NALCOR ENERGY
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2015
Unaudited

DIRECTORS

KEN MARSHALL
President – Atlantic Region
Rogers Communications

LEO ABBASS
Corporate Director

ERIN BREEN*
Partner, Simmons+ Partners Defence

EDMUND MARTIN
President and Chief Executive Officer

TOM CLIFT
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HEAD AND CORPORATE OFFICE
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OFFICERS

KEN MARSHALL
Chairperson

EDMUND MARTIN
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Vice President, Finance and Chief Financial Officer

CHRIS KIELEY
Vice President, Strategic Planning and Business Development

JIM KEATING
Vice President, Nalcor Energy - Oil and Gas

GERARD McDONALD
Vice President, Human Resources and Organizational Effectiveness

JOHN MacISAAC
Vice President, Project Execution and Technical Services

GILBERT BENNETT
Vice President, Lower Churchill Project

DAWN DALLEY
Vice President, Corporate Relations

ROBERT HENDERSON
Vice President, Newfoundland and Labrador Hydro

PAUL HUMPHRIES
Vice President, System Operations and Planning

WAYNE CHAMBERLAIN
General Counsel and Corporate Secretary

PETER HICKMAN
Assistant Corporate Secretary

ROBERT HULL
General Manager, Finance

AUBURN WARREN
General Manager, Commercial, Treasury and Risk

*Resigned April 15, 2015

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (millions of Canadian dollars)	Notes	**March 31 2015**	December 31 2014
ASSETS			
Current assets			
Cash and cash equivalents		**65.7**	60.8
Restricted cash		**1,278.5**	1,130.6
Short-term investments		**33.3**	34.4
Trade and other receivables		**274.1**	249.2
Inventories		**91.9**	97.1
Current portion of sinking funds	6	**1.5**	1.5
Prepayments		**19.2**	16.4
Derivative assets		**13.5**	11.8
Total current assets		**1,777.7**	1,601.8
Non-current assets			
Property, plant and equipment	3	**6,147.9**	5,676.8
Intangible assets	4	**15.2**	12.9
Investment property		**1.0**	1.0
Other long-term assets	6	**342.1**	353.5
Investment in joint arrangement		**1.5**	1.5
Long-term investments	7	**2,452.3**	2,871.4
Total assets		**10,737.7**	10,518.9
Regulatory deferrals	5	**124.6**	124.2
Total assets and regulatory deferrals		**10,862.3**	10,643.1
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	8	**42.0**	53.0
Trade and other payables		**666.9**	672.1
Current portion of long-term debt	8	**8.4**	8.4
Derivative liabilities	16	**6.5**	1.6
Current portion of other liabilities		**6.0**	5.3
Total current liabilities		**729.8**	740.4
Non-current liabilities			
Long-term debt	8	**6,239.2**	6,240.5
Class B limited partnership units	9	**81.1**	79.4
Deferred credits	10	**436.3**	333.1
Deferred contributions	11	**11.3**	15.0
Decommissioning liabilities	12	**42.3**	42.1
Long-term payables		**73.3**	74.0
Employee benefits liability		**146.5**	144.5
Total liabilities		**7,759.8**	7,669.0
Shareholder's equity			
Share capital		**122.5**	122.5
Shareholder contributions		**1,506.4**	1,469.1
Reserves		**(2.3)**	(15.8)
Retained earnings		**1,175.7**	1,146.2
Total equity		**2,802.3**	2,722.0
Total liabilities and equity		**10,562.1**	10,391.0
Regulatory deferrals	5	**300.2**	252.1
Total liabilities, equity and regulatory deferrals		**10,862.3**	10,643.1

See accompanying notes

Subsequent event (Note 21)

NALCOR ENERGY
CONSOLIDATED STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

For the period ended March 31 (millions of Canadian dollars)	Notes	**Three months ended 2015**	2014
Energy sales		**276.4**	279.1
Other revenue		**10.8**	7.5
Revenue		**287.2**	286.6
Fuels		**(81.3)**	(118.0)
Power purchased		**(19.2)**	(22.7)
Operating costs	14	**(66.1)**	(60.4)
Depreciation and depletion	3	**(22.9)**	(25.4)
Exploration and evaluation expense		**(0.2)**	-
Net finance income and expense	15	**(20.2)**	(22.1)
Other income and expense		**(0.1)**	(5.7)
Share of profit of joint arrangement		**-**	0.1
Profit, before regulatory adjustments		**77.2**	32.4
Regulatory adjustments	5	**(47.7)**	2.8
Profit for the period		**29.5**	35.2
Other comprehensive income for the period		**13.5**	5.2
Total comprehensive income for the period		**43.0**	40.4

