NALCOR ENERGY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

Deloitte.

Deloitte LLP
5 Springdale Street
Suite 1000
St. John's, NL A1E 0E4 Canada

Tel: (709) 576-8480
Fax: (709) 576-8460
www.deloitte.ca

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

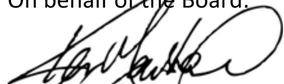
NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (millions of Canadian dollars)	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

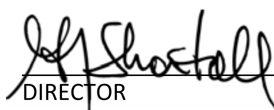
Commitments and contingencies (Note 29)
Subsequent event (Note 34)

See accompanying notes

On behalf of the Board:



DIRECTOR



DIRECTOR

NALCOR ENERGY
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31 (millions of Canadian dollars)	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

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

[1]Subsequently reclassified to profit or loss on derecognition

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (millions of Canadian dollars)	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

1. DESCRIPTION OF BUSINESS

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

1.1 Subsidiaries

Nalcor holds interests in the following subsidiaries:

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

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

A 100.0% interest in Nalcor Energy – Bull Arm Fabrication Inc. (Bull Arm Fabrication), an industrial fabrication site with a fully integrated infrastructure to support large-scale fabrication and assembly. Its facilities include onshore fabrication halls and shops, a dry-dock and a deep water site.

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

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

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

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

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

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

A 100.0% interest in Nalcor Energy Marketing Corporation (Energy Marketing), a subsidiary established to market Nalcor's energy throughout North America.

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

1.2 Investment in Joint Arrangement

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

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

1.3 Variable Interest Entities

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

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

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

2.2 Basis of Consolidation

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

Effective June 18, 1999, Hydro, Churchill Falls, and Hydro-Québec entered into a shareholders’ agreement (the Shareholders’ Agreement) which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on Churchill Falls’ Board of Directors. Although Hydro holds a 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to Churchill Falls, from that of majority and minority shareholders, respectively, to that of a joint operation. Accordingly, Hydro has recognized its share of assets, liabilities and profit or loss in relation to its interest in Churchill Falls subsequent to the effective date of the Shareholders’ Agreement.

Churchill Falls investment in Twin Falls is accounted for using the equity method.

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

2.3 Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three

months and less than twelve months classified as short-term investments. Cash and cash equivalents are measured at cost which approximates fair value, while short-term investments are measured at fair value.

2.4 Restricted Cash

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

2.5 Trade and Other Receivables

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

2.6 Inventories

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

2.7 Property, Plant and Equipment

Items of property, plant and equipment are recognized using the cost model and thus are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, professional fees and, for qualifying assets, borrowing costs capitalized in accordance with Nalcor's accounting policy outlined in Note 2.11. Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of property, plant and equipment are required to be replaced at intervals, Nalcor recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred. Property, plant and equipment is not revalued for financial reporting purposes. Depreciation of these assets commences when the assets are ready for their intended use.

Hydro

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

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

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

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

Other assets include telecontrol, buildings, vehicles, furniture, tools and equipment.

Churchill Falls

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

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

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

Oil and Gas

(i) Development and Production Costs

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

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

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

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

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

(ii) Subsequent Costs

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

(iii) Depletion

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

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

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

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

(iv) Other Assets

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

Lower Churchill Project

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

Project support assets	4 to 5 years

2.8 Exploration and Evaluation Assets

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

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

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

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

2.9 Investment Property

Investment property is property held for the purpose of generating rental income or capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. As at December 31, 2015 investment property included the Bull Arm Fabrication site and facilities.

Investment property is recognized using the cost model and thus is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes materials, labour, contracted services, 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.

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

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

The value of differences between energy delivered and the Annual Energy Base (AEB), as defined in the Power Contract, is tracked over a four-year period and then either recovered from or refunded to Hydro-Québec over the subsequent four-year period, unless the balance is less than $1.0 million in which case it is recovered or refunded immediately. These long-term receivables or long-term payables are subject to interest at 7% per annum (2014 - 7%).

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

Petroleum and Natural Gas Sales

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

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

Other Revenue

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

2.18 Leasing

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

Lessor accounting

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

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

Lessee accounting

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in

profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with Nalcor's general policy on borrowing costs (Note 2.11). Contingent rental costs are recognized as operating costs in the periods in which they are incurred.

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

2.19 Net Finance (Income) Expense

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

2.20 Foreign Currencies

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

2.21 Income Taxes

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

2.22 Financial Instruments

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

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.

