOUNDLAND AND LABRADOR HYDRO
A NALCOR ENERGY COMPANY

Consolidated Financial Statements
December 31, 2015



Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Newfoundland and Labrador Hydro, 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 Newfoundland and Labrador Hydro as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
March 11, 2016

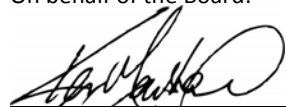
NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>As at December 31 (millions of Canadian dollars)</i>	Notes	2015	2014
			(Note 29)
ASSETS			
Current assets			
Cash and cash equivalents	5	40.1	25.4
Short-term investments		-	3.3
Trade and other receivables	6	108.6	105.0
Inventories	7	77.9	97.1
Prepayments		5.8	5.8
Derivative assets	23	1.9	2.7
Deferred assets	8	61.2	-
Total current assets		295.5	239.3
Non-current assets			
Property, plant and equipment	9	2,108.6	2,029.9
Intangible assets	10	7.1	8.0
Other long-term assets	12	273.8	262.9
Investment in joint arrangement		1.2	1.5
Total assets		2,686.2	2,541.6
Regulatory deferrals	11	144.3	124.2
Total assets and regulatory deferrals		2,830.5	2,665.8
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	14	97.0	53.0
Trade and other payables	13	133.3	151.3
Current portion of long-term debt	14	233.4	8.4
Deferred credits		0.4	0.7
Current portion of deferred contributions	16	1.1	0.8
Derivative liabilities	15,23	61.2	0.2
Total current liabilities		526.4	214.4
Non-current liabilities			
Long-term debt	14	1,007.0	1,239.3
Deferred contributions	16	11.6	11.4
Decommissioning liabilities	17	28.8	28.0
Long-term payables		-	0.7
Employee benefits liability	18	120.5	127.7
Total liabilities		1,694.3	1,621.5
Shareholder's equity			
Share capital	19	22.5	22.5
Shareholder contributions	19	118.7	118.6
Reserves		10.6	(4.8)
Retained earnings		654.4	655.9
Total equity		806.2	792.2
Total liabilities and equity		2,500.5	2,413.7
Regulatory deferrals	11	330.0	252.1
Total liabilities, equity and regulatory deferrals		2,830.5	2,665.8

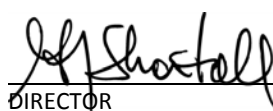
Commitments and contingencies (Note 25)

See accompanying notes

On behalf of the Board:



DIRECTOR



DIRECTOR

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2015	2014
			(Note 29)
Energy sales		760.7	691.2
Other revenue		13.7	7.8
Revenue		774.4	699.0
Fuels		192.8	268.1
Power purchased		99.5	68.3
Operating costs	20	224.9	211.3
Depreciation and amortization	9,10	78.9	69.8
Net finance (income) expense	21	72.7	69.6
Other (income) expense	22	2.6	5.6
Profit for the year from operations		103.0	6.3
Share of loss (profit) of joint arrangement		0.3	(0.4)
Profit, before regulatory adjustments		102.7	6.7
Regulatory adjustments	11	59.5	(66.3)
Profit for the year		43.2	73.0
Other comprehensive income for the year		15.4	0.7
Total comprehensive income for the year		58.6	73.7

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(millions of Canadian dollars)</i>	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2015		22.5	118.6	41.3	(46.1)	655.9	792.2
Profit for the year		-	-	-	-	43.2	43.2
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments ¹		-	-	10.1	-	-	10.1
Actuarial gain on employee benefits liability	18	-	-	-	13.6	-	13.6
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(10.0)	-	-	(10.0)
Regulatory adjustment		-	-	-	1.7	-	1.7
Total comprehensive income for the year		-	-	0.1	15.3	43.2	58.6
Shareholder contributions	19	-	0.1	-	-	-	0.1
Dividends	19	-	-	-	-	(44.7)	(44.7)
Balance at December 31, 2015		22.5	118.7	41.4	(30.8)	654.4	806.2
Balance at January 1, 2014		22.5	118.4	24.9	(30.4)	625.7	761.1
Profit for the year		-	-	-	-	73.0	73.0
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments ¹		-	-	27.4	-	-	27.4
Actuarial loss on employee benefits liability	18	-	-	-	(15.7)	-	(15.7)
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(11.0)	-	-	(11.0)
Total comprehensive income (loss) for the year		-	-	16.4	(15.7)	73.0	73.7
Shareholder contributions	19	-	0.2	-	-	-	0.2
Dividends	19	-	-	-	-	(42.8)	(42.8)
Balance at December 31, 2014		22.5	118.6	41.3	(46.1)	655.9	792.2