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(millions of Canadian dollars)	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**
Profit for the period	**-**	**-**	**-**	**-**	**29.5**	**29.5**
Other comprehensive income						
Net change in fair value of available-for-sale financial instruments	**-**	**-**	**16.4**	**-**	**-**	**16.4**
Net change in fair value of cash flow hedge	**-**	**-**	**(0.5)**	**-**	**-**	**(0.5)**
Net change in fair value of financial instruments reclassified to profit or loss	**-**	**-**	**(2.4)**	**-**	**-**	**(2.4)**
Total comprehensive income for the period	**-**	**-**	**13.5**	**-**	**29.5**	**43.0**
Capital contributions	**-**	**37.3**	**-**	**-**	**-**	**37.3**
Balance at March 31, 2015	**122.5**	**1,506.4**	**54.0**	**(56.3)**	**1,175.7**	**2,802.3**
Balance at January 1, 2014	122.5	1,141.8	11.3	(38.4)	1,030.6	2,267.8
Profit for the period	-	-	-	-	35.2	35.2
Other comprehensive income						
Net change in fair value of available-for-sale financial instruments	-	-	6.9	-	-	6.9
Net change in fair value of financial instruments reclassified to profit or loss	-	-	(1.7)	-	-	(1.7)
Total comprehensive income for the period	-	-	5.2	-	35.2	40.4
Capital contributions	-	26.7	-	-	-	26.7
Balance at March 31, 2014	122.5	1,168.5	16.5	(38.4)	1,065.8	2,334.9

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended March 31 (millions of Canadian dollars)	Notes	**Three months ended** **2015**	2014
Cash provided from (used in)			
Operating activities			
Profit for the period		**29.5**	35.2
Adjusted for items not involving a cash flow:			
Depreciation and depletion	3	**22.9**	25.4
Accretion	15	**1.3**	0.5
Amortization of deferred contributions	11	**(0.2)**	(0.2)
Employee benefits		**2.0**	1.2
Regulatory adjustments	5	**47.7**	(2.8)
Loss on disposal of property, plant and equipment		**0.1**	-
Share of profit of joint venture		**-**	(0.1)
Other		**(1.0)**	5.6
		102.3	64.8
Changes in non-cash working capital balances	19	**(26.3)**	(30.5)
Net cash provided from operating activities		**76.0**	34.3
Investing activities			
Additions to property, plant and equipment	20	**(392.7)**	(255.1)
Additions to intangible assets	4	**(2.3)**	-
Decrease (increase) in long-term receivables		**28.6**	(89.6)
Decrease (increase) in short-term investments		**1.1**	(10.6)
Contributions to sinking funds		**(2.4)**	(5.1)
Decrease in long-term investments	7	**419.1**	285.8
Net cash provided from (used in) investing activities		**51.4**	(74.6)
Financing activities			
Increase in restricted cash		**(147.9)**	(117.0)
(Decrease) increase in short-term borrowings		**(11.0)**	42.0
Decrease in long-term payable		**(1.6)**	(0.5)
Increase in shareholder contributions		**37.3**	26.7
Decrease in deferred contributions		**(3.5)**	-
Increase in deferred credits		**4.2**	0.8
Net cash used in financing activities		**(122.5)**	(48.0)
Net increase (decrease) in cash and cash equivalents		**4.9**	(88.3)
Cash and cash equivalents, beginning of period		**60.8**	93.7
Cash and cash equivalents, end of period		**65.7**	5.4

Supplementary cash flow information (Note 19)

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 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 inactive.

1.2 Investments in Joint Arrangements

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 33.3% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation (Twin Falls), a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974.

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 condensed consolidated interim 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 Labrador-Island Link (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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and have been prepared using accounting policies consistent with those used in the preparation of the annual audited consolidated financial statements for the year ended December 31, 2014.