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.

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

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

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

Financial Liabilities and Equity Instruments

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

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

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

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

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

Cash Flow Hedges
The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in the Consolidated Statement of Loss and Comprehensive Loss for the year.

Amounts recognized as other comprehensive income (loss) are transferred to the Consolidated Statement of Loss and Comprehensive Loss for the period when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs.

2.23 Derecognition of Financial Instruments

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

2.24 Impairment of Financial Assets

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

Evidence of impairment could include:

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

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

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

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

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

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

2.25 Government Grants

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

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

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

2.26 Regulatory Deferrals

Hydro’s revenues from its electrical sales to most customers within the Province are subject to rate regulation by the PUB. Hydro's borrowing and capital expenditure programs are also subject to review and approval by the PUB. Rates are set through periodic general rate applications utilizing a cost of service (COS) methodology. The allowed rate of return on rate base is 7.4% (2014 - 7.4%) +/- 15 basis points. Hydro applies various accounting policies that differ from enterprises that do not operate in a rate regulated environment. Generally, these policies result in the deferral and amortization of costs or credits which are expected to be recovered or refunded in future rates. In the absence of rate regulation, these amounts would be included in the determination of profit or loss in the year the amounts are incurred. The effects of rate regulation on the annual audited consolidated financial statements are disclosed in Note 11.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Use of Judgments

(i) Asset Impairment and Reversals

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

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

(ii) Property, Plant and Equipment

Nalcor’s accounting policy relating to property, plant and equipment is described in Note 2.7. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable borrowing costs to be included in the carrying value of the development asset. Judgment is also used in determining the appropriate componentization structure for Nalcor’s property, plant and equipment.

(iii) Revenue

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

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

(iv) Functional Currency

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

(v) Determination of CGUs

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

(vi) Discount Rates

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

(vii) Consolidation of Joint Arrangements

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

(viii) Consolidation

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

3.2 Use of Estimates

(i) Property, Plant and Equipment

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

(ii) Investment Property

Amounts recorded for depreciation are based on the useful lives of Bull Arm Fabrication's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of depreciation recorded.

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

(iii) Intangible Assets
Amounts recorded for amortization are based on the useful lives of Nalcor's assets. These useful lives are Management's best estimate of the service lives of these assets. Changes to these lives could materially affect the amount of amortization recorded.

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

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

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

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

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

(viii) Lease Revenue
Lease revenue is recognized when services have been rendered, recovery of the consideration is probable and the amount of revenue can be reliably measured. Lease revenue is recognized evenly over the period of the lease contract and may change depending on the final contract value.

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

3.3 Use of Assumptions

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

4. FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

4.1 Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

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

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

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

4.2 Amendments to IAS 1 Disclosure Initiative

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

4.3 Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

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

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

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

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

4.4 Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

4.5 IFRS 9 Financial Instruments

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

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

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

4.6 IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

4.7 IFRS 16 Leases

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

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

5. CASH AND CASH EQUIVALENTS

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

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

6. TRADE AND OTHER RECEIVABLES

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

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

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

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

7. INVENTORIES

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

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

9. INTANGIBLE ASSETS

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

10. INVESTMENT PROPERTY

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

11. REGULATORY DEFERRALS

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

11.1 Regulatory Adjustments Recorded in the Consolidated Statement of Loss and Comprehensive Loss

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

The following section describes Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for 2015 would have increased by $59.5 million (2014 - $66.3 million decrease).

11.2 Rate Stabilization Plan (RSP)

In 1986, the PUB ordered Hydro to implement an RSP which primarily provides for the deferral of fuel expense variances resulting from changes in fuel prices, hydrology and load and associated interest. Additionally, the RSP also includes costs associated with the island interconnected and isolated systems. Adjustments required in utility rates to cover the amortization of the balance are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

During 2015, Hydro recorded a net increase in regulatory liabilities of $78.6 million (2014 - decrease of $7.8 million) resulting in an RSP ending balance for 2015 of $324.6 million (2014 - $246.0 million). Included in the balance is $126.9 million (2014 - $75.6 million) which is to be refunded in the following year, with the exception of hydraulic variations, which will be refunded at a rate of 25% of the outstanding balance at December 31, 2016. The remaining

portion of the RSP balance totaling $197.7 million (2014 - $170.4 million) has been set aside with $133.4 million (2014 - $124.0 million) to be refunded to Newfoundland Power's retail customers, $61.2 million (2014 - $35.5 million) subject to a future ruling of the PUB and $3.1 million (2014 - $10.9 million) to be used to phase in Island Industrial rate increases. Pursuant to Board Order No. P.U. 17 (2015), the balance designated to phase in Island Industrial rate increases was also used to settle the Island Industrial 2014 closing balance of $6.8 million.

