# MUSKRAT FALLS CORPORATION
# FINANCIAL STATEMENTS
# December 31, 2015

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# Independent Auditor's Report

To the Shareholder of Muskrat Falls Corporation

We have audited the accompanying financial statements of Muskrat Falls Corporation which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive loss, 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 Financial Statements**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Muskrat Falls Corporation 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.

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

**MUSKRAT FALLS CORPORATION**
**STATEMENT OF FINANCIAL POSITION**

| *As at December 31 (thousands of Canadian dollars)* | Notes | **2015** | 2014 |
|---|---|---|---|
| | | | (Note 20) |
| **ASSETS** | | | |
| Current assets | | | |
| Restricted cash | | **632,102** | 537,949 |
| Current portion of long-term investments | 8 | **277,919** | 673,457 |
| Current portion of advances | 9 | **76,017** | 69,184 |
| Trade and other receivables | 5 | **20,239** | 21,939 |
| Prepayments | | **3,254** | 3,254 |
| Total current assets | | **1,009,531** | 1,305,783 |
| Non-current assets | | | |
| Property, plant and equipment | 6 | **2,184,726** | 1,337,412 |
| Intangible assets | 7 | **136** | 164 |
| Long-term investments | 8 | **46,830** | 350,386 |
| Advances | 9 | **-** | 33,245 |
| Long-term prepayments | | **5,068** | 8,322 |
| Total assets | | **3,246,291** | 3,035,312 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | **303,642** | 229,783 |
| Non-current liabilities | | | |
| Long-term debt | 11 | **1,976,412** | 2,132,466 |
| Total liabilities | | **2,280,054** | 2,362,249 |
| Shareholder's equity | | | |
| Share capital | 12 | **1** | 1 |
| Shareholder contributions | 12 | **980,651** | 687,464 |
| Reserves | | **(10,646)** | (11,486) |
| Deficit | | **(3,769)** | (2,916) |
| Total equity | | **966,237** | 673,063 |
| Total liabilities and equity | | **3,246,291** | 3,035,312 |

Commitments and contingencies (Note 17)

*See accompanying notes*

On behalf of the Board:

DIRECTOR

DIRECTOR

## MUSKRAT FALLS CORPORATION
## STATEMENT OF LOSS AND COMPREHENSIVE LOSS

| *For the year ended December 31 (thousands of Canadian dollars)* | Notes | **2015** | 2014 |
|---|---|---|---|
| Operating costs | | **514** | 1,065 |
| Other (income) expense | 14 | **339** | - |
| Loss for the year | | **(853)** | (1,065) |
| Other comprehensive income for the year | | **840** | 839 |
| Total comprehensive loss for the year | | **(13)** | (226) |

*See accompanying notes*

**MUSKRAT FALLS CORPORATION**
**STATEMENT OF CHANGES IN EQUITY**

| *(thousands of Canadian dollars)* | Notes | Share Capital | Shareholder Contributions | Reserves | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2015** | | **1** | **687,464** | **(11,486)** | **(2,916)** | **673,063** |
| **Loss for the year** | | **-** | **-** | **-** | **(853)** | **(853)** |
| **Change in fair value of cash flow hedges[1]** | | **-** | **-** | **840** | **-** | **840** |
| **Total comprehensive loss for the year** | | **-** | **-** | **840** | **(853)** | **(13)** |
| **Shareholder contributions** | **12** | **-** | **293,187** | **-** | **-** | **293,187** |
| **Balance at December 31, 2015** | | **1** | **980,651** | **(10,646)** | **(3,769)** | **966,237** |
| | | | | | | |
| Balance at January 1, 2014 | | 1 | 660,786 | (12,325) | (1,851) | 646,611 |
| Loss for the year | | - | - | - | (1,065) | (1,065) |
| Change in fair value of cash flow hedges[1] | | - | - | 839 | - | 839 |
| Total comprehensive loss for the year | | - | - | 839 | (1,065) | (226) |
| Shareholder contributions | 12 | - | 26,678 | - | - | 26,678 |
| Balance at December 31, 2014 | | 1 | 687,464 | (11,486) | (2,916) | 673,063 |

[1]Subsequently reclassified to profit or loss on derecognition.