These condensed consolidated interim financial statements do not include all of the disclosures normally found in Nalcor's annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements. Interim results will fluctuate due to the seasonal nature of electricity demand and water flows, as well as timing and recognition of regulatory items. Due to higher electricity demand during the winter months, revenue from electricity sales is higher during the first and fourth quarters.

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments 'at fair value through profit or loss' (FVTPL) and 'available-for-sale' (AFS) financial assets which have been measured at fair value. The condensed consolidated interim financial statements are presented in Canadian dollars and all values rounded to the nearest million, except when otherwise noted. The financial statements were approved by the Board of Directors of Nalcor on May 13, 2015.

2.2 Basis of Consolidation

The condensed consolidated interim 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 variable interest entities for which Nalcor has been determined the primary beneficiary are included in these condensed consolidated interim 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 which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls.

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

Churchill Falls holds 33.3% of the equity share capital of Twin Falls. The investment is accounted for using the equity method.

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

3. 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	1,477.2	662.3	596.2	199.9	1,368.8	4,304.4
Additions	0.4	-	237.5	-	1,784.0	2,021.9
Disposals	(2.1)	(1.8)	-	(1.3)	-	(5.2)
Transfers	49.7	57.6	-	18.8	(126.0)	0.1
Decommissioning liabilities and revisions	2.2	(0.1)	5.5	-	-	7.6
Balance at December 31, 2014	**1,527.4**	**718.0**	**839.2**	**217.4**	**3,026.8**	**6,328.8**
Additions	**-**	**-**	**52.6**	**-**	**441.5**	**494.1**
Disposals	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Transfers	**96.5**	**-**	**-**	**-**	**(96.5)**	**-**
Other adjustments	**(0.2)**	**-**	**-**	**188.6**	**(145.9)**	**42.5**
Balance at March 31, 2015	**1,623.7**	**717.9**	**891.8**	**406.0**	**3,225.9**	**6,865.3**
Depreciation and depletion						
Balance at January 1, 2014	333.2	99.0	74.6	55.0	-	561.8
Depreciation and depletion	38.0	19.3	22.5	12.9	-	92.7
Disposals	(1.2)	(0.4)	-	(0.9)	-	(2.5)
Other adjustments	(0.5)	0.5	-	-	-	-
Balance at December 31, 2014	**369.5**	**118.4**	**97.1**	**67.0**	**-**	**652.0**
Depreciation and depletion	**10.7**	**5.3**	**3.7**	**3.2**	**-**	**22.9**
Other adjustments	**-**	**-**	**-**	**42.5**	**-**	**42.5**
Balance at March 31, 2015	**380.2**	**123.7**	**100.8**	**112.7**	**-**	**717.4**
Carrying value						
Balance at January 1, 2014	1,144.0	563.3	521.6	144.9	1,368.8	3,742.6
Balance at December 31, 2014	1,157.9	599.6	742.1	150.4	3,026.8	5,676.8
Balance at March 31, 2015	**1,243.5**	**594.2**	**791.0**	**293.3**	**3,225.9**	**6,147.9**

4. INTANGIBLE ASSETS

(millions of Canadian dollars)	**March 31 2015**	December 31 2014
Balance, beginning of period	**12.9**	-
Additions	**2.3**	12.9
Balance, end of period	**15.2**	12.9

Intangible assets consist of exploration investments in acquired seismic data and technical studies, used to identify and encourage the development of areas with potential oil reserves off the coast of Newfoundland and Labrador. Intangible assets are amortized on a straight-line basis over a six-year period. As at March 31, 2015 and December 31, 2014, there was no amortization or impairment recognized.

5. REGULATORY DEFERRALS

	January 1 2015	Regulatory activity	**March 31 2015**	**Remaining Recovery Settlement Period (years)**
Regulatory asset deferrals				
Foreign exchange losses	58.4	(0.6)	**57.8**	26.75
Foreign exchange on fuel	0.3	0.2	**0.5**	n/a
Deferred lease costs	3.7	0.7	**4.4**	n/a
2014 cost deferral	45.9	-	**45.9**	n/a
Fuel supply deferral	9.6	-	**9.6**	n/a
Deferred energy conservation costs	6.3	0.1	**6.4**	n/a
	124.2	0.4	**124.6**	
Regulatory liability deferrals				
Rate stabilization plan (RSP)	(246.0)	(48.3)	**(294.3)**	n/a
Insurance proceeds (net)	(5.6)	0.2	**(5.4)**	n/a
Deferred power purchase savings	(0.5)	-	**(0.5)**	12.25
	(252.1)	(48.1)	**(300.2)**	