11.3 Deferred Foreign Exchange Losses

In 2002, the PUB ordered Hydro to defer realized foreign exchange losses related to the issuance of Swiss Franc and Japanese Yen denominated debt and amortize the balance over a 40-year period. Accordingly, these costs were recognized as a regulatory asset. During 2015, the amortization of $2.2 million (2014 - $2.1 million) reduced regulatory assets.

11.4 Deferred Energy Conservation

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

11.5 Deferred Purchased Power Savings

In 1997, the PUB ordered Hydro to defer $1.1 million related to reduced purchased power rates resulting from the interconnection of communities in the area of L'Anse au Clair to Red Bay to the Hydro-Québec system and amortize the balance over a 30-year period. The remaining unamortized savings in the amount of $0.4 million (2014 - $0.5 million) are deferred as a regulatory liability.

11.6 Deferred Foreign Exchange on Fuel

Hydro purchases a significant amount of fuel for the Holyrood Thermal Generating Station (HTGS) in USD. The RSP allows Hydro to defer variances in fuel prices (including foreign exchange fluctuations). During 2015, Hydro recognized foreign exchange losses on fuel purchases of $0.4 million (2014 - $0.3 million loss) in regulatory assets.

11.7 Insurance Amortization and Proceeds

Pursuant to Order No. P.U. 13 (2012), Hydro records net insurance proceeds against capital costs and amortizes the balance over the life of the asset. Under IFRS, Hydro is required to recognize the insurance proceeds and corresponding amortization in regulatory liabilities. During 2015, Hydro recorded a decrease to regulatory liabilities resulting from amortization of $0.6 million (2014 - $0.5 million) related to the assets and insurance proceeds of $nil (2014 - $1.8 million).

11.8 Deferred Lease Costs

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

11.9 Fuel Supply Deferral

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

11.10 2014 Cost Deferral

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

11.11 2015 Cost Deferral

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

11.12 Employee Benefits Actuarial Loss

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

12. OTHER LONG-TERM ASSETS

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

(a) As at December 31, 2015, long-term receivables include $3.3 million (2014 - $36.9 million) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. The current portion of $88.8 million (2014 - $74.5 million) is included in trade and other receivables. The remaining $0.3 million (2014 - $0.3 million) includes the non-current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs.

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

(c) In 2007, and pursuant to the terms of the Shareholders' Agreement, Churchill Falls commenced the creation of a $75.0 million segregated reserve fund to contribute towards the funding of capital expenditures related to Churchill Falls' existing facilities and their replacement. Churchill Falls invested $17.0 million in each of 2007, 2008 and 2009 and $8.0 million in each of 2010, 2011 and 2012. In October 2014, $23.4 million was withdrawn to fund a portion of 2014 capital expenditures. In December 2015, $5.0 million was withdrawn to fund a portion of 2015 capital expenditures. As per the terms of the Shareholders' Agreement, these funds will be replaced over a five year period beginning in 2017.

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

The reserve fund consists of the following:

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

(d) As at December 31, 2015, sinking funds include $242.6 million (2014 - $228.4 million) related to repayment of Hydro's long-term debt and $41.0 million (2014 - $40.2 million) related to funding of Nalcor's long-term payable under the Upper Churchill Redress Agreement (UCRA). Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada, provincial governments or Schedule 1 banks, and have maturity dates ranging from 2017 to 2033.

Hydro debentures, which are intended to be held to maturity, are deducted from debt while all other sinking fund investments are shown separately on the Consolidated Statement of Financial Position as assets. Annual contributions to the various sinking funds are in accordance with bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 1.22% to 9.12% (2014 - 1.52% to 9.12%).

