NALCOR ENERGY - OIL AND GAS INC.
FINANCIAL STATEMENTS
December 31, 2015

Deloitte.

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Independent Auditor's Report

To the Shareholder of Nalcor Energy – Oil and Gas Inc.

We have audited the accompanying financial statements of Nalcor Energy – Oil and Gas Inc. which comprise the statement of financial position as at December 31, 2015 and the statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte LLP

Chartered Professional Accountants
March 11, 2016

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF FINANCIAL POSITION

As at December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
			(Note 23)
ASSETS			
Current assets			
Cash and cash equivalents	5	**17,311**	12,505
Trade and other receivables	6	**25,164**	22,863
Prepayments		**1,631**	1,750
Derivative assets	18	**6,855**	9,019
Total current assets		**50,961**	46,137
Property, plant and equipment	7	**944,427**	741,340
Intangible assets	8	**38,819**	13,835
Other long-term assets		**508**	-
Total assets		**1,034,715**	801,312
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	9	**65,326**	28,999
Current portion of deferred revenue	10	**3,520**	1,176
Current portion of decommissioning liabilities	11	**1,012**	1,100
Total current liabilities		**69,858**	31,275
Non-current liabilities			
Deferred revenue	10	**2,292**	3,066
Decommissioning liabilities	11	**73,181**	14,094
Long-term payable	12	**-**	6,876
Employee benefits liability	13	**858**	867
Total liabilities		**146,189**	56,178
Shareholder's Equity			
Share capital	14	**110,000**	110,000
Shareholder contributions	14	**710,712**	518,012
Reserves		**6,482**	7,310
Retained earnings		**61,332**	109,812
Total equity		**888,526**	745,134
Total liabilities and equity		**1,034,715**	801,312

Commitments and contingencies (Note 20)
Subsequent event (Note 24)

See accompanying notes

On behalf of the Board:

DIRECTOR

DIRECTOR

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2015**	2014
			(Note 23)
Petroleum and natural gas sales		**32,171**	73,931
Royalty expense		**(1,585)**	(9,767)
Other revenue		**14,609**	15,309
Revenue, net		**45,195**	79,473
Operating costs	15	**10,139**	10,313
Production costs		**12,110**	11,333
Depreciation, depletion, amortization and impairment	7,8	**79,730**	22,490
Exploration and evaluation		**998**	1,181
Net finance (income) expense	16	**712**	380
Other (income) expense	17	**(10,014)**	(3,303)
(Loss) profit for the year		**(48,480)**	37,079
Other comprehensive (loss) income for the year		**(828)**	7,649
Total comprehensive (loss) income for the year		**(49,308)**	44,728

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CHANGES IN EQUITY

(thousands of Canadian dollars)	Note	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2015		**110,000**	**518,012**	**7,781**	**(471)**	**109,812**	**745,134**
Loss for the year		**-**	**-**	**-**	**-**	**(48,480)**	**(48,480)**
Other comprehensive income							
Net change in fair value of cash flow hedge[1]		**-**	**-**	**(926)**	**-**	**-**	**(926)**
Actuarial loss on employee benefits liability[2]	**13**	**-**	**-**	**-**	**98**	**-**	**98**
Total comprehensive (loss) income for the year		**-**	**-**	**(926)**	**98**	**(48,480)**	**(49,308)**
Shareholder contributions	**14**	**-**	**192,700**	**-**	**-**	**-**	**192,700**
Balance at December 31, 2015		**110,000**	**710,712**	**6,855**	**(373)**	**61,332**	**888,526**
Balance at January 1, 2014		110,000	305,509	-	(339)	72,733	487,903
Profit for the year		-	-	-	-	37,079	37,079
Net change in fair value of cash flow hedge[1]		-	-	7,781	-	-	7,781
Actuarial loss on employee benefits liability[2]	13	-	-	-	(132)	-	(132)
Total comprehensive income (loss) for the year		-	-	7,781	(132)	37,079	44,728
Shareholder contributions	14	-	212,503	-	-	-	212,503
Balance at December 31, 2014		110,000	518,012	7,781	(471)	109,812	745,134

[1]Subsequently reclassified to profit or loss on derecognition
[2]Not subsequently reclassified to profit or loss