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

For the period ended March 31 (millions of Canadian dollars)	**Three months ended** **2015**	2014
RSP amortization	**20.5**	10.9
Rural rate adjustment	**3.5**	3.3
RSP fuel deferral	**19.6**	(20.5)
RSP interest	**4.7**	4.6
Total RSP activity	**48.3**	(1.7)
Amortization of deferred foreign exchange losses	**0.6**	0.5
Deferred foreign exchange on fuel	**(0.2)**	(0.6)
Deferred energy conservation costs	**(0.1)**	(0.1)
Insurance proceeds (net)	**(0.2)**	(0.1)
Deferred lease costs	**(0.7)**	(0.8)
	47.7	(2.8)

6. OTHER LONG-TERM ASSETS

(millions of Canadian dollars)		**March 31 2015**	December 31 2014
Long-term receivables	**(a)**	**8.6**	37.2
Long-term prepayments		**13.6**	15.0
Reserve fund		**34.5**	34.2
Sinking funds		**286.9**	268.6
		343.6	355.0
Less: current portion of sinking funds		**(1.5)**	(1.5)
		342.1	353.5

(a) As at March 31, 2015, long-term receivables include $4.9 million (2014 - $33.2 million) related to a long-term advance to a supplier in relation to construction of the Muskrat Falls hydroelectric plant. The current portion of $88.2 million (2014 - $69.2 million) has been included in trade and other receivables. The advance is secured by a letter of credit from a Canadian Schedule 1 Chartered bank.

7. LONG-TERM INVESTMENTS

As at March 31, 2015, long-term investments consist of structured deposit notes of $854.6 million (2014 - $1,023.8 million) related to Muskrat Falls, $187.7 million (2014 - $224.8 million) related to Labrador Transco and $1,410.0 million (2014 - $1,622.8 million) related to the LIL Partnership.

(millions of Canadian dollars)	**March 31 2015**	December 31 2014
Long-term investments, beginning of period	**2,871.4**	4,477.4
Redemptions	**(429.7)**	(1,667.4)
Earnings	**10.6**	61.4
Long-term investments, end of period	**2,452.3**	2,871.4

8. DEBT

8.1 Short-term Borrowings

During 2014, Nalcor converted a $250.0 million unsecured demand operating credit facility with its banker to a $250.0 million committed revolving term credit facility, with a maturity date of January 31, 2016. There were no amounts drawn on this facility at the period ended March 31, 2015. Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Advances (BA) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rates (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 seven irrevocable letters of credit, with a total value of $10.9 million. Three of these letters, totaling $4.8 million are in favour of Oil & Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. The other four letters totaling $6.1 million are in favour of Energy Marketing and relate to collateral requirements in the Quebec, Ontario, New York and New England electricity markets.

On March 2, 2015, the letter of credit issued by Nalcor Energy, in favour of Energy Marketing, to New York Independent System Operator was increased from USD $1.4 million to USD $2.6 million.

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at the period ended March 31, 2015, there were no amounts drawn on this facility (December 31, 2014 - $nil). Advances may take the form of a Prime Rate Advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. 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 at the period ended March 31, 2015 were $42.0 million (December 31, 2014 - $53.0 million).

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and at the period ended March 31, 2015, there were no amounts drawn on this facility (December 31, 2014 - $nil). Advances may take the form of a Prime Rate Advance or the issuance of a BA with interest calculated at the Prime Rate or prevailing Government BA fee. 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 unsecured credit facility. There were no amounts drawn on this facility at the period ended March 31, 2015 (December 31, 2014 - $nil).

8.2 Long-term Debt

(millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**March 31 2015**	December 31 2014
Hydro						
V*	0.3	10.50	1989	2014	**0.3**	0.3
X*	150.0	10.25	1992	2017	**149.7**	149.7
Y*	300.0	8.40	1996	2026	**294.4**	294.3
AB*	300.0	6.65	2001	2031	**305.9**	305.9
AD*	125.0	5.70	2003	2033	**123.7**	123.7
AE	225.0	4.30	2006	2016	**224.7**	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				**6,296.9**	6,296.8
Less: Sinking fund investments in own debentures					**49.3**	47.9
					6,247.6	6,248.9
Less: payments due within one year					**8.4**	8.4
Total debentures					**6,239.2**	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 the 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 period ended March 31, 2015 was $1.1 million (December 31, 2014 - $0.9 million).