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

The sinking funds consist of the following:

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

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

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

13. LONG-TERM INVESTMENTS

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

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

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

14. TRADE AND OTHER PAYABLES

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

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

15. DEBT

15.1 Short-term Borrowings

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

Nalcor has issued eleven irrevocable letters of credit, with a total value of $12.0 million. Two of these letters, totaling $4.7 million, are in favour of Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. During the year, a letter of credit previously issued in favour of Oil and Gas in the amount of $0.1 million, was cancelled by the beneficiary. Another nine letters, totaling $7.3 million, are in favour of Energy Marketing and relate to collateral requirements in the Québec, Ontario, New York, New England, Midwest United States and PJM (Pennsylvania-New Jersey-Maryland) electricity markets. Letters of credit issued prior to 2015 include $1.3 million USD to ISO New England Inc., $0.2 million to Independent Electricity System Operator and $1.0 million to Hydro-Quebec. In March 2015, Nalcor increased the irrevocable letter of credit issued to New York Independent System Operator to $2.6 million USD (2014 - $1.2 million USD). In May 2015, Nalcor issued a $0.2 million USD letter of credit to Green Mountain Power Corporation relating to collateral required for transmission customers. In September 2015, Nalcor issued a $50,000 USD letter of credit to PJM Settlement Inc. and a $50,000 USD letter of credit to Midcontinent Independent System Operator Inc., relating to collateral required for market participation. Also in September 2015, Nalcor issued a $52,000 USD letter of credit to Eversource Energy Service Company, relating to collateral required for transmission customers. In October 2015, Nalcor issued a $0.3 million letter of credit to Brookfield Energy Marketing LP, as credit assurance for obligations under a master power purchase and sale agreement.

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

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

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at December 31, 2015, there were no amounts drawn on this facility (2014 - $nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, or letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. Churchill Falls has issued three irrevocable letters of credit, totaling $2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

Oil and Gas maintains a $5.0 million USD or CAD equivalent unsecured credit facility with its banker and as at December 31, 2015, there were no amounts drawn on this facility (2014 - $nil). Borrowings in CAD may take the form of Prime Rate Advances and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit.

Energy Marketing maintains a $20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at December 31, 2015, there was $8.2 million drawn on this facility (2014 - $nil), included in cash and cash equivalents. This facility has an unconditional and irrevocable guarantee from Nalcor. Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and letters of credit.

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

15.2 Long-term Debt

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

As at December 31 (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**2015**	2014
Hydro						
V*	0.3	10.50	1989	2014	**0.3**	0.3
X*	150.0	10.25	1992	2017	**149.8**	149.7
Y*	300.0	8.40	1996	2026	**294.7**	294.3
AB*	300.0	6.65	2001	2031	**305.7**	305.9
AD*	125.0	5.70	2003	2033	**123.8**	123.7
AE	225.0	4.30	2006	2016	**224.8**	224.6
AF	200.0	3.60	2014	2045	**197.1**	197.1
LIL LP						
Tranche A	725.0	3.76	2013	2033	**725.3**	725.3
Tranche B	600.0	3.86	2013	2045	**600.1**	600.1
Tranche C	1,075.0	3.85	2013	2053	**1,075.2**	1,075.2
Labrador Transco/Muskrat Falls						
Tranche A	650.0	3.63	2013	2029	**650.2**	650.2
Tranche B	675.0	3.83	2013	2037	**675.1**	675.1
Tranche C	1,275.0	3.86	2013	2048	**1,275.2**	1,275.3
Total debentures	6,300.3				**6,297.3**	6,296.8
Less: Sinking fund investments in own debentures					**55.8**	47.9
					6,241.5	6,248.9
Less: payments due within one year					**233.4**	8.4
Total debentures					**6,008.1**	6,240.5

*Sinking funds have been established for these issues.

Hydro's promissory notes and debentures are unsecured and unconditionally guaranteed as to principal and interest and, where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee fee of 25 basis points annually on total debt (net of sinking funds) with a remaining term to maturity less than 10 years and 50 basis points annually on total debt (net of sinking funds) with a remaining term to maturity greater than 10 years. The fee for the year ended December 31, 2015 was $4.5 million (2014 - $3.7 million).

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

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

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

As security for these debt obligations, LIL LP has granted to the Collateral Agent first ranking liens on all present and future assets relating to the Lower Churchill Project. On the date of the release of the final funding request from the

Collateral Agent, sinking funds are required to be set up for each of the three tranches to be held in a sinking fund account administered by the Collateral Agent.