See accompanying notes

NALCOR ENERGY - OIL AND GAS INC.
STATEMENT OF CASH FLOWS

For the year ended December 31 (thousands of Canadian dollars)	Notes	**2015**	2014 (Note 23)
Cash provided from (used in)			
Operating activities			
(Loss) profit for the year		**(48,480)**	37,079
Adjusted for items not involving a cash flow:			
Depreciation, depletion, amortization and impairment	7,8	**79,730**	22,490
Accretion	16	**914**	610
Settlement of decommissioning liabilities	11	**(88)**	(31)
Employee benefits		**89**	100
Loss on disposal of property, plant and equipment		**-**	1
Unrealized loss (gain) on derivatives		**1,238**	(2,045)
Other		**(508)**	195
		32,895	58,399
Changes in non-cash working capital balances	22	**(1,584)**	(14,291)
Net cash provided from operating activities		**31,311**	44,108
Investing activities			
Additions to property, plant and equipment	7	**(221,196)**	(237,244)
Additions to intangible assets	8	**(28,200)**	(13,234)
Changes in non-cash working capital balances	22	**30,191**	78
Net cash used in investing activities		**(219,205)**	(250,400)
Financing activity			
Increase in shareholder contributions	14	**192,700**	212,503
Net cash provided from financing activity		**192,700**	212,503
Net increase in cash and cash equivalents		**4,806**	6,211
Cash and cash equivalents, beginning of year		**12,505**	6,294
Cash and cash equivalents, end of year		**17,311**	12,505

Supplementary cash flow information (Note 22)

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy - Oil and Gas Inc. (Oil and Gas or the Company) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province). Oil and Gas has a broad mandate to engage in the upstream and downstream sectors of the oil and gas industry including exploration, development, production, transportation and processing. Oil and Gas' head office is located in St. John's, Newfoundland and Labrador. Oil and Gas is a 100% owned subsidiary of Nalcor Energy (Nalcor). Substantially all of Oil and Gas' activities are conducted jointly with others and, accordingly, these statements reflect only Oil and Gas' proportionate interest in such activities.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance and Basis of Measurement

These annual audited financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Oil and Gas 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 financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FTVPL) which have been measured at fair value. The annual audited financial statements are presented in Canadian Dollars and all values rounded to the nearest thousand, except when otherwise noted. These annual audited financial statements were approved by the Oil and Gas' Board of Directors (the Board) on March 2, 2016.

2.2 Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with a Schedule 1 Canadian Chartered bank, as well as highly liquid investments with maturities of three months or less. Investments with maturities greater than three months and less than twelve months are classified as short-term investments. At December31, 2015, there were no cash equivalents or short-term investments (2014 - $nil). Cash and cash equivalents are measured at cost which approximates fair value while short-term investments are measured at fair value.

2.3 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.

2.4 Property, Plant and Equipment

(i) <u>Development and Production Costs</u>

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, transhipment 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.

2.5 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.

2.6 Intangible Assets

Intangible assets that are expected to generate future economic benefit and are measurable, including computer software costs, costs of technical services, studies and seismic data acquisitions 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	10 years
Seismic data acquisitions	6 years

2.7 Impairment of Non-Financial Assets

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

Where it is not possible to estimate the recoverable amount of an individual asset, Oil and Gas 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 the non-financial asset.

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 Statement of Loss and Comprehensive Loss.

2.8 Investments in Joint Arrangements

A joint arrangement is an arrangement of which two or more parties involved have joint control. Control exists when Oil and Gas 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.

2.9 Employee Benefits Liability

(i) Pension Plan

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

(ii) Other Benefits

Oil and Gas 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 carried out 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 of Oil and Gas' defined benefit obligation are recognized in reserves in the period in which they occur. Past service costs are recognized in operating costs as incurred.

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

2.10 Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Oil and Gas 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 current market assessments of the time value of money and the risks specific to the obligation. Provisions are remeasured at each Statement of Financial Position date using the current discount rate.

2.11 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 Statement of Loss and Comprehensive Loss if the liability is short-term in nature.

2.12 Revenue Recognition

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 to the buyer, 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.

Revenue associated with the sale of geoscientific 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.

2.13 Net Finance (Income) Expense

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

2.14 Foreign Currencies

Transactions in currencies other than Oil and Gas' functional currency (foreign currencies) are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the Statement of Loss and Comprehensive Loss as other (income) expense.

2.15 Income Taxes

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

2.16 Financial Instruments

Financial assets and financial liabilities are recognized in the Statement of Financial Position when Oil and Gas 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, loans and receivables, 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

Oil and Gas has classified each of its financial instruments into the following categories: financial assets at FVTPL, loans and receivables, financial liabilities at FVTPL, financial instruments used for hedging and other financial liabilities.