*See accompanying notes*

# MUSKRAT FALLS CORPORATION
# STATEMENT OF CASH FLOWS

| *For the year ended December 31 (thousands of Canadian dollars)* | Notes | **2015** | 2014 |
|---|---|---|---|
| Cash provided from (used in) | | | |
| Operating activities | | | |
| Loss for the year | | **(853)** | (1,065) |
| Adjusted for items not involving a cash flow: | | | |
| Amortization of long-term prepayments | | **3,254** | 1,596 |
| Accretion of long-term debt | | **(21)** | (23) |
| Reserves amortized to profit or loss | | **840** | 839 |
| Decrease (increase) in advances | 9 | **26,412** | (87,429) |
| Increase in prepayments | | **-** | (5,170) |
| Changes in non-cash working capital balances | 19 | **41** | 29 |
| Net cash provided from (used in) operating activities | | **29,673** | (91,223) |
| | | | |
| Investing activities | | | |
| Additions to property, plant and equipment | 6 | **(847,013)** | (635,395) |
| Additions to intangible assets | 7 | **(273)** | (327) |
| Decrease in investments | 8 | **699,094** | 783,423 |
| Changes in non-cash working capital balances | 19 | **75,518** | 136,006 |
| Net cash (used in) provided from investing activities | | **(72,674)** | 283,707 |
| | | | |
| Financing activities | | | |
| Decrease in long-term debt | 11 | **(156,033)** | - |
| Increase in restricted cash | | **(94,153)** | (219,162) |
| Increase in shareholder contributions | 12 | **293,187** | 26,678 |
| Net cash provided from (used in) financing activities | | **43,001** | (192,484) |
| | | | |
| Net increase (decrease) in cash and cash equivalents | | **-** | - |
| Cash and cash equivalents, beginning of year | | **-** | - |
| Cash and cash equivalents, end of year | | **-** | - |

Supplementary cash flow information (Note 19)

*See accompanying notes*

## 1. DESCRIPTION OF BUSINESS

Muskrat Falls Corporation (Muskrat Falls or the Company) was incorporated on November 13, 2013 under the laws of Newfoundland and Labrador to design, develop, construct, finance and operate the Muskrat Falls hydroelectric facility rated at 824 megawatts. Muskrat Falls' head office is located in St. John's, Newfoundland and Labrador.

Muskrat Falls is a 100% owned subsidiary of Nalcor Energy (Nalcor).

Muskrat Falls has entered into a power purchase agreement (PPA) with Newfoundland and Labrador Hydro (Hydro) for the sale of energy and capacity from the Muskrat Falls hydroelectric plant until January 1, 2068. Muskrat Falls has also entered into the Generator Interconnection Agreement (GIA) with Hydro and Labrador Transmission Corporation (Labrador Transco) which governs the development and operation of the Labrador Transmission Assets connecting the Muskrat Falls plant to the existing hydroelectric facility in Churchill Falls. Under the terms of the GIA, Muskrat Falls is required to pay for all costs associated with the Labrador Transmission Assets. Under the terms of the PPA, Muskrat Falls will recover all costs associated with the Muskrat Falls hydroelectric facility as well as the costs incurred by Muskrat Falls under the GIA. Hydro's obligation to pay for the costs under the PPA is absolute, non-conditional and irrevocable.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Muskrat Falls has adopted accounting policies which are based on the IFRS applicable as at December 31, 2015, and include individual IFRS, International Accounting Standards (IAS), and interpretations made by the IFRS Interpretations Committee and the Standing Interpretations Committee.

These annual audited financial statements have been prepared on a historical cost basis. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. The annual audited financial statements were approved by Muskrat Falls' Board of Directors on March 3, 2016.

### 2.2 Basis of Consolidation

These annual audited financial statements include only the financial statements of Muskrat Falls.

Muskrat Falls includes the financial statements of investees (including structured entities) only when it has control as defined in IFRS 10 – Consolidated Financial Statements. In accordance with IFRS 10, control is achieved when Muskrat Falls:

- has power over the relevant activities of the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect those returns.

The Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust) was formed under the laws of the Province of Newfoundland and Labrador and the federal laws of Canada on November 4, 2013 for the purpose of issuing long-term debentures to the public, which are guaranteed by the federal Government of Canada, and to on-lend the proceeds to Muskrat Falls and Labrador Transco. The funds will be used for the sole purpose of constructing the Muskrat Falls hydroelectric plant and the Labrador Transmission Assets as part of Phase 1 of the Lower Churchill Project.

Based on the criteria outlined in IFRS 10, Muskrat Falls has determined that it does not have control of the MF/LTA Funding Trust and as such has not included the accounts of the MF/LTA Funding Trust in these annual audited financial statements.