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

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance of $2.6 billion. Under the terms of the MF/LTA PFA, the $2.6 billion advance is held in an account administered by the Collateral Agent with a portion of the funds invested in structured deposits notes. Muskrat Falls and Labrador Transco draw funds from this account on a monthly basis in accordance with procedures set out in the PFA.

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

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

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

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

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

16. CLASS B LIMITED PARTNERSHIP UNITS

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

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

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

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

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

Nalcor has recorded deferred energy sales of $659.0 million (2014 - $330.0 million) which equals the construction costs to date incurred by Emera. Nalcor has determined that it controls the Maritime Link asset for financial reporting purposes, and as such, has recorded the costs as a component of property, plant and equipment under construction.

18. DEFERRED CONTRIBUTIONS

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

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

19. DECOMMISSIONING LIABILITIES

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

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

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

The total estimated undiscounted cash flows required to settle the HTGS obligations at December 31, 2015 are $32.1 million (2014 - $32.1 million). Payments to settle the liabilities are expected to occur between 2020 and 2024. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's credit adjusted risk free rate of 2.3% (2014 - 2.6%). Hydro has recorded $27.0 million (2014 - $25.8 million) related to HTGS obligations.

The total estimated undiscounted cash flows required to settle the PCB obligations at December 31, 2015 are $2.0 million (2014 - $2.6 million). Payments to settle the liabilities are expected to occur between 2016 and 2025. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at Hydro's and Churchill Falls' credit adjusted risk free rates of 2.6% to 3.8% (2014 - 2.8% to 4.6%). Hydro and Churchill Falls have recorded $1.8 million (2014 - $2.2 million) related to PCB obligations.

Oil and Gas' decommissioning liabilities result from net ownership interests in petroleum and natural gas properties and related well sites. The total undiscounted estimated cash flows required to settle the obligations at December 31, 2015 are $137.4 million (2014 - $30.5 million). Payments to settle the liabilities are expected to occur between 2016 and 2031. The fair value of the decommissioning liabilities was determined using the present value of future cash flows discounted at rates ranging from 3.6% to 4.4% (2014 - 3.7% to 5.6%).

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

20. LONG-TERM PAYABLES

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

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

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

Under the IBA, Nalcor is required to make annual payments to the Innu Nation that commenced upon sanction of the Muskrat Falls hydroelectric plant. The Muskrat Falls hydroelectric plant was sanctioned in December 2012 and the first IBA payment was made at that time. The IBA requires annual payments of $5.0 million escalating by an annual consumer price index from sanction until first commercial power. The present value of the remaining payments using a discount rate of 2.6% (2014 - 3.7%) is $42.9 million (2014 - $33.5 million). The current portion of the payable at December 31, 2015 is $5.0 million (2014 - $5.0 million).

In September 2012, the joint venture partners in the Hebron Project executed the Benefits Agreement Drilling Equipment Set (DES) Settlement Agreement. The DES Settlement Agreement allowed the Hebron partners to adjust the Hebron Benefits Agreement such that the DES could be constructed at a geographic location outside of Newfoundland and Labrador in exchange for a one-time payment to the Province. The total payment was agreed to be $150.0 million payable on June 30, 2016. Nalcor's proportionate 4.9% share of the undiscounted payment will be $7.3 million. The payment is recorded at its present value using a discount rate of 2.6%. At June 30, 2015 the balance of the amount payable was transferred to trade and other payables.

A long-term payable to Hydro-Québec as at December 31, 2015 is the accumulation of differences between energy delivered and the AEB billed during the four year period from September 1, 2008 to August 31, 2012. Monthly repayments commenced in September 2012 and will terminate on August 31, 2016. The current portion of $0.3 million (2014 - $1.0 million) is included in trade and other payables. The long-term portion is $nil (2014 - $0.7 million).

21. EMPLOYEE BENEFITS LIABILITY

21.1 Pension Plan

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

21.2 Other Benefits

Nalcor provides group life insurance and health care benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. In 2015, cash payments to beneficiaries for its unfunded other employee future benefits were $3.3 million (2014 - $2.7 million). An actuarial valuation was performed as at December 31, 2015.