Cash and cash equivalents	Loans and other receivables
Trade and other receivables	Loans and other receivables
Trade and other payables	Other financial liabilities
Derivative instruments	At FVTPL and financial instruments used for hedging

(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 Oil and Gas 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 Oil and Gas' 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 method, except for short-term receivables when the recognition of interest would be immaterial.

Financial Liabilities and Equity Instruments

(iv) 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.

(v) 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.

(vi) Derivative Instruments and Financial Instruments Used for Hedging

Derivative instruments are utilized by Oil and Gas to manage risk. Oil and Gas' 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.

Oil and Gas 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. Oil and Gas 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:

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

Amounts recognized as other comprehensive income are transferred to the 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.

2.17 Derecognition of Financial Instruments

Oil and Gas 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 Oil and Gas 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 an associated liability for amounts it may have to pay is recognized. If Oil and Gas retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. Oil and Gas derecognizes financial liabilities when, and only when, its obligations are discharged, cancelled or they expire.

2.18 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 Oil and Gas' 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 available-for-sale (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.

2.19 Government Grants

Government grants are recognized when there is reasonable assurance that Oil and Gas 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 Oil and Gas recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that Oil and Gas should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the Statement of Financial Position and transferred to the 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 Oil and Gas with no future related costs are recognized in the Statement of Loss and Comprehensive Loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

3.1 Use of Judgments

(i) Property, Plant and Equipment

Oil and Gas' accounting policy relating to property, plant and equipment is described in Note 2.4. 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. Judgment is also used in determining the appropriate componentization structure for Oil and Gas' property, plant and equipment.

(ii) Determination of CGUs

Oil and Gas' accounting policy relating to impairment of non-financial assets is described in Note 2.7. In applying this policy, Oil and Gas 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.

(iii) Asset Impairment and Reversals

Oil and Gas 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 cost 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.

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

(v) Discount rates
Certain of Oil and Gas' financial liabilities are discounted using discount rates that are subject to Management's judgment.

3.2 Use of Estimates

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

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

(iii) Intangible Assets
Amounts recorded for amortization are based on the useful lives of Oil and Gas’ 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) Decommissioning Liabilities
Oil and Gas 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 Statement of Loss and Comprehensive Loss through net finance (income) expense. Differences between the recorded decommissioning liability and the actual retirement costs incurred are recorded as a gain or loss in the settlement period.

(v) Employee Benefits
Oil and Gas 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.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

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

Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[1]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]

[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.

4.1 Amendments to IAS 1 Disclosure Initiative

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

4.2 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 Oil and Gas' annual audited 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, Oil and Gas uses the straight-line methods 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 methods 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 Oil and Gas' annual audited financial statements.

4.4 IFRS 9 Financial Instruments

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

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

Key Requirements of IFRS 9:

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

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

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

- 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 Oil and Gas' annual audited financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until Management performs a detailed review.

4.5 IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

5. CASH AND CASH EQUIVALENTS

As at December 31, 2015 and 2014, cash and cash equivalents consist entirely of cash.

6. TRADE AND OTHER RECEIVABLES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Trade receivables	**24,966**	20,879
Other receivables	**198**	1,984
	25,164	22,863

As at December 31 (thousands of Canadian dollars)	**2015**	2014
0-60 days	**20,880**	22,692
60+ days	**4,284**	171
	25,164	22,863

As at December 31, 2015, trade and other receivables included balances of $15.2 million (2014 – $13.7 million) denominated in USD.

7. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	White Rose Extension	Hibernia Southern Extension	Hebron	Other	Total
Cost					
Balance at January 1, 2014	172,568	122,683	298,583	713	594,547
Additions	25,595	58,553	153,014	82	237,244
Disposals	-	-	-	(12)	(12)
Decommissioning liability additions and revisions	(2,278)	2,063	5,719	-	5,504
Balance at December 31, 2014	195,885	183,299	457,316	783	837,283
Additions	**12,531**	**78,336**	**129,633**	**696**	**221,196**
Disposals	**-**	**-**	**-**	**(45)**	**(45)**
Decommissioning liability additions and revisions	**5,446**	**11,324**	**41,635**	**-**	**58,405**
Balance at December 31, 2015	**213,862**	**272,959**	**628,584**	**1,434**	**1,116,839**
Depreciation, depletion and impairment					
Balance at January 1, 2014	69,469	3,869	-	376	73,714
Depreciation and depletion	20,873	1,213	-	154	22,240
Disposals	-	-	-	(11)	(11)
Balance at December 31, 2014	90,342	5,082	-	519	95,943
Depreciation and depletion	**12,172**	**2,513**	**-**	**109**	**14,794**
Impairment	**61,720**	**-**	**-**	**-**	**61,720**
Disposals	**-**	**-**	**-**	**(45)**	**(45)**
Balance at December 31, 2015	**164,234**	**7,595**	**-**	**583**	**172,412**
Carrying value					
Balance at January 1, 2014	103,099	118,814	298,583	337	520,833
Balance at December 31, 2014	105,543	178,217	457,316	264	741,340
Balance at December 31, 2015	**49,628**	**265,364**	**628,584**	**851**	**944,427**