**2.3 Restricted Cash**

Restricted cash consists of cash held on deposit with a Schedule 1 Canadian Chartered bank and administered by the Collateral Agent for the sole purpose of funding construction costs related to the Muskrat Fall hydroelectric facility. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA Project Finance Agreement (MF/LTA PFA). Restricted cash is measured at cost which approximates 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 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 Muskrat Falls' accounting policy outlined in Note 2.7. Costs capitalized with the related asset include all costs directly attributable to bringing the asset into operation.

Property, plant and equipment are not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

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

| | |
|---|---|
| Project support assets | 4 - 5 years |

As use of the property, plant and equipment is directly attributable to the construction of the Muskrat Falls hydroelectric plant, related depreciation costs are capitalized as incurred.

**2.6 Intangible Assets**

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, are capitalized as intangible assets in accordance with IAS 38.

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. As use of the intangible assets is directly attributable to the construction of the Muskrat Falls hydroelectric plant, related amortization costs are capitalized as incurred. 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.

**2.7 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 Statement of Loss and Comprehensive Loss in the period in which they are incurred.

**2.8 Impairment of Non-Financial Assets**

At the end of each reporting period, the Company 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, the Company 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 Statement of Loss and Comprehensive Loss.

**2.9 Provisions**

A provision is a liability of uncertain timing or amount. A provision is recognized if the Company 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 Statement of Financial Position date using the current discount rate.

**2.10 Revenue Recognition**

Revenue is recognized on an accrual basis as earned, when recovery is probable and the amount of revenue can be reliably measured.

**2.11 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 the Company'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 the Company'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 the Company 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 Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs (Note 2.7). 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.

**2.12 Net Finance (Income) Expense**

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale (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.

**2.13 Foreign Currencies**

Transactions in currencies other than Muskrat Falls' 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 are included in the Statement of Loss and Comprehensive Loss as other (income) expense.

**2.14 Income Taxes**

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

**2.15 Financial Instruments**

Financial assets and financial liabilities are recognized in the Statement of Financial Position when the Company 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 fair value through profit or loss (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

The Company has classified each of its financial instruments into the following categories: loans and receivables, held-to-maturity investments and other financial liabilities.

| | |
|---|---|
| Restricted cash | Loans and receivables |
| Trade and other receivables | Loans and receivables |
| Investments | Held-to-maturity investments |
| Advances | Loans and receivables |
| Trade and other payables | Other financial liabilities |
| Long-term debt | 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) 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.

(iii) Held-to-Maturity Investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company 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 interest revenue recognized on an effective yield basis.

Financial Liabilities and Equity Instruments

(iv) 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.

(v) Derivative Instruments and Financial Instruments Used for Hedging
Derivative instruments are utilized by the Company to manage risk. The Company'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.

The Company 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. The Company 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 Statement of Loss and Comprehensive Loss for the period. Amounts recognized as other comprehensive income are capitalized as Construction in Progress.

**2.16 Derecognition of Financial Instruments**

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

**2.17 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 the Company'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.

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the annual audited 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 including, but not limited to, allocations of costs among entities. Actual results may materially differ from these estimates. 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 Judgment**

(i) Intangible Assets

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

(ii) Functional currency
Functional currency was determined by evaluating the primary economic environment in which the Company operates. As the Company 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.

(iii) 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 Muskrat Falls should not consolidate the MF/LTA Funding Trust.

**3.2 Use of Estimates**

(i) Property, Plant and Equipment
Amounts recorded for depreciation are based on the useful lives of the Company's assets. The useful lives of property, plant and equipment are determined by independent specialists and reviewed annually by the Company. 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.

**4. FUTURE CHANGES IN ACCOUNTING POLICIES**

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

| | |
|---|---|
| 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] |

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

**4.1 Amendments to 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 the Company's annual audited financial statements.

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

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

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Company uses the straight-line methods for depreciation and amortization of its property, plant and equipment, and intangible assets respectively.

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

**4.3 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 the Company's annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

### 4.4 IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

### 4.5 IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 that 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 the Company’s annual audited 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. TRADE AND OTHER RECEIVABLES

| *As at December 31 (thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Receivables due from related parties | **1,536** | 1,896 |
| Other receivables | **18,703** | 20,043 |
| | **20,239** | 21,939 |

Other receivables are comprised of input tax credits and accrued interest.