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

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

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

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

Assumed healthcare trend rates:

	2015	2014
Initial health care expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches the rate it is assumed to remain at	**2025**	2020

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

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

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

22. SHAREHOLDER'S EQUITY

22.1 Share Capital

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

22.2 Shareholder Contributions

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

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

In addition, on February 3, 2010, the Province established the Churchill Falls (Labrador) Corporation Trust (the Trust) with Churchill Falls as the beneficiary. The purpose of this Trust is to fund the external costs and expenses incurred in relation to the motion filed by Churchill Falls seeking a modification to the pricing terms of the Power Contract. During 2015, the Trust contributed capital in the amount of $0.1 million (2014 - $0.2 million).

23. REVENUE

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

24. OPERATING COSTS

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

25. NET FINANCE (INCOME) EXPENSE

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

26. OTHER (INCOME) EXPENSE

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

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

27.1 Fair Value

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

As a significant number of Nalcor's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Nalcor as a whole.

Establishing Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

27.2 Risk Management

Nalcor is exposed to certain credit, liquidity and market price risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Nalcor's expected future cash flows.

Credit Risk

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

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

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

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Provincial governments	**AA- to AAA**	**0.37%**	AA- to AAA	5.49%
Provincial governments	**A -to A+**	**45.04%**	A- to A+	40.86%
Provincially owned utilities	**AA- to AAA**	**-**	AA- to AAA	22.57%
Provincially owned utilities	**A- to A+**	**52.28%**	A- to A+	29.10%
Schedule 1 Canadian banks	**AA- to AAA**	**-**	AA- to AAA	-
Schedule 1 Canadian banks	**A- to A+**	**2.31%**	A- to A+	1.98%
		100.00%		100.00%

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

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Provincial governments	**AA- to AAA**	**3.48%**	AA- to AAA	-
Provincial governments	**A- to A+**	**12.69%**	A- to A+	29.28%
Provincially owned utilities	**AA- to AAA**	**-**	AA- to AAA	2.10%
Provincially owned utilities	**A- to A+**	**12.70%**	A- to A+	9.15%
Schedule 1 and 2 Canadian banks	**AA- to AAA**	**10.17%**	AA- to AAA	9.14%
Schedule 1 Canadian banks	**A- to A+**	**60.96%**	A- to A+	50.33%
		100.00%		100.00%

Credit exposure on Nalcor's long-term investments is considered to be limited as the structured deposit notes are held by Schedule 1 Canadian Chartered banks with a rating of AA- (Standard and Poor's). The following credit risk

table provides information on credit exposures according to issuer type and credit rating for the long-term investments:

	Issuer Credit Rating	**Fair Value of Portfolio (%)**	Issuer Credit Rating	Fair Value of Portfolio (%)
	2015		2014	
Schedule 1 Canadian Banks	**AA-**	**100.00%**	AA-	100.00%

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

Nalcor does not have any significant amounts that are past due and uncollectable, for which a provision has not been recognized at December 31, 2015.

Liquidity Risk

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

Short-term liquidity for Nalcor and its subsidiaries is mainly provided through cash and cash equivalents on hand, funds from operations, an operating credit facility which Nalcor maintains with its banker and shareholder contributions. During April 2014, Nalcor converted its $250.0 million (2013 - $250.0 million) unsecured demand operating credit facility to a $250.0 million committed revolving term credit facility, with a maturity date of January 31, 2016. In June 2015, the maturity date of this facility was extended to January 31, 2017. There were no amounts drawn on this facility at December 31, 2015 (2014 - $nil). In addition, Hydro has access to a $300.0 million promissory note program and a $50.0 million (2014 - $50.0 million) unsecured demand operating credit facility. Oil and Gas and Churchill Falls also maintain demand operating facilities of $5.0 million (2014 - $5.0 million) and $10.0 million (2014 - $10.0 million), respectively. Churchill Falls maintains a $20.0 million minimum cash balance (2014 - $16.0 million). Energy Marketing maintains a demand operating facility of $20.0 million (2014 - $nil).

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

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

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

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

Market Risk

In the course of carrying out its operating, financing and investing activities, Nalcor is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Nalcor has significant exposure include those relating to prevailing interest rates and foreign exchange rates (most notably USD/CAD) and current commodity prices (most notably the spot prices for diesel fuel, electricity, No. 6 fuel and oil). These exposures are addressed as part of the Financial Risk Management Policy.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available-for-sale, which includes Nalcor's cash and cash equivalents, short-term investments, sinking funds and reserve fund. Expected future cash flows associated with those financial instruments can also be impacted. The impact of a 0.5% change in interest rates on the Consolidated Statement of Loss and Comprehensive Loss associated with cash and cash equivalents, short-term borrowings and long-term debt was negligible throughout 2015 due to the short time period to maturity.