On September 15, 2014, Hydro raised new long-term debt through the sale of $200 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 Labrador-Island Link Funding Trust (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 LIL LP. 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 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 IT PFA.

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

As security for these debt obligations, the LIL LP has granted to the collateral agent first ranking liens on all present and future assets. On the date of the release of the final funding request from the collateral agent, sinking funds are required to be set up for each of the three tranches to be held in a sinking fund account administered by the collateral agent.

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

On December 13, 2013, all three tranches of the construction facility were drawn down by way of a single advance of $2.6 billion. Under the terms of the PFA, the $2.6 billion advance is held in an account administered by 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. Muskrat Falls' portion of the drawings under the facility totals $2.1 billion and is to be used exclusively for the construction of the Muskrat Falls hydroelectric facility.

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.

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	225.0	150.0	-	-	-

9. CLASS B LIMITED PARTNERSHIP UNITS

The Class B limited partnership units issued represent Emera Incorporated's (Emera) interest in LIL LP. The Class B limited partnership units have certain rights and obligations, including mandatory distributions, that result in the classification of these units as financial liabilities. The partnership units are measured at amortized cost using the effective interest method. The return on the units is classified as net finance income and expense and capitalized as non-cash additions to property, plant and equipment.

The components of the change in balances in the Class B limited partnership units are as follows:

(millions of Canadian dollars)	**Units**	**March 31 2015**	Units	December 31 2014
Class B limited partnership units, beginning of period	**25**	**79.4**	25	73.0
Accrued interest	**-**	**1.7**	-	6.4
Class B limited partnership units, end of period	**25**	**81.1**	25	79.4

10. DEFERRED CREDITS

Deferred credits consist of funding from the Province, deferred energy sales from Emera and deferred lease revenue.

(millions of Canadian dollars)	**Hydro Wind Credits**	**Oil and Gas Program Funding**	**Deferred Energy Sales**	**Other**	**Total**
Balance, beginning of period	0.7	4.3	330.0	1.5	336.5
Additions	0.2	0.6	99.7	3.9	104.4
Amortization	-	(0.5)	-	-	(0.5)
Deferred credits, end of period	**0.9**	**4.4**	**429.7**	**5.4**	**440.4**
Less: current portion	**(0.9)**	**(1.5)**	**-**	**(1.7)**	**(4.1)**
	-	**2.9**	**429.7**	**3.7**	**436.3**

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

Nalcor has recorded deferred revenue of $429.7 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.

11. 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.

(millions of Canadian dollars)	**March 31 2015**	December 31 2014
Deferred contributions, beginning of period	**15.8**	11.3
Additions	**0.1**	5.2
Disposals	**(3.6)**	-
Amortization	**(0.2)**	(0.7)
Deferred contributions, end of period	**12.1**	15.8
Less: current portion	**(0.8)**	(0.8)
	11.3	15.0

12. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generating Station, 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 the beginning and ending carrying amounts of decommissioning liabilities for March 31, 2015 and December 31, 2014 are as follows:

(millions of Canadian dollars)	**March 31 2015**	December 31 2014
Decommissioning liabilities, beginning of period	**43.2**	33.9
Liabilities incurred	**-**	5.9
Liabilities settled	**(0.1)**	-
Accretion	**0.3**	1.3
Revisions	**-**	2.1
Decommissioning liabilities, end of period	**43.4**	43.2
Less: current portion	**(1.1)**	(1.1)
	42.3	42.1

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 $2.3 million (2014 - $1.7 million) are expensed as incurred.

13.2 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 $1.1 million (2014 - $1.5 million). An actuarial valuation was performed as at December 31, 2012, with an extrapolation to December 31, 2015. The next actuarial valuation will be performed at December 31, 2015.