¹ Subsequently reclassified to profit or loss on derecognition

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO
CONSOLIDATED STATEMENT OF CASH FLOWS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	Notes	2015	2014
Cash provided from (used in)			(Note 29)
Operating activities			
Profit for the year		43.2	73.0
Adjusted for items not involving a cash flow:			
Depreciation and amortization	9, 10	78.9	69.8
Amortization of deferred contributions	16	(0.9)	(0.8)
Accretion	21	1.3	1.3
Employee benefits		7.0	6.5
Regulatory adjustments	11	57.8	(66.3)
Loss (gain) on disposal of property, plant and equipment	22	4.3	(0.6)
Share of loss (profit) of joint arrangement		0.3	(0.4)
Other		(11.1)	(1.8)
		180.8	80.7
Changes in non-cash working capital balances	27	2.9	(6.1)
Net cash provided from operating activities		183.7	74.6
Investing activities			
Additions to property, plant and equipment	9	(161.1)	(240.0)
Additions to intangible assets	10	(1.6)	(2.7)
Decrease (increase) in short-term investments		3.3	(3.3)
(Increase) decrease in sinking funds	12	(8.1)	101.0
Additions to reserve fund		-	(0.3)
Withdrawal from reserve fund		3.3	16.4
Proceeds on disposal of property, plant and equipment		0.8	3.3
Changes in non-cash working capital balances	27	(5.3)	14.4
Net cash used in investing activities		(168.7)	(111.2)
Financing activities			
Issuance/retirement of long-term debt		-	72.4
Dividends paid to Nalcor Energy	19	(44.7)	(42.8)
Increase in short-term borrowings	14	44.0	12.0
Decrease in long-term receivables	12	-	1.4
Decrease in long-term payable	19	(0.8)	(0.9)
Increase in shareholder contributions	19	0.1	0.2
Increase in deferred contributions	16	1.4	1.7
Decrease in deferred credits		(0.3)	-
Net cash provided from financing activities		(0.3)	44.0
Net increase in cash and cash equivalents		14.7	7.4
Cash and cash equivalents, beginning of year		25.4	18.0
Cash and cash equivalents, end of year		40.1	25.4

Supplementary cash flow information (Note 27)

See accompanying notes

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Newfoundland and Labrador Hydro (Hydro or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province). The principal activity of Hydro is the generation, transmission and sale of electricity. Hydro's operations include both regulated and non-regulated activities. Hydro's head office is located in St. John's, Newfoundland and Labrador. Hydro is a 100% owned subsidiary of Nalcor Energy (Nalcor).

Hydro holds interests in the following entities:

A 65.8% interest in Churchill Falls (Labrador) Corporation Limited (Churchill Falls). Churchill Falls is incorporated under the laws of Canada and owns and operates a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428 megawatts (MW).

A 51.0% interest in Lower Churchill Development Corporation (LCDC), an inactive subsidiary. LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River.

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

Churchill Falls holds 33.33% of the equity share capital of Twin Falls Power Corporation Limited (Twin Falls). This investment is accounted for using the equity method.

NEWFOUNDLAND AND LABRADOR HYDRO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 are 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 Trade and Other Receivables

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

2.5 Inventories

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

2.6 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Hydro's accounting policy outlined in Note 2.8. 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, Hydro 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 station 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.

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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.

2.7 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services and studies 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:

Feasibility studies	5 to 20 years
Computer software	10 years

2.8 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 Profit and Comprehensive Income in the period in which they are incurred.

2.9 Impairment of Non-Financial Assets

At the end of each reporting period, Hydro reviews the carrying amounts of its non-financial 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.

Where it is not possible to estimate the recoverable amount of an individual asset, Hydro estimates the recoverable amount of the cash generating unit (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.

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 Profit and Comprehensive Income.

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2.10 Investment in Joint Arrangement

A joint arrangement is an arrangement of which two or more parties have joint control. Control exists when Hydro 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.

Hydro accounts for its investment in Churchill Falls by recognizing its share of assets, liabilities and profit or loss in relation to its interest in the joint operation.

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

2.11 Employee Benefits Liability

(i) Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Hydro 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

Hydro 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 Hydro'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), Hydro recognizes the amortization of employee future benefit actuarial gains and losses in the Consolidated Statement of Profit and Comprehensive Income as a regulatory adjustment.

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

2.12 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Hydro 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.

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2.13 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 Profit and Comprehensive Income if the liability is short-term in nature.

2.14 Revenue Recognition

Revenue from the sale of energy is recognized when Hydro 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.

2.15 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 Hydro'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 Hydro'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 Hydro 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.

NEWFOUNDLAND AND LABRADOR HYDRO
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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 Hydro's general policy on borrowing costs (Note 2.8). 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.

2.16 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.

2.17 Foreign Currencies

Transactions in currencies other than Hydro'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 Profit and Comprehensive Income as other (income) expense.

2.18 Income Taxes

Hydro is exempt from paying income taxes under Section 149(1) (d.2) of the Income Tax Act.

2.19 Financial Instruments

Financial assets and financial liabilities are recognized in the Consolidated Statement of Financial Position when Hydro 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.

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Classification of Financial Instruments

Hydro 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 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
Reserve fund	AFS financial assets
Sinking funds – investments in same Hydro issue	Held-to-maturity investments
Sinking funds – other investments	AFS financial assets
Long-term receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Short-term borrowings	Other financial liabilities
Long-term debt	Other financial liabilities
Long-term payables	Other financial liabilities

(i) Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest income 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 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 Hydro 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 Hydro'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.

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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 Hydro 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 Hydro to manage risk. Hydro'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.

2.20 Derecognition of Financial Instruments

Hydro 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 Hydro 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 Hydro 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. Hydro derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.21 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 Hydro'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.