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

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

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

Foreign Currency and Commodity Exposure

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

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

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

As the power purchase agreement (PPA) with Hydro was effective October 1, 2015, $5.9 million in USD export market sales were recorded in Energy Marketing for 2015, while Hydro recorded export sales of $33.9 million in USD for 2015. Foreign exchange risk on these sales was mitigated by Energy Marketing in 2015 through the use of foreign currency forward contracts. Commodity price risk was mitigated by Hydro in 2015, through the use of electricity

price forward contracts. In November 2015, Energy Marketing concluded the required International Swaps and Derivatives Association Master Agreements with its bank as a result of entering into the PPA.

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

In December of 2014, Hydro entered into a series of 12 electricity price forward contracts with a notional value of $32.5 million USD. The average price of these contracts was $43.60 USD per MWh (On Peak) and $30.10 USD per MWh (Off Peak). During 2015, $9.2 million in realized gains from these derivative contracts was recognized in Hydro's other (income) expense (2014 - $2.2 million loss) and $0.7M in unrealized losses were recognized in Hydro's other (income) expense (2014-$2.6 million unrealized gains).

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

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

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

During 2015, total oil sales denominated in USD were $25.2 million (2014 - $67.1 million). While Oil and Gas had exposure to fluctuations in the USD/CAD exchange rate on those sales, a significant portion of Oil and Gas' planned capital expenditures for 2015 were denominated in USD, which mitigated this exposure. Furthermore, in October 2014, Oil and Gas entered into a series of twelve commodity price swap contracts to mitigate commodity price exposure on energy sales. These contracts had a notional value of $22.6 million USD, and provided an average fixed price of $87.44 USD per barrel on approximately 26% of budgeted production for 2015.

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

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

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

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

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

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

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

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

28. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100.0% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Twin Falls	Joint venture of Churchill Falls
The Trust	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
PUB	Agency of the Province

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

(a) Hydro is required to incur the costs of operations of the PUB as well as the cost of hearings and application costs. During 2015, Hydro incurred $3.9 million (2014 - $3.1 million) in costs related to the PUB and has included $4.0 million (2014 - $2.4 million) in trade and other payables.

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

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

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

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

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

(g) Under the terms of a lease between Churchill Falls and the Province, and amendments thereto, Churchill Falls is required to pay the Province an annual rental of 8% of the consolidated net profits before income taxes, as defined in the Lease, and an annual royalty of $0.50 per horsepower year generated. As at December 31, 2015, $7.8 million (2014 - $4.7 million) was payable to the Province.

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

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

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

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

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

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

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

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

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

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

28.1 Key Management Personnel

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

For the year ended December 31 (millions of Canadian dollars)	**2015**	2014
Salaries and employee benefits	**3.6**	3.4
Post-employment benefits	**0.3**	0.2
	3.9	3.6

29. COMMITMENTS AND CONTINGENCIES

(a) Nalcor and its subsidiaries have received claims instituted by various companies and individuals with respect to power delivery claims and other miscellaneous matters. Although the outcome of such matters cannot be predicted with certainty, Management believes Nalcor's exposure to such claims and litigation, to the extent not covered by insurance or otherwise provided for, is not expected to materially affect its financial position.

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

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

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

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

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

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

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

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

(f) Hydro entered into a transmission service agreement with Hydro-Québec TransEnergie which concludes in 2024.

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

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

(g) Hydro has received Phase I funding, in the amount of $3.0 million, from the Atlantic Canada Opportunities Agency in relation to a wind-hydrogen-diesel research development project in the community of Ramea. In 2014, Hydro and Nalcor entered into a new funding agreement for Phase II of the project for $2.3 million. This funding is repayable in annual installments of $25,000 per commercial implementation of the resulting product. As at December 31, 2015, there have been no commercial implementations.

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

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

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

30. CAPITAL MANAGEMENT

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

The capital managed by Nalcor is comprised of debt (long-term debentures, promissory notes, bank credit facilities and Class B limited partnership units) and equity (share capital, shareholder contributions, reserves and retained earnings).