## 6. PROPERTY, PLANT AND EQUIPMENT

| *(thousands of Canadian dollars)* | Project support assets | Construction in progress | Total |
|---|---|---|---|
| Cost | | | |
| Balance at January 1, 2014 | - | 701,651 | 701,651 |
| Additions | 182,900 | 483,036 | 665,936 |
| Balance at December 31, 2014 | 182,900 | 1,184,687 | 1,367,587 |
| **Additions** | **2,578** | **890,190** | **892,768** |
| **Balance at December 31, 2015** | **185,478** | **2,074,877** | **2,260,355** |
| Depreciation | | | |
| Balance at January 1, 2014 | - | - | - |
| Depreciation | 30,175 | - | 30,175 |
| Balance at December 31, 2014 | 30,175 | - | 30,175 |
| **Depreciation** | **45,454** | **-** | **45,454** |
| **Balance at December 31, 2015** | **75,629** | **-** | **75,629** |
| Carrying value | | | |
| Balance at January 1, 2014 | - | 701,651 | 701,651 |
| Balance at December 31, 2014 | 152,725 | 1,184,687 | 1,337,412 |
| **Balance at December 31, 2015** | **109,849** | **2,074,877** | **2,184,726** |

Capitalized Borrowing Costs

The construction of the Muskrat Falls hydroelectric facility was sanctioned in December 2012. The construction is being financed through the issuance of long-term debt and contributed capital. During 2015, $56.5 million (2014 - $53.1 million) of borrowing costs were capitalized. The effective interest rate of the debt is 3.80%.

## 7. INTANGIBLE ASSETS

| *(thousands of Canadian dollars)* | Computer Software |
|---|---|
| Cost | |
| Balance at January 1, 2014 | 1,346 |
| Additions | 327 |
| Balance at December 31, 2014 | 1,673 |
| **Additions** | **273** |
| **Balance at December 31, 2015** | **1,946** |
| Amortization | |
| Balance at January 1, 2014 | 1,143 |
| Amortization | 366 |
| Balance at December 31, 2014 | 1,509 |
| **Amortization** | **301** |
| **Balance at December 31, 2015** | **1,810** |
| Carrying value | |
| Balance at January 1, 2014 | 203 |
| Balance at December 31, 2014 | 164 |
| **Balance at December 31, 2015** | **136** |

Intangible assets consist of computer software costs, amortized on a straight-line basis over their finite useful lives of one year.

## 8. INVESTMENTS

In December 2013, the Company, jointly with Labrador Transco, purchased three structured deposit notes using the proceeds from the issue of long-term debt. The investments are restricted in nature and are subject to the provisions contained within the MF/LTA 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 amended PFA Muskrat Falls recognizes its ratable share of these investments, which 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' portion was 76% (2014 - 82%).

| *As at December 31 (thousands of Canadian dollars)* | Year of Maturity | **2015** | 2014 |
|---|---|---|---|
| $75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offer Rate (CDOR) plus 0.38%. | 2017 | **57,000** | 61,500 |
| $478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%. | 2016 | **53,550** | 192,469 |
| $1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum. | 2016 | **214,199** | 769,874 |
| | | **324,749** | 1,023,843 |
| Less: payments to be received within one year | | **277,919** | 673,457 |
| Total long-term investments | | **46,830** | 350,386 |

## 9. ADVANCES

Advances consist of deposits paid to a contractor on a long-term construction contract in relation to the Muskrat Falls hydroelectric facility. Advances are secured by a letter of credit from a Canadian Schedule 1 Chartered bank.

| *As at December 31 (thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Total advances | **76,017** | 102,429 |
| Less: current portion | **76,017** | 69,184 |
| Total long-term advances | **-** | 33,245 |

## 10. TRADE AND OTHER PAYABLES

| *As at December 31 (thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Trade payables | **295,025** | 213,429 |
| Payables due to related parties | **2,368** | 9,612 |
| Accrued interest | **6,249** | 6,742 |
| | **303,642** | 229,783 |

As at December 31, 2015, trade and other payables included balances of €42.7 million EUR (2014 - €7.0 million EUR) and $14.1 million USD (2014 - $2.0 million USD).