2.22 Government Grants

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

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

2.23 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) Property, Plant and Equipment

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

(ii) Revenue

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

When recognizing deferrals and related amortization of costs or credits in Hydro Regulated, Management assumes that such costs or credits will be recovered or refunded through customer rates in future years. Recovery of some of these deferrals 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.

(iii) Determination of Cash Generating Units (GGUs)

Hydro's accounting policy relating to impairment of non-financial assets is described in Note 2.9. In applying this policy, Hydro groups assets into the smallest identifiable group 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.

(iv) Discount Rates

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

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(v) 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.

3.2 Use of Estimates

(i) Property, Plant and Equipment

Amounts recorded for depreciation are based on the useful lives of Hydro's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by Hydro. 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) Intangible Assets

Amounts recorded for amortization are based on the useful lives of Hydro'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.

(iii) Decommissioning Liabilities

Hydro 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 Profit and Comprehensive Income 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.

(iv) Employee Benefits

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

(v) Revenue

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

3.3 Use of Assumptions

Deferred Assets and Derivative Liabilities

Effective October 1, 2015, Hydro entered into a power purchase agreement (PPA) with Nalcor Energy Marketing Corporation (Energy Marketing) which allows for the purchase of available recapture energy from Hydro for resale by Energy Marketing in export markets or through agreements with counterparties. 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. The PPA can be terminated with notice at the end of an operating year.

Fair values relating to Hydro's financial instruments and derivatives that have been classified as Level 3, have been determined using inputs for the assets or liabilities that are not readily observable. Certain of these fair values are classified as Level 3 as the transactions do not occur in an active market, or the terms extend beyond the period for which a quoted price is available.

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Hydro's PPA that is accounted for as a derivative instrument, where Hydro determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, then the derivative transactions are initially measured at fair value and the expected difference is deferred. Subsequently, the deferred difference is recognized in other comprehensive income (loss) on an appropriate basis over the life of the related derivative instrument but not later than when the valuation is wholly supported by observable market data or the transaction is completed.

Hydro has elected to defer the difference between the fair value of the derivative liabilities upon initial recognition and the transaction price of the derivatives related to the PPA with Energy Marketing, and to amortize the deferred asset on a straight-line basis over its effective term (Note 8). These methods, when compared with alternatives, were determined by Management to more accurately reflect the nature and substance of the transactions.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

Hydro 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
IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³

¹Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

²Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

³Effective 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 of 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 Hydro'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 Hydro'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

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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.

Management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefit inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on Hydro's annual audited consolidated financial statements.

4.4 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.

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- 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 Hydro'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.

4.5 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 Hydro'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.

4.6 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 Hydro'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.

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5. CASH AND CASH EQUIVALENTS

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Cash	40.1	20.5
Cash equivalents	-	4.9
	40.1	25.4

The effective interest rate on cash equivalents and short-term investments at December 31, 2015 were 1.23% (December 31, 2014 ranged from 1.21% to 1.23%) per annum.

6. TRADE AND OTHER RECEIVABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Trade receivables	97.2	89.7
Due from related parties	16.7	15.0
Other receivables	7.3	11.5
Allowance for doubtful accounts	(12.6)	(11.2)
	108.6	105.0

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
0-60 days	105.1	104.0
60+ days	3.5	1.0
	108.6	105.0

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Allowance for doubtful accounts, beginning of year	(11.2)	(9.4)
Amounts provided for during the year	(1.5)	(1.9)
Amounts written off as uncollectable	0.1	0.1
Allowance for doubtful accounts, end of year	(12.6)	(11.2)

7. INVENTORIES

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
No. 6 fuel	26.4	49.4
Material 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.

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8. DEFERRED ASSET

The deferred asset represents Hydro's asset related to the PPA with Energy Marketing. The deferred asset is amortized on a straight-line basis over the effective term, being one calendar year, of the related derivative liability. The aggregate difference yet to be recognized in profit or loss at the beginning and end of the year and a reconciliation of the changes of the balance during the year are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Deferred asset, beginning of year	-	-
Additions	74.9	-
Amortization	(13.7)	-
Deferred asset, end of year	61.2	-

9. PROPERTY, PLANT AND EQUIPMENT

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Other	Construction in Progress	Total
Cost					
Balance at January 1, 2014	1,477.2	654.9	189.3	22.4	2,343.8
Additions	0.4	(0.1)	-	239.7	240.0
Disposals	(2.1)	(1.8)	(1.3)	-	(5.2)
Transfers	48.2	57.3	16.4	(121.7)	0.2
Decommissioning liabilities and revisions	2.2	0.1	-	-	2.3
Balance at December 31, 2014	1,525.9	710.4	204.4	140.4	2,581.1
Additions	(0.2)	-	-	161.3	161.1
Disposals	(3.0)	(3.1)	(3.4)	(0.2)	(9.7)
Transfers	178.1	58.0	21.2	(257.3)	-
Decommissioning liabilities and revisions	0.5	(0.3)	-	-	0.2
Balance at December 31, 2015	1,701.3	765.0	222.2	44.2	2,732.7
Depreciation					
Balance at January 1, 2014	333.3	98.6	53.2	-	485.1
Depreciation	38.1	18.9	11.4	-	68.4
Disposals	(1.2)	(0.4)	(0.9)	-	(2.5)
Transfers	(0.4)	0.5	0.1	-	0.2
Balance at December 31, 2014	369.8	117.6	63.8	-	551.2
Depreciation	44.1	21.6	11.8	-	77.5
Disposals	(1.5)	(0.8)	(2.3)	-	(4.6)
Transfers	-	-	-	-	-
Balance at December 31, 2015	412.4	138.4	73.3	-	624.1
Carrying value					
Balance at January 1, 2014	1,143.9	556.3	136.1	22.4	1,858.7
Balance at December 31, 2014	1,156.1	592.8	140.6	140.4	2,029.9
Balance at December 31, 2015	1,288.9	626.6	148.9	44.2	2,108.6