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

8. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Exploration Assets	Computer Software	Total
Cost			
Balance at January 1, 2014	-	1,693	1,693
Additions	12,945	289	13,234
Balance at December 31, 2014	12,945	1,982	14,927
Additions	**27,638**	**562**	**28,200**
Balance at December 31, 2015	**40,583**	**2,544**	**43,127**
Amortization			
Balance at January 1, 2014	-	842	842
Amortization	-	250	250
Balance at December 31, 2014	-	1,092	1,092
Amortization	**3,058**	**158**	**3,216**
Balance at December 31, 2015	**3,058**	**1,250**	**4,308**
Carrying value			
Balance at January 1, 2014	-	851	851
Balance at December 31, 2014	12,945	890	13,835
Balance at December 31, 2015	**37,525**	**1,294**	**38,819**

9. TRADE AND OTHER PAYABLES

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Trade payables and other accruals	**64,504**	28,370
Payables due to related parties	**822**	629
	65,326	28,999

As at December 31, 2015, trade and other payables included balances of $18.8 million (2014 – $6.8 million) denominated in USD.

10. DEFERRED REVENUE

Oil and Gas has received funding, from the Province, towards two initiatives. The first is the Petroleum Exploration Enhancement Program (PEEP) which is designed to boost new petroleum exploration in Western Newfoundland through acquisition and assessment of seismic data. The second is the Offshore Geoscience Data Project (OGDP) which is designed to encourage new offshore petroleum exploration in Newfoundland and Labrador through the acquisition and assessment of seismic data. The funding is recognized as other revenue when the related expenditures are incurred. Deferred revenue also includes the over-lift position associated with Oil and Gas' net working interest of petroleum and natural gas produced, and facility packs which represent the fair value of oil inventory held at the Newfoundland Transhipment site.

As at December 31, 2015 (thousands of Canadian dollars)	OGDP	PEEP	Other	Total
Deferred revenue, beginning of year	2,461	1,212	569	4,242
Additions	**465**	**-**	**2,106**	**2,571**
Recognized in profit or loss	**(907)**	**(94)**	**-**	**(1,001)**
Deferred revenue, end of year	**2,019**	**1,118**	**2,675**	**5,812**
Less: current portion	**(900)**	**(453)**	**(2,167)**	**(3,520)**
	1,119	**665**	**508**	**2,292**

11. DECOMMISSIONING LIABILITIES

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%). The reconciliation of the beginning and ending carrying amounts of decommissioning liabilities is as follows:

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Decommissioning liabilities, beginning of year	**15,194**	9,140
Liabilities incurred	**-**	5,914
Accretion	**682**	386
Settlements	**(88)**	(31)
Revisions	**58,405**	(215)
Decommissioning liabilities, end of year	**74,193**	15,194
Less: current portion of decommissioning liabilities	**(1,012)**	(1,100)
	73,181	14,094

12. LONG-TERM PAYABLE

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 the 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.

The reconciliation of the beginning and ending carrying amounts of the long-term payable included in trade and other payables for the year ended is as follows:

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Long-term payable, beginning of year	**6,876**	6,652
Accretion	**232**	224
Reclassifed to trade and other payables	**(7,108)**	-
Long-term payable, end of year	**-**	6,876

13. EMPLOYEE FUTURE BENEFITS

13.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $286,000 (2014 - $189,000) are expensed as incurred.

13.2 Other Benefits

Oil and Gas 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 plans were $35,000 (2014 - $nil). An actuarial valuation was performed as at December 31, 2015.