## 11. LONG-TERM DEBT

The following table represents the value of long-term debt measured at amortized cost as at December 31:

| *(thousands of Canadian dollars)* | Face Value | Coupon Rate % | Year of Issue | Year of Maturity | **2015** | 2014 |
|---|---|---|---|---|---|---|
| Tranche A | 494,000 | 3.63 | 2013 | 2029 | **494,154** | 533,179 |
| Tranche B | 513,000 | 3.83 | 2013 | 2037 | **513,075** | 553,584 |
| Tranche C | 969,000 | 3.86 | 2013 | 2048 | **969,183** | 1,045,703 |
| Total debentures | 1,976,000 | | | | **1,976,412** | 2,132,466 |

On November 29, 2013, Muskrat Falls entered into the PFA with the MF/LTA Funding Trust and Labrador Transco. Under the terms and conditions of the 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 PFA, the $2.6 billion advance is held in an account administered by a Collateral Agent. The Company draws funds from this account on a monthly basis in accordance with procedures set out in the PFA.

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

As security for these debt obligations, Muskrat Falls has granted to the Collateral Agent first ranking liens on all present and future assets. On the date of the release of the final funding request from the Collateral Agent, sinking funds are required to be set up for each of the three tranches to be held in a sinking fund account under the control of the Collateral Agent.

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' portion of the 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%).

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

| *(thousands of Canadian dollars)* | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Sinking fund instalments | - | - | 22,455 | 44,909 | 44,909 |

## 12. SHAREHOLDER'S EQUITY

### 12.1 Share Capital

| *As at December 31 (thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Common shares without nominal or par value | | |
| Authorized - unlimited | | |
| Issued and outstanding - 100 | **1** | 1 |

### 12.2 Shareholder Contributions

| *As at December 31 (thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Total shareholder contributions | **980,651** | 687,464 |

During 2015, Nalcor contributed cash in the amount of $293.2 million (2014 - $26.7 million). Included in this amount was the second instalment payment to meet pre-funded equity requirements associated with the PFA.

## 13. NET FINANCE (INCOME) EXPENSE

| *For the year ended December 31 (thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Finance income | | |
| Interest on investments | **7,988** | 22,976 |
| Other interest income | **4,320** | 4,849 |
| | **12,308** | 27,825 |
| Finance expense | | |
| Interest on long-term debt | **68,774** | 80,950 |
| | **68,774** | 80,950 |
| Interest capitalized during construction | **(56,466)** | (53,125) |
| | **12,308** | 27,825 |
| Net finance (income) expense | **-** | - |

Due to the PFA amendment in July 2015, cumulative retroactive adjustments were made in the current year to net finance (income) expense to reflect Muskrat Falls' ratable share of the actual debt drawn.

## 14. OTHER (INCOME) EXPENSE

Other (income) expense consists of foreign exchange gains and losses associated with construction costs of the Muskrat Falls hydroelectric facility. Foreign exchange gains and losses as at December 31, 2015, were $0.3 million (2014 - $nil).

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### 15.1 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 Muskrat Falls might receive or incur in actual market transactions.

As a significant number of Muskrat Falls' assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Muskrat Falls 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.

As at December 31, 2015 the Company did not have any level 3 instruments.

| *(thousands of Canadian dollars)* | **Level** | **Carrying Value 2015** | **Fair Value 2015** | Carrying Value 2014 | Fair Value 2014 |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Investments | **2** | **324,749** | **325,209** | 1,023,843 | 1,023,996 |
| Financial liabilities | | | | | |
| Long-term debt | **2** | **1,976,412** | **2,317,138** | 2,132,466 | 2,509,704 |

The fair values of restricted cash, trade and other receivables, advances and trade and other payables approximate their carrying values due to their short-term maturity.

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

**15.2 Risk Management**

The Company 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 the Company's expected future cash flows.

Credit Risk

The Company's expected future cash flows are exposed to credit risk through financing activities, based on the risk of non-performance by counterparties to its financial instruments. Credit risk on restricted cash and investments is minimal, as the Company's deposits and investments are held by a Canadian Schedule 1 Chartered Bank with a rating of AA- (Standard and Poor's). The degree of exposure to credit risk on trade and other receivables and advances is determined by the financial capacity and stability of the counterparties whereby the maximum risk is represented by their carrying value on the Statement of Financial Position at the reporting date.

Liquidity Risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including derivative liabilities relating to hedging activities. Liquidity risk management activities are directed at ensuring cash is available to meet those obligations as they become due. Short-term liquidity is provided through restricted cash on hand and shareholder contributions. The Company can access the funds drawn down from the Muskrat/LTA Construction Facility and shareholder contributions for the payment of construction costs as well as interest payments.