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10. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	Computer Software	Feasibility Studies	Total
Cost			
Balance at January 1, 2014	6.3	1.8	8.1
Additions	2.7	-	2.7
Balance at December 31, 2014	9.0	1.8	10.8
Additions	1.6	-	1.6
Disposals	(1.1)	-	(1.1)
Balance at December 31, 2015	9.5	1.8	11.3
Amortization			
Balance at January 1, 2014	0.8	0.6	1.4
Amortization	1.0	0.4	1.4
Balance at December 31, 2014	1.8	1.0	2.8
Amortization	1.2	0.2	1.4
Balance at December 31, 2015	3.0	1.2	4.2
Carrying value			
Balance at January 1, 2014	5.5	1.2	6.7
Balance at December 31, 2014	7.2	0.8	8.0
Balance at December 31, 2015	6.5	0.6	7.1

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 purchased power savings	(0.5)	0.1	(0.4)	11.50
	(252.1)	(77.9)	(330.0)	

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11.1 Regulatory Adjustments Recorded in the Consolidated Statement of Profit and Comprehensive Income

<i>For the year ended December 31 (millions of Canadian dollars)</i>	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 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.

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11.5 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.

11.6 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) 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 income 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 income 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.

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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

<i>As at December 31 (millions of Canadian dollars)</i>		2015	2014
Long-term receivables	(a)	0.3	0.3
Reserve fund	(b)	30.9	34.2
Sinking funds	(c)	242.6	228.4
		273.8	262.9

(a) The balance of \$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) In 2007, 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 reserve 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:

<i>As at December 31 (millions of Canadian dollars)</i>	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

(c) As at December 31, 2015, sinking funds include \$242.6 million (2014 - \$228.4 million) related to repayment of Hydro's long-term debt. 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%).

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The sinking funds consist of the following:

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Sinking funds, beginning of year	228.4	267.6
Contributions	8.1	8.3
Earnings	5.4	11.0
Disposals	-	(74.2)
Mark-to-market adjustment	0.7	16.5
Gain on sale of investments	-	(0.8)
Sinking funds, end of year	242.6	228.4

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

<i>(millions of Canadian dollars)</i>	2016	2017	2018	2019	2020
Sinking fund instalments	8.1	6.7	6.7	6.7	6.7

13. TRADE AND OTHER PAYABLES

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Trade payables	78.7	97.6
Accrued interest payable	28.8	28.8
Payables due to related parties	9.9	5.7
Other payables	15.9	19.2
	133.3	151.3

As at December 31, 2015 trade and other payables included balances of \$0.3 million (2014 - \$13.8 million) denominated in USD.

14. DEBT

14.1 Short-term Borrowings

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.

In addition, Hydro utilized promissory notes to fulfil its short-term funding requirements. As at December 31, 2015, there was \$97.0 million in short-term borrowings outstanding (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.

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14.2 Long-term Debt

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

<i>As at December 31 (millions of Canadian dollars)</i>	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
Total debentures	1,300.3				1,296.2	1,295.6
Less: Sinking fund investments in own debentures					55.8	47.9
					1,240.4	1,247.7
Less: payments due within one year					233.4	8.4
Total debentures					1,007.0	1,239.3

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on the total debt (net of sinking funds) with a remaining term to maturity of 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).

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

<i>(millions of Canadian dollars)</i>	2016	2017	2018	2019	2020
Long-term debt repayment	225.3	150.0	-	-	-

15. DERIVATIVE LIABILITIES

The derivative liability relates to the PPA with Energy Marketing and represents the future value provided to Energy Marketing through the contract. The components of the change are as follows:

<i>As at December 31 (millions of Canadian dollars)</i>	PPA Derivative Liability	Other Derivative Liability	Total
Additions, net of disposals	-	0.4	0.4
Fair value changes recorded in profit (loss)	-	(0.2)	(0.2)
Balance, December 31, 2014	-	0.2	0.2
Additions, net of disposals	74.9	-	74.9
Fair value changes recorded in profit (loss)	(13.7)	(0.2)	(13.9)
Balance, December 31, 2015	61.2	-	61.2

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16. DEFERRED CONTRIBUTIONS

Hydro 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.

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Deferred contributions, beginning of year	12.2	11.3
Additions	1.4	1.7
Amortization	(0.9)	(0.8)
Deferred contributions, end of year	12.7	12.2
Less: current portion	(1.1)	(0.8)
	11.6	11.4

17. DECOMMISSIONING LIABILITIES

Hydro has recognized liabilities associated with the retirement of portions of the HTGS and the disposal of Polychlorinated Biphenyls (PCBs).