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Accrued benefit obligation, beginning of year	**867**	635
Current service cost	**85**	65
Interest cost	**39**	35
Benefits paid	**(35)**	-
Actuarial (gain) loss	**(98)**	132
Accrued benefit obligation, end of year	**858**	867

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Component of benefit cost		
Current service cost	**85**	65
Interest cost	**39**	35
Total benefit expense for the year	**124**	100

The significant actuarial assumptions used in measuring the accrued benefit obligation and benefit expense 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 healthcare expense trend rate	**6.00%**	6.00%
Cost trend decline to	**4.50%**	4.50%
Year that rate reaches that rate it is assumed to remain at	**2025**	2020

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

Increase (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**45**	26
Accrued benefit obligation	**207**	219

Decrease (thousands of Canadian dollars)	**2015**	2014
Current service and interest cost	**(30)**	(18)
Accrued benefit obligation	**(146)**	(155)

14. SHAREHOLDER'S EQUITY

14.1 Share Capital

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Common shares without nominal or par value		
Authorized - unlimited		
Issued, fully paid and outstanding - 100	**110,000**	110,000

14.2 Shareholder Contributions

As at December 31 (thousands of Canadian dollars)	**2015**	2014
Total shareholder contributions	**710,712**	518,012

During 2015, Nalcor made contributions to Oil and Gas totaling $192.7 million (December 31, 2014 - $212.5 million). These contributions were used to fund Oil and Gas' investment activities and ongoing operations.

15. OPERATING COSTS

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Salaries and benefits	**4,570**	3,794
Professional services	**2,684**	3,728
Other operating costs	**2,885**	2,791
	10,139	10,313

16. NET FINANCE (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Finance income		
Interest income	**66**	65
Finance expense		
Accretion expense	**914**	610
Other finance expense	**97**	59
	1,011	669
Interest capitalized during construction	**(233)**	(224)
	778	445
Net finance (income) expense	**712**	380

17. OTHER (INCOME) EXPENSE

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Mark-to-market of commodity swaps	**1,237**	(2,044)
Gain on settlement of commodity swaps	**(10,992)**	(911)
Foreign exchange (gain) loss	**(259)**	(348)
Other (income) expense	**(10,014)**	(3,303)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

18.1 Fair Value

The estimated fair values of financial instruments as at December 31, 2015 and December 31, 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 Oil and Gas might receive or incur in actual market transactions.

As a significant number of Oil and Gas'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 Oil and Gas 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 for the period ended December 31, 2015 and the year ended December 31, 2014.

As at December 31, 2015 and December 31, 2014, the Company did not have any level 3 instruments.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
(thousands of Canadian dollars)		December 31, 2015		December 31, 2014	
Financial assets					
Derivative assets	**2**	**6,855**	**6,855**	9,019	9,019
Financial liabilities					
Long-term payable*	**2**	**7,108**	**6,911**	6,876	6,628

*At June 30, 2015, the long-term payable balance was reclassified to trade and other payables.

The fair value of cash and cash equivalents; trade and other receivables; and trade and other payables, with the exception of the Hebron long-term payable, approximate their carrying values due to their short-term maturity.

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

18.2 Risk Management

Oil and Gas is exposed to credit, liquidity and market price risks through its operating, investing and financing activities.

(a) Credit Risk

Oil and Gas' expected future cash flow is exposed to credit risk through its operating activities, primarily through the potential for non-performance by its customers. The degree of exposure to credit risk on cash and cash equivalents and the sale of crude oil, 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 Statement of Financial Position at the reporting date.

Credit risk on cash and cash equivalents is minimal, as Oil and Gas' cash deposits are held by a Canadian Schedule 1 Chartered Bank with a rating of A+ (Standard and Poor's). Receivables resulting from oil sales are from a major oil and gas company whose creditworthiness was appropriately assessed prior to execution of the related oil marketing agreement.

(b) Liquidity Risk

Oil and Gas is exposed to liquidity risk with respect to its contractual obligations and financial liabilities, including any derivative liabilities related to hedging activities. Oil and Gas' activities around liquidity risk management are directed to ensuring cash is available to meet those obligations as they become due. Short-term liquidity is mainly provided through cash and cash equivalents on hand, funds from operations, and a $5.0 million (2014 - $5.0 million) unsecured demand operating facility with the Company's bank. As at December 31, 2015, Oil and Gas had no borrowings outstanding on the credit facility (2014 - $nil).