The following are the contractual maturities of the Company's financial liabilities, including principal, sinking fund and interest as at December 31, 2015:

| *(thousands of Canadian dollars)* | < 1 Year | 1-3 Years | 3-5 Years | > 5 Years | Total |
|---|---|---|---|---|---|
| Trade and other payables | 303,642 | - | - | - | 303,642 |
| Long-term debt (including interest and sinking fund) | 74,984 | 172,422 | 239,785 | 3,381,422 | 3,868,613 |
| | 378,626 | 172,422 | 239,785 | 3,381,422 | 4,172,255 |

Market Risk

In the course of carrying out its operating, financing and investing activities, the Company is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities.

*Interest Rates*

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities. Expected future cash flows from these assets and liabilities are also impacted in certain circumstances.

*Foreign Currency and Commodity Exposure*

The Company does not hold any financial instruments whose value would vary due to changes in a commodity price or fluctuations in foreign currency exchange rates. Cash flow exposure to commodity price and foreign exchange risk arises primarily through investing activities, most notably US dollar and Euro denominated capital expenditures, and regular procurement activities. Exposure arising from capital expenditures is evaluated on a case by case basis. Where possible, contracts are denominated in Canadian dollars.

**15.3 Hedge Accounting**

In December 2013, Muskrat Falls entered into nine bond forward contracts totaling $2.0 billion to hedge the interest rate risk on 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 profit or loss over the same period as the related debt instruments which mature between 2029 and 2048.

## 16. RELATED PARTY TRANSACTIONS

Muskrat Falls 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 Muskrat Falls transacts are as follows:

| Related Party | Relationship |
|---|---|
| Nalcor | 100% shareholder of Muskrat Falls |
| Labrador Transco | 100% owned subsidiary of Nalcor |
| MF/LTA Funding Trust | Party to the PFA |
| Lower Churchill Management Corporation (LCMC) | 100% owned subsidiary of Nalcor |
| Labrador-Island Link Limited Partnership (LIL LP) | Limited partnership between Nalcor and Emera Newfoundland and Labrador Holdings Inc. |
| Hydro | 100% owned subsidiary of Nalcor |

(a) As at December 31, 2015, Muskrat Falls has related party payables totaling $2.4 million (2014 - $9.6 million) with Labrador Transco and Nalcor and related party receivables totaling $1.5 million (2014 - $1.9 million) with LIL LP and LCMC. These payables/receivables consist of various intercompany operating and construction costs.

(b) As at December 31, 2015, Muskrat Falls has received contributions from Nalcor totaling $980.7 million (2014 - $687.5 million). Included in these contributions are two instalment payments to meet pre-funded equity requirements associated with the PFA. Contributions include cash, property, plant and equipment, advances and associated liabilities related to the construction of the Muskrat Falls hydroelectric facility.

## 17. COMMITMENTS AND CONTINGENCIES

(a) Muskrat Falls has entered into the GIA with Labrador Transco and Hydro, whereby Muskrat Falls has committed to design, construct, operate and maintain the Muskrat Falls hydroelectric facility, and provide such other services as agreed to ensure safe and reliable transmission of electricity.

(b) As part of the PFA, Muskrat Falls has pledged its present and future assets as security to the Collateral Agent.

(c) Muskrat Falls is subject to legal proceedings in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Muskrat Falls’ 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.

(d) As at December 31, 2015, Muskrat Falls had outstanding commitments for construction costs related to the Muskrat Falls hydroelectric facility of $1,380.7 million (2014 - $1,422.7 million).

## 18. CAPITAL MANAGEMENT

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

## 19. SUPPLEMENTARY CASH FLOW INFORMATION

| *For the year ended December 31 (thousands of Canadian dollars)* | **2015** | 2014 |
|---|---|---|
| Trade and other receivables | **1,700** | (20,134) |
| Trade and other payables | **73,859** | 156,169 |
| Changes in non-cash working capital balances | **75,559** | 136,035 |
| | | |
| Related to: | | |
| Operating | **41** | 29 |
| Investing | **75,518** | 136,006 |
| | **75,559** | 136,035 |
| | | |
| Interest received | **12,448** | 27,771 |
| Interest paid | **77,532** | 77,643 |

## 20. COMPARATIVE FIGURES

Certain 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:

| *(thousands of Canadian dollars)* | Previously Reported | Long-term investments | Intangible assets | **Reclassified balance at December 31, 2014** |
|---|---|---|---|---|
| Current portion of long-term investments | - | 673,457 | - | **673,457** |
| Property, plant and equipment | 1,337,576 | - | (164) | **1,337,412** |
| Intangible assets | - | - | 164 | **164** |
| Long-term investments | 1,023,843 | (673,457) | - | **350,386** |