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

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Decommissioning liabilities, beginning of year	28.0	24.8
Liabilities settled	(0.1)	(0.1)
Accretion	0.7	1.0
Revisions	0.2	2.3
Decommissioning liabilities, end of year	28.8	28.0

The total estimated undiscounted cash flows required to settle the HTGS obligations as at December 31, 2015 are \$32.1 million (2014 - \$32.1 million). Payments to settle the liability 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 as at December 31, 2015 are \$2.0 million (2014 - \$2.6 million). Payments to settle the liability 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.

A significant number of Hydro'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 Hydro's assets will be used for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any related decommissioning liability cannot be determined at this time. If it becomes possible to estimate the fair value of the cost of removing assets that Hydro is required to remove, a decommissioning liability for those assets will be recognized at that time.

18. EMPLOYEE BENEFITS LIABILITY

18.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of \$9.2 million (2014 - \$6.2 million) are expensed as incurred.

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18.2 Other Benefits

Hydro 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 \$2.9 million (2014 - \$2.4 million). An actuarial valuation was performed as at December 31, 2015.

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Accrued benefit obligation, beginning of year	127.7	105.5
Current service cost	4.4	3.5
Interest cost	5.5	5.4
Benefits paid	(2.9)	(2.4)
Actuarial (gain) loss	(13.6)	15.7
Transfer to Energy Marketing	(0.6)	-
Balance, end of year	120.5	127.7

When an employee transfers to a related party, the associated accrued benefit obligation is allocated to each respective party based on years of service.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
Component of benefit cost		
Current service cost	4.4	3.5
Interest cost	5.5	5.4
Total benefit expense for the year	9.9	8.9

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:

<i>Increase (millions of Canadian dollars)</i>	2015	2014
Current service and interest cost	2.4	2.0
Accrued benefit obligation	22.7	27.4
<i>Decrease (millions of Canadian dollars)</i>	2015	2014
Current service and interest cost	(1.7)	(1.5)
Accrued benefit obligation	(17.1)	(20.6)

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19. SHAREHOLDER'S EQUITY

19.1 Share Capital

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Common shares of par value of \$1 each		
Authorized - 25,000,000		
Issued, paid and outstanding - 22,503,902	22.5	22.5

19.2 Shareholder Contributions

<i>As at December 31 (millions of Canadian dollars)</i>	2015	2014
Total shareholder contributions	118.7	118.6

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 1969 Power Contract. During 2015, the Trust contributed capital in the amount of \$0.1 million (2014 - \$0.2 million).

19.3 Dividends

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
Declared during the year		
Final dividend for prior year: \$0.12 per share (2014 - \$0.15)	2.7	3.4
Interim dividend for current year: \$1.87 per share (2014 - \$1.75)	42.0	39.4
	44.7	42.8

20. OPERATING COSTS

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
Salaries and benefits	119.3	110.5
Maintenance and materials	39.0	36.8
Transmission rental	19.9	20.4
Professional services	21.7	19.7
Rental and royalty expense	5.1	3.1
Travel and transportation	7.5	8.3
Equipment rental	5.8	5.8
Other	6.6	6.7
	224.9	211.3

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21. NET FINANCE (INCOME) EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
Finance income		
Interest on sinking fund	13.4	15.8
Interest on reserve fund	0.9	1.3
Other interest income	0.8	0.5
	15.1	17.6
Finance expense		
Long-term debt	84.5	85.5
Debt guarantee fee	4.5	3.7
Accretion	1.3	1.3
Other	0.9	1.5
	91.2	92.0
Interest capitalized during construction	(3.4)	(4.8)
	87.8	87.2
Net finance (income) expense	72.7	69.6

22. OTHER (INCOME) EXPENSE

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
Mark-to-market of commodity swaps	0.7	(2.6)
Settlement of commodity swaps	(9.2)	2.2
Mark-to-market of foreign exchange forward contracts	(0.2)	-
Financial transmission rights income and amortization	(0.2)	(0.1)
Loss (gain) on disposal of property, plant and equipment	4.3	(0.6)
Asset disposal costs	1.8	5.6
Insurance proceeds	(0.1)	(3.0)
Other	3.1	(0.3)
Net PPA gains (losses) ^(a)	-	-
Foreign exchange loss	2.4	4.4
Other (income) expense	2.6	5.6

(a) Net PPA (Gains) Losses

The settlement of realized profit represents changes in the value of the derivative based realized sales to the various markets.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
PPA gains	-	-
Amortization of deferral	(13.7)	-
	(13.7)	-
PPA losses		
Settlement of realized profit	8.5	-
Mark-to-market of derivative	5.2	-
	13.7	-
Net PPA (gains) losses	-	-

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23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

23.1 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 Hydro might receive or incur in actual market transactions.

As a significant number of Hydro'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 Hydro as a whole.

Establishing Fair Value

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements during the years ended December 31, 2015 and 2014.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
			2015		2014
<i>(millions of Canadian dollars)</i>					
Financial assets					
Derivative assets	2,3	1.9	1.9	2.7	2.7
Sinking funds - investments in same Hydro issue	2	55.8	69.9	47.9	62.3
Sinking funds - other investments	2	242.6	242.6	228.4	228.4
Reserve fund	2	30.9	30.9	34.2	34.2
Long-term receivables	2	0.3	0.3	0.3	0.3
Financial liabilities					
Derivative liabilities	2,3	61.2	61.2	0.2	0.2
Long-term debt (including amount due within one year before sinking funds)	2	1,296.2	1,650.0	1,295.6	1,694.6
Long-term payables*	2	0.3	0.3	0.7	0.8

*At December 31, 2015, the long-term related party payable was reclassified to trade and other payables.