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2015**	2014
Component of benefit cost		
Current service cost	**1.5**	1.2
Interest cost	**1.6**	1.5
Total benefit expense for the period	**3.1**	2.7

14. OPERATING COSTS

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2015**	2014
Salaries and benefits expense	**36.7**	34.0
Transmission rental	**5.0**	5.0
Maintenance and materials	**6.5**	5.7
Oil and gas production costs	**3.1**	3.7
Professional services	**4.8**	4.6
Travel and transportation	**2.1**	2.2
Other operating costs	**7.9**	5.2
	66.1	60.4

15. NET FINANCE INCOME AND EXPENSE

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2015**	2014
Finance income		
Interest on sinking fund	**3.5**	4.9
Interest on reserve fund	**0.2**	0.3
Interest on investments	**10.7**	17.5
Interest on restricted cash	**2.7**	1.4
Other interest income	**0.5**	-
	17.6	24.1
Finance expenses		
Long-term debt	**68.7**	70.4
Class B Limited Partnership Units	**1.7**	1.5
Foreign exchange loss	**2.2**	3.2
Debt guarantee fee	**1.1**	0.9
Accretion	**1.3**	0.5
Other	**0.4**	0.3
	75.4	76.8
Interest capitalized during construction	**(37.6)**	(30.6)
	37.8	46.2
Net finance expense	**20.2**	22.1

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

16.1 Fair Value

The estimated fair values of financial instruments as at March 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 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 period ended March 31, 2015 and the year ended December 31, 2014.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(millions of Canadian dollars)		**March 31, 2015**		December 31, 2014	
Financial assets					
Cash and cash equivalents	**1**	**65.7**	**65.7**	60.8	60.8
Restricted cash	**1**	**1,278.5**	**1,278.5**	1,130.6	1,130.6
Short-term investments	**1**	**33.3**	**33.3**	34.4	34.4
Trade and other receivables	**1**	**274.1**	**274.1**	249.2	249.2
Derivative assets	**2**	**13.5**	**13.5**	11.8	11.8
Sinking funds - investments in same Hydro issue	**2**	**49.3**	**66.2**	47.9	62.3
Sinking funds - other investments	**2**	**286.9**	**286.9**	268.6	268.6
Long-term investments	**2**	**2,452.3**	**2,457.2**	2,871.4	2,872.4
Reserve fund	**2**	**34.5**	**34.5**	34.2	34.2
Long-term receivables	**2**	**8.6**	**8.6**	37.2	37.2
Financial liabilities					
Short-term borrowings	**1**	**42.0**	**42.0**	53.0	53.0
Trade and other payables	**1**	**666.9**	**666.9**	672.1	672.1
Derivative liabilities	**2**	**6.5**	**6.5**	1.6	1.6
Long-term debt including amount due within one year (before sinking funds)	**2**	**6,296.9**	**8,098.6**	6,296.8	7,626.7
Class B limited partnership units	**3**	**81.1**	**81.1**	79.4	79.4
Long-term payables	**2**	**73.3**	**82.0**	74.0	86.3

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 approximate their carrying values due to their short-term maturity.

16.2 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.

<u>Market Risk</u>

Foreign Currency and Commodity Exposure

On March 17, 2015, Oil and Gas entered into a series of eight commodity price swaps with a notional value of $4.5 million USD to mitigate commodity price exposure. These contracts provide Oil and Gas with an average fixed price of $59.25 USD per barrel on an additional 75,410 barrels of production for the remainder of 2015 and the first quarter of 2016.

17. 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 Energy
Churchill Falls	Joint arrangement of Hydro
Twin Falls	Joint venture of Churchill Falls
The Churchill Falls (Labrador) Corporation Trust	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
Board of Commissioners of Public Utilities	Agency of the Province

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

18. COMMITMENTS AND CONTINGENCIES

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.

Outstanding commitments for capital projects total approximately $3,754.3 million as at March 31, 2015 (2014 - $3,740.7 million). In addition, Oil and Gas has committed to fund its share of all exploration and development projects.

19. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2015**	2014
Trade and other receivables	**(24.9)**	(27.7)
Prepayments	**(1.4)**	(6.7)
Inventories	**5.2**	(12.9)
Trade and other payables	**(5.2)**	16.8
Changes in non-cash working capital balances	**(26.3)**	(30.5)
Interest received	**14.2**	19.2
Interest paid	**34.2**	34.2

20. SEGMENT INFORMATION

Nalcor operates in seven business segments. Hydro Regulated activities encompasses sales of electricity to customers within the Province. Churchill Falls operates a hydroelectric generating facility which sells electricity to Hydro-Québec, Hydro and industrial customers in Labrador. 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 three months ended March 31, 2015					
Revenue									
Energy sales	214.3	38.8	7.1	16.2	-	-	-	-	276.4
Other revenue	0.9	0.1	2.4	1.3	4.9	-	-	1.2	10.8
	215.2	38.9	9.5	17.5	4.9	-	-	1.2	287.2
Expenses									
Fuels	(81.3)	-	-	-	-	-	-	-	(81.3)
Power purchased	(18.2)	-	-	(1.0)	-	-	-	-	(19.2)
Operating costs	(34.6)	(12.3)	(5.5)	(7.7)	(0.2)	(0.2)	(5.6)	-	(66.1)
Depreciation and depletion	(15.5)	(3.6)	(3.7)	-	-	-	(0.1)	-	(22.9)
Exploration and evaluation	-	-	(0.2)	-	-	-	-	-	(0.2)
Net finance income and expense	(19.5)	0.2	0.3	(0.8)	(0.3)	0.2	(0.3)	-	(20.2)
Other income and expense	-	-	1.1	(1.2)	-	-	-	-	(0.1)
Preferred dividends	-	1.2	-	-	-	-	-	(1.2)	-
Profit (loss) before regulatory adjustments	46.1	24.4	1.5	6.8	4.4	-	(6.0)	-	77.2
Regulatory adjustments	(47.7)	-	-	-	-	-	-	-	(47.7)
(Loss) profit for the period	(1.6)	24.4	1.5	6.8	4.4	-	(6.0)	-	29.5
Capital expenditures*	18.1	2.4	52.6	0.1	-	420.1	0.8	-	494.1
Total assets	2,175.3	513.6	846.6	13.5	3.9	6,986.6	332.0	(9.2)	10,862.3

***Capital expenditures include non-cash additions of $99.7 million related to the Maritime Link and $1.7 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of $432.0 million related to the Maritime Link and $13.3 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 three months ended March 31, 2014								
Revenue									
Energy sales	199.6	29.6	23.3	27.5	-	-	0.1	(1.0)	279.1
Other revenue	1.1	0.2	0.8	-	4.4	-	0.1	0.9	7.5
	200.7	29.8	24.1	27.5	4.4	-	0.2	(0.1)	286.6
Expenses									
Fuels	(118.0)	-	-	-	-	-	-	-	(118.0)
Power purchased	(22.5)	-	-	(1.2)	-	-	-	1.0	(22.7)
Operating costs	(32.6)	(11.5)	(5.8)	(6.5)	(0.2)	-	(3.8)	-	(60.4)
Depreciation and depletion	(14.1)	(3.5)	(7.6)	-	-	-	(0.2)	-	(25.4)
Net finance income and expense	(22.1)	0.3	0.2	(0.2)	(0.1)	-	(0.2)	-	(22.1)
Other income and expense	-	-	0.6	(5.9)	(0.3)	-	(0.1)	-	(5.7)
Share of profit of joint venture	-	0.1	-	-	-	-	-	-	0.1
Preferred dividends	-	0.9	-	-	-	-	-	(0.9)	-
(Loss) profit before regulatory adjustments	(8.6)	16.1	11.5	13.7	3.8	-	(4.1)	-	32.4
Regulatory adjustments	2.8	-	-	-	-	-	-	-	2.8
(Loss) profit for the period	(5.8)	16.1	11.5	13.7	3.8	-	(4.1)	-	35.2
Capital expenditures*	11.6	4.6	52.2	0.1	-	213.1	0.3	-	281.9
Total assets	1,978.4	494.6	584.2	9.6	3.7	6,305.7	311.7	(7.9)	9,680.0

*Capital expenditures include non-cash additions of $25.3 million related to the Maritime Link and $1.5 million related to Class B Limited Partnership Unit accrued interest.
Total assets include total-to-date amounts of $118.8 million related to Maritime Link and $6.8 million related to Class B Limited Partnership Unit accrued interest.

21. SUBSEQUENT EVENT

On April 1, 2015, Energy Marketing completed the transition to a full-service trading operation, selling and delivering recapture energy directly into external energy markets. Prior to this date, these activities were carried out under a third party service contract with Emera Energy Incorporated.