A summary of the consolidated capital structure is outlined below:

As at December 31 (millions of Canadian dollars)	**2015**		2014	
Debt				
Sinking funds	**(242.6)**		(228.4)	
Short-term borrowings	**97.0**		53.0	
Current portion of long-term debt	**233.4**		8.4	
Long-term debt	**6,008.1**		6,240.5	
Class B limited partnership units	**207.4**		79.4	
	6,303.3	**64.6%**	6,152.9	69.3%
Equity				
Share capital	**122.5**		122.5	
Shareholder contributions	**2,203.8**		1,469.1	
Reserves	**2.3**		(15.8)	
Retained earnings	**1,127.0**		1,146.2	
	3,455.6	**35.4%**	2,722.0	30.7%
Total Debt and Equity	**9,758.9**	**100.0%**	8,874.9	100.0%

Nalcor's committed operating facility has covenants restricting the issuance of debt such that the unconsolidated debt to total capitalization ratio cannot exceed 70.0%. The covenants further stipulate that the debt service coverage ratio should at all times be greater than 1.5 on an unconsolidated basis. As at December 31, 2015, Nalcor was in compliance with these covenants.

30.1 Hydro

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

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

Legislation stipulates that the total of short-term borrowings issued by Hydro and outstanding at any time shall not exceed a limit as fixed by the Lieutenant-Governor in Council. Short-term loans are those loans issued with a term not exceeding two years. The current limit is set at $300.0 million and $97.0 million is outstanding as at December 31, 2015 (2014 - $53.0 million). Issuance of short-term borrowings and long-term debt by Hydro is further restricted by Bill C-24, an amendment to the Newfoundland and Labrador Hydro Act of 1975. The Bill effectively limits Hydro's total borrowings, which includes both short-term borrowings and long-term debt, to $1.6 billion at any point in time.

30.2 Oil and Gas

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

30.3 Bull Arm

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

30.4 Churchill Falls

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

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

30.5 Muskrat Falls and Labrador Transco

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

30.6 LIL LP

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

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

31. SUPPLEMENTARY CASH FLOW INFORMATION

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

32. SEGMENT INFORMATION

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

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

***Capital expenditures include non-cash additions of $329.0 million related to the Maritime Link and $9.6 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of $661.3 million related to the Maritime Link and $21.2 million related to Class B Limited Partnership Unit accrued interest.**

(millions of Canadian dollars)	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter-Segment	Total
				For the year ended December 31, 2014					
Energy sales	549.4	71.9	64.2	74.1	-	-	-	(4.0)	755.6
Other revenue	4.1	1.0	15.3	1.5	17.8	-	-	2.7	42.4
Revenue	553.5	72.9	79.5	75.6	17.8	-	-	(1.3)	798.0
Fuels	268.1	-	-	-	-	-	-	-	268.1
Power purchased	63.8	-	-	8.5	-	-	-	(4.0)	68.3
Operating costs	140.3	41.4	21.6	27.6	1.0	2.4	14.4	-	248.7
Depreciation, depletion, amortization and impairment	56.0	13.8	22.5	-	-	-	0.4	-	92.7
Exploration and evaluation	-	-	1.2	-	-	-	-	-	1.2
Net finance (income) expense	70.8	(1.2)	0.4	-	-	-	(2.7)	-	67.3
Other (income) expense	3.2	1.8	(3.3)	1.5	(0.5)	-	0.1	-	2.8
Share of profit of joint arrangement	-	(0.4)	-	-	-	-	-	-	(0.4)
Preferred dividends	-	(2.7)	-	-	-	-	-	2.7	-
(Loss) profit before regulatory adjustments	(48.7)	20.2	37.1	38.0	17.3	(2.4)	(12.2)	-	49.3
Regulatory adjustments	(66.3)	-	-	-	-	-	-	-	(66.3)
Profit (loss) for the year	17.6	20.2	37.1	38.0	17.3	(2.4)	(12.2)	-	115.6
Capital expenditures	207.3	32.7	237.2	1.4	-	1,536.7	3.0	-	2,018.3
Total assets	2,159.3	498.2	801.3	8.5	3.8	6,867.4	326.8	(22.2)	10,643.1

*Capital expenditures include non-cash additions of $238.3 million related to the Maritime Link and $6.4 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of $332.3 million related to the Maritime Link and $11.7 million related to Class B Limited Partnership Unit accrued interest.

33. COMPARATIVE FIGURES

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

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

34. SUBSEQUENT 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.