The fair value of cash and cash equivalents, 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.

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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:

<i>(millions of Canadian dollars)</i>	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative liability (PPA)	61.2	Modelled pricing	Volumes (MWh)	33-41% of available generation

The derivative liability arising under the PPA is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative liability. Hence, fair value measurement of this instrument is based upon internal and external pricing and volume estimates. As at December 31, 2015, the effect of using reasonable alternative assumptions for volume inputs to valuation techniques may have resulted in a -\$0.9 million to a +\$4.0 million change in the carrying value of the power purchase derivative liability.

23.2 Risk Management

Hydro is exposed to certain credit, liquidity and market price risks through its operating, investing and financing 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 Hydro's expected future cash flows.

Credit Risk

Hydro'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 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 minimal, as Hydro's cash deposits are held by a Schedule 1 Canadian Chartered bank with a rating of A+ (Standard and Poor's).

Credit risk on short-term investments is minimized by limiting holdings to high-quality, investment grade securities issued by Federal and Provincial governments, as well as Bankers' Acceptances and term deposits issued by Schedule 1 Canadian Chartered banks.

Credit exposure on Hydro'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:

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	Issuer Credit Rating	Fair Value of Portfolio (%)	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Provincial Governments	AA- to AAA	0.42%	AA- to AAA	4.93%
Provincial Governments	A- to A+	44.92%	A- to A+	41.74%
Provincially owned utilities	AA- to AAA	-	AA- to AAA	19.70%
Provincially owned utilities	A- to A+	52.05%	A- to A+	31.39%
Schedule 1 Canadian banks	A- to A+	2.61%	A- to A+	2.24%
		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. Investment 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 Government of Canada, holdings of any one issuer are limited to 10% 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 derivative assets is limited by the Financial Risk Management Policy, which restricts available counterparties for hedge transactions to Schedule 1 Canadian Chartered Banks, and Federally Chartered US Banks.

Hydro's exposure to credit risk on its energy sales and associated accounts receivable is determined by the credit quality of its customers. Hydro's three largest customers account for 83.9% (2014 – 84.7%) of total energy sales and 71.8% (2014 – 68.8%) of trade and other receivables. Energy sales for the three largest customers include \$475.1 million (2014 - \$459.3 million) for Regulated Hydro, as well as \$81.6 million (2014 - \$68.5 million) for Non-Regulated Hydro. Churchill Falls' three largest customers account for 100.0% (2014 – 99.1%) of total energy sales and 89.0% (2014 – 74.9%) of trade and other receivables. Hydro's customers are comprised of rate regulated entities or organizations with investment grade credit ratings.

Liquidity Risk

Hydro 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 is mainly provided through cash and cash equivalents on hand, funds from operations and a \$300.0 million promissory note program. In addition, Hydro maintains a \$50.0 million (2014 - \$50.0 million) unsecured demand operating facility with its primary banker in order to meet any requirements beyond those forecasted for a given period. Churchill Falls also maintains a \$20.0 million (2014 - \$16.0 million) minimum cash balance as well as a \$10.0 million (2014 - \$10.0 million) unsecured demand operating facility with its banker.

Long-term liquidity risk 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.

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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 the contractual maturities of Hydro's financial liabilities, including principal and interest, as at December 31, 2015:

<i>(millions of dollars)</i>	<1 Year	1-3 Years	3-5 years	> 5 Years	Total
Trade and other payables	133.3	-	-	-	133.3
Short-term borrowings	97.0	-	-	-	97.0
Derivative liability	61.2	-	-	-	61.2
Long-term debt	233.4	161.8	13.4	891.7	1,300.3
Interest	82.4	127.1	119.0	611.3	939.8
	607.3	288.9	132.4	1,503.0	2,531.6

Market Risk

In the course of carrying out its operating, financing and investing activities, Hydro 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 Hydro has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably the USD/CAD, and current commodity prices, most notably the spot prices for diesel fuel, electricity, and No. 6 fuel. These exposures are addressed as part of the Financial Risk Management Policy. As of October 1, 2015, Hydro is no longer exposed to foreign exchange and commodity price risk from export electricity sales pursuant to the PPA.

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 Hydro'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 Profit and Comprehensive Income 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. There was no impact of profit and other comprehensive income associated with long-term debt as all of Hydro's debt has fixed interest rates.

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 at the Consolidated Statement of Financial Position date:

<i>(millions of dollars)</i>	Other Comprehensive Income	
	0.5% Decrease	0.5% Increase
Interest on sinking fund	11.1	(9.5)
Interest on reserve fund	0.3	(0.2)
	11.4	(9.7)

Foreign Currency and Commodity Exposure

Hydro's primary exposure to both foreign exchange and commodity price risk arises from its purchases of No. 6 fuel for consumption at the HTGS, and USD denominated electricity sales. For the purchase of No. 6 fuel oil, these risks are mitigated through the operation of the RSP. Exposures in 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.