(c) Market Risk
Oil and Gas is exposed to foreign exchange and commodity price risk on its sales, which are denominated in US dollars (USD) and based on prevailing market oil prices. However, the foreign exchange exposure on sales is partially offset by USD denominated capital expenditures. Exposure to interest rate risk on the unsecured line of credit is mitigated by the short-term nature of these borrowings.

Foreign Exchange and Commodity Exposure
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/Canadian Dollar (CAD) exchange rate on those sales, a significant portion of Oil and Gas' planned capital expenditures for 2015 were denominated in USD, which mitigated exposure.

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

(thousands of Canadian dollars)	0.5% Decrease	0.5% Increase
Trade and other receivables	(758)	758
Trade and other payables	(941)	941

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 USD $22.6 million, 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 thirteen 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 the above outstanding contracts have been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income.

19. RELATED PARTY TRANSACTIONS

Oil and Gas 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 Oil and Gas transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Oil and Gas
Newfoundland and Labrador Hydro (Hydro)	Wholly owned subsidiary of Nalcor
The Province	100% shareholder of Nalcor

Significant related party transactions and balances are as follows:

(a) For the year ended December 31, 2015, Oil and Gas paid $40,000 (2014 - $7,000) to Nalcor for interest on intercompany loans. All loan balances have been repaid in full.

(b) For the year ended December 31, 2015, Oil and Gas was charged $636,000 (2014 - $562,000) by Hydro for management and administrative services received.

(c) As at December 31, 2015, Oil and Gas has a payable to Nalcor of $378,000 (2014 - $245,000) related to intercompany operating costs.

(d) As at December 31, 2015, Oil and Gas has a payable to companies under common control of $277,000 (2014 - $172,000) related to intercompany operating costs.

(e) Nalcor provides cash to fund investing activities that are periodically settled by shareholder contributions. As at December 31, 2015, Nalcor provided $192.7 million (2014 - $212.5 million) in shareholder contributions to Oil and Gas.

(f) Total funding to be received under PEEP was $4.5 million over five years. For the year ended December 31, 2015, there were no funds provided in 2015. Included in deferred revenue at December 31, 2015, is $1.1 million (2014 - $1.2 million) related to funding received.

(g) Total funding to be received under OGDP was $14.3 million over four years commencing in 2010. Additional funding of $1.0 million has been received as at December 31, 2015, for a total of $15.3 million. For the year ended December 31, 2015, $0.5 million (2014 - $0.5 million) was received. Included in deferred revenue at December 31, 2015, is $2.0 million (2014 - $2.5 million) related to funding received.

19.1 Key Management Personnel Compensation

Compensation for key management personnel, which Oil and Gas 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 (thousands of Canadian dollars)	**2015**	2014
Salaries and employee benefits	**395**	369
Post-employment benefits	**33**	23
	428	392

20. COMMITMENTS AND CONTINGENCIES

(a) Oil and Gas has received claims with respect to miscellaneous matters. Although the outcome of such actions cannot be predicted with certainty, Management currently believes Oil and Gas' exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect the financial position of Oil and Gas.

(b) Oil and Gas has the following commitments as a result of its joint venture partnerships:

(millions of Canadian 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

21. CAPITAL MANAGEMENT

Oil and Gas' objective when managing capital is to maintain the 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.

22. SUPPLEMENTARY CASH FLOW INFORMATION

For the year ended December 31 (thousands of Canadian dollars)	**2015**	2014
Trade and other receivables	**(2,301)**	(3,816)
Prepayments	**119**	(252)
Trade and other payables	**29,219**	(10,223)
Deferred revenue	**1,570**	78
Changes in non-cash working capital balances	**28,607**	(14,213)
Related to:		
Operating activities	**(1,584)**	(14,291)
Investing activities	**30,191**	78
	28,607	(14,213)
Interest received	**66**	65
Interest paid	**97**	58

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation. The changes have been summarized as follows:

(thousands of Canadian dollars)	Previously reported	Intangible asset reclassification	Foreign exchange reclassification	**Reclassified balance at December 31, 2015**
Property, plant and equipment	742,230	(890)	-	**741,340**
Intangible assets	12,945	890	-	**13,835**
Net finance (income) expense	31	-	349	**380**
Other (income) expense	(2,954)	-	(349)	**(3,303)**

24. 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. The purpose of the letter was to provide proof of financial responsibility with respect to the Hibernia South Extension project. This letter replaces a $1.5 million irrevocable letter of credit, issued by Nalcor on behalf of Oil & Gas, which was cancelled by C-NLOPB on February 29, 2016.