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During 2015, total electricity sales denominated in USD were \$33.9 million (2014 - \$56.4 million). Effective October 1, 2015, the export sales are recognized in Energy Marketing in accordance with the PPA. In 2015, foreign exchange risk on these sales was mitigated through the use of foreign currency forward contracts, which were entered into by Energy Marketing. Commodity price risk was mitigated by Hydro for 2015, through the use of electricity price commodity swaps. In December of 2014, Hydro entered into a series of 12 electricity price forward contracts with a notional value of \$32.5 million USD. The average price of these contracts was USD \$43.60 per MWh (On Peak) and USD \$30.10 per MWh (Off Peak). During 2015, \$9.2 million in realized gains from these derivative contracts were recognized in Hydro's other (income) expense (2014 - \$2.2 million loss) and \$0.7 million in unrealized losses were recognized in Hydro's other (income) expense (2014 - \$2.6 million unrealized gains).

Export electricity sales, both foreign exchange and commodity hedges will be entered into by Energy Marketing in 2016.

24. RELATED PARTY TRANSACTIONS

Hydro enters into various transactions with its parent and other affiliates. These transactions occur in 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 Hydro transacts are as follows:

Related Party	Relationship
Nalcor	100.0% shareholder of Hydro
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
Nalcor Energy – Bull Arm Fabrication Inc.	Wholly owned subsidiary of Nalcor
Nalcor Energy – Oil and Gas Inc.	Wholly owned subsidiary of Nalcor
PUB	Agency of the Province
Labrador-Island Link Limited Partnership	Partnership in which Nalcor owns 75 Class A Units
Muskrat Falls Corporation (Muskrat Falls)	Wholly owned subsidiary of Nalcor
Lower Churchill Management Corporation	Wholly owned subsidiary of Nalcor
Energy Marketing	Wholly owned subsidiary of Nalcor
LIL Opco	Wholly owned subsidiary of Nalcor

- (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) As at December 31, 2015, Hydro has a payable to Nalcor of \$2.0 million (2014 - \$0.9 million), a payable to companies under common control of \$7.7 million (2014 - \$4.8 million) and a receivable from companies under common control of \$16.7 million (2014 - \$15.0 million). These payables/receivables consist of various intercompany operating costs and power purchases.
- (c) The debt guarantee fee for 2015 was \$4.5 million (2014 - \$3.7 million). It was paid to the Province on March 31, 2015.
- (d) 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.
- (e) For the year ended December 31, 2015, Hydro recovered \$6.3 million (2014 - \$5.8 million) of operating costs from related parties representing the provision of administrative services.

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- (f) 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).
- (g) For the year ended December 31, 2015, Hydro has intercompany labour expenses of \$1.7 million (2014 - \$2.9 million).
- (h) Hydro received \$0.9 million (2014 - \$0.9 million) from Nalcor associated with the Upper Churchill Redress Agreement to be used to reduce the electricity accounts of each residential Innu customer in Innu Communities or to Mushuau Innu First Nation.
- (i) 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).
- (j) 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.
- (k) 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. At December 31, 2015, \$7.8 million (2014 - \$4.7 million) was payable to the Province.
- (l) 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 December 31, 2014.
- (m) 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 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).

- (n) On February 3, 2010, the Province established the Trust with Churchill Falls as the beneficiary. The purpose of this trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the 1969 Power Contract. To date, \$4.9 million (2014 - \$4.8 million) has been received and \$17.0 thousand (2014 - \$0.2 million) has been accrued receivable from the Trust.

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- (o) 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.

24.1 Key Management Personnel Compensation

Compensation for key management personnel, which Hydro defines as its executives who have the primary authority and responsibility for 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.

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
Salaries and employee benefits	1.3	1.5
Post-employment benefits	0.1	0.1
	1.4	1.6

25. COMMITMENTS AND CONTINGENCIES

- (a) Hydro has received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although such matters cannot be predicted with certainty, Management believes that Hydro's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect its financial position.
- (b) Outstanding commitments for capital projects total approximately \$30.4 million as at December 31, 2015 (2014 - \$29.6 million).
- (c) Hydro has entered into a number of long-term power purchase agreements as follows:

Type	Rating	Effective 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
Wind	225 MW	2015	25.5 years
Hydroelectric	(a)	2015	26 years

- (a) Effective October 1, 2015, Hydro entered into a PPA with Energy Marketing which allows for the purchase of available recapture energy from Hydro for resale by Energy Marketing. The PPA can be terminated with notice at the end of an operating year.

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

<i>(millions of dollars)</i>	2016	2017	2018	2019	2020
Power purchases	71.0	72.9	73.8	75.5	77.3

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

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- (e) 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

- (f) 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.
- (g) In 2013, Hydro entered into a Power Purchase Agreement with Muskrat Falls for the purchase of energy and capacity from the Muskrat Falls Plant. The supply period under the agreement is 50 years and commences at the date of commissioning of the Muskrat Falls plant.
- (h) In 2013, Hydro entered into the Transmission Funding Agreement (TFA) with Labrador-Island Link Operating Corporation (LIL Opco), in which Hydro has committed to make payments which will be sufficient for LIL Opco to recover all costs associated with rent payments under the LIL Lease and the payment, operating and maintenance costs incurred by LIL Opco. Hydro will be required to begin mandatory payments associated with the TFA upon commissioning of the LIL assets. The term of the TFA is anticipated to continue until the service life of the LIL assets has expired
- (i) 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.

26. CAPITAL MANAGEMENT

Hydro's principal business requires ongoing access to capital in order to maintain assets to ensure the continued delivery of safe and reliable service to its customers. Therefore, Hydro'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 Hydro's ability to continue as a going concern.

The capital managed by Hydro is comprised of debt (long-term debentures, promissory notes, bank credit facilities and bank indebtedness) and equity (share capital, shareholder contributions, reserves and retained earnings).

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A summary of the capital structure is outlined below:

<i>(millions of dollars)</i>	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	1,007.0		1,239.3	
	1,094.8	57.6%	1,072.3	57.5%
Equity				
Share capital	22.5		22.5	
Shareholder contributions	118.7		118.6	
Reserves	10.6		(4.8)	
Retained earnings	654.4		655.9	
	806.2	42.4%	792.2	42.5%
Total Debt and Equity	1,901.0	100.0%	1,864.5	100.0%

26.1 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 the short-term loans issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at \$300.0 million and \$97.0 is million 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.

26.2 Churchill Falls

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

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

NEWFOUNDLAND AND LABRADOR HYDRO
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27. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the year ended December 31 (millions of Canadian dollars)</i>	2015	2014
Trade and other receivables	(3.6)	(1.4)
Prepayments	-	(1.3)
Inventories	19.2	(21.9)
Trade and other payables	(18.0)	32.9
Changes in non-cash working capital balances	(2.4)	8.3
Related to:		
Operating activities	2.9	(6.1)
Investing activities	(5.3)	14.4
	(2.4)	8.3
Interest received	2.4	19.8
Interest paid	85.4	88.8

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28. SEGMENT INFORMATION

Hydro operates in four business segments. Hydro regulated activities encompass sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility and sells electricity primarily to Hydro-Québec. Energy marketing includes the sale of electricity to markets outside the Province and other non-regulated electricity sales. The designation of segments has been based on a combination of regulatory status and Management accountability. The segments' accounting policies are the same as those previously described in Note 2 of the annual audited consolidated financial statements.

	Hydro Regulated	Churchill Falls*	Energy Marketing	Other	Inter- Segment	Total
<i>(millions of Canadian dollars)</i>						
2015						
Energy sales	582.1	100.8	81.8	-	(4.0)	760.7
Other revenue	3.5	0.5	4.9	0.1	4.7	13.7
Revenue	585.6	101.3	86.7	0.1	0.7	774.4
Fuels	192.8	-	-	-	-	192.8
Power purchased	60.7	-	42.8	-	(4.0)	99.5
Operating costs	153.5	45.5	23.7	2.2	-	224.9
Depreciation and amortization	63.8	15.1	-	-	-	78.9
Net finance (income) expense	73.7	(1.1)	(0.1)	0.2	-	72.7
Other (income) expense	10.4	1.9	(8.9)	(0.8)	-	2.6
Profit (loss) for the year from operations	30.7	39.9	29.2	(1.5)	4.7	103.0
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	29.2	(1.5)	-	102.7
Regulatory adjustments	59.5	-	-	-	-	59.5
(Loss) profit for the year	(28.8)	44.3	29.2	(1.5)	-	43.2
Capital expenditures	125.0	36.0	-	0.1	-	161.1
Total assets	2,230.3	532.7	67.5	-	-	2,830.5
<i>(millions of Canadian dollars)</i>						
2014						
Energy sales	549.4	71.9	73.9	-	(4.0)	691.2
Other revenue	4.1	1.0	-	-	2.7	7.8
Revenue	553.5	72.9	73.9	-	(1.3)	699.0
Fuels	268.1	-	-	-	-	268.1
Power purchased	63.8	-	8.5	-	(4.0)	68.3
Operating costs	140.3	41.4	27.3	2.3	-	211.3
Depreciation and amortization	56.0	13.8	-	-	-	69.8
Net finance (income) expense	70.8	(1.2)	-	-	-	69.6
Other (income) expense	3.2	1.8	0.5	0.1	-	5.6
(Loss) profit for the year from operations	(48.7)	17.1	37.6	(2.4)	2.7	6.3
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	37.6	(2.4)	-	6.7
Regulatory adjustments	(66.3)	-	-	-	-	(66.3)
Profit (loss) for the year	17.6	20.2	37.6	(2.4)	-	73.0
Capital expenditures	207.3	32.7	-	-	-	240.0
Total assets	2,159.3	498.2	8.3	-	-	2,665.8

*Includes a 65.8% ownership interest

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29. 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:

<i>(millions of Canadian dollars)</i>	Previously reported	Foreign exchange	Intangible asset	Legal settlement	IOC recovery	Reclassified balance at December 31, 2014
Property, plant and equipment	2,037.9	-	(8.0)	-	-	2,029.9
Intangible assets	-	-	8.0	-	-	8.0
Other revenue	5.9				1.9	7.8
Operating costs	210.1	-	-	(0.7)	1.9	211.3
Net finance (income) expense	74.0	(4.4)	-	-	-	69.6
Other (income) expense	0.5	4.4	-	0.7	-	5.6