

**NALCOR ENERGY**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2015**  
**(Unaudited)**

**NALCOR ENERGY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

<i>As at (millions of Canadian dollars)</i>	Notes	September 30 2015	December 31 2014
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		130.2	60.8
Restricted cash		1,566.3	1,130.6
Short-term investments		1,272.1	1,790.0
Trade and other receivables		205.8	249.2
Inventories		76.6	97.1
Current portion of sinking funds	6	-	1.5
Prepayments		16.8	16.4
Derivative assets		9.3	11.8
<b>Total current assets</b>		<b>3,277.1</b>	<b>3,357.4</b>
Non-current assets			
Property, plant and equipment	3	7,611.5	5,676.8
Intangible assets	4	34.9	12.9
Investment property		1.0	1.0
Other long-term assets	6	330.1	353.5
Investment in joint arrangement		1.4	1.5
Long-term investments	7	238.7	1,115.8
<b>Total assets</b>		<b>11,494.7</b>	<b>10,518.9</b>
Regulatory deferrals	5	124.6	124.2
<b>Total assets and regulatory deferrals</b>		<b>11,619.3</b>	<b>10,643.1</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Short-term borrowings	8	71.0	53.0
Trade and other payables		999.8	672.1
Current portion of long-term debt	8	8.4	8.4
Derivative liabilities		3.5	1.6
Current portion of other liabilities		5.2	5.3
<b>Total current liabilities</b>		<b>1,087.9</b>	<b>740.4</b>
Non-current liabilities			
Long-term debt	8	6,233.7	6,240.5
Class B limited partnership units	9	152.0	79.4
Deferred credits	10	598.1	333.1
Deferred contributions	11	11.6	15.0
Decommissioning liabilities	12	44.0	42.1
Long-term payables		66.4	74.0
Employee benefits liability		151.3	144.5
<b>Total liabilities</b>		<b>8,345.0</b>	<b>7,669.0</b>
Shareholder's equity			
Share capital	14	122.5	122.5
Shareholder contributions	14	1,690.3	1,469.1
Reserves		(16.2)	(15.8)
Retained earnings		1,166.5	1,146.2
<b>Total equity</b>		<b>2,963.1</b>	<b>2,722.0</b>
<b>Total liabilities and equity</b>		<b>11,308.1</b>	<b>10,391.0</b>
Regulatory deferrals	5	311.2	252.1
<b>Total liabilities, equity and regulatory deferrals</b>		<b>11,619.3</b>	<b>10,643.1</b>

Commitments and contingencies (Note 20)

Subsequent events (Note 23)

See accompanying notes

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

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2015	2014	2015	2014
Energy sales		<b>117.6</b>	115.2	<b>556.9</b>	565.8
Other revenue		<b>12.4</b>	8.4	<b>35.6</b>	24.0
Revenue		<b>130.0</b>	123.6	<b>592.5</b>	589.8
Fuels		<b>20.3</b>	32.5	<b>137.9</b>	203.7
Power purchased		<b>13.4</b>	13.3	<b>47.2</b>	52.4
Operating costs	15	<b>71.3</b>	62.7	<b>205.8</b>	180.1
Amortization, depreciation and depletion	3,4	<b>23.3</b>	20.9	<b>68.8</b>	70.1
Exploration and evaluation		<b>0.3</b>	0.4	<b>0.9</b>	0.9
Net finance (income) expense	16	<b>18.0</b>	17.1	<b>54.5</b>	54.7
Other (income) expense	17	<b>1.2</b>	2.1	<b>(1.7)</b>	8.5
Share of (profit) loss of joint arrangement		-	(0.1)	<b>0.1</b>	(0.3)
(Loss) profit before regulatory adjustments		<b>(17.8)</b>	(25.3)	<b>79.0</b>	19.7
Regulatory adjustments	5	<b>(16.6)</b>	(23.1)	<b>58.7</b>	(25.4)
(Loss) profit for the period		<b>(1.2)</b>	(2.2)	<b>20.3</b>	45.1
Other comprehensive (loss) income for the period		<b>(0.3)</b>	2.9	<b>(0.4)</b>	12.5
Total comprehensive (loss) income for the period		<b>(1.5)</b>	0.7	<b>19.9</b>	57.6

See accompanying notes

**NALCOR ENERGY**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)

					Employee		
	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Benefit Reserve	Retained Earnings	Total
<i>(millions of Canadian dollars)</i>							
<b>Balance at January 1, 2015</b>		<b>122.5</b>	<b>1,469.1</b>	<b>40.5</b>	<b>(56.3)</b>	<b>1,146.2</b>	<b>2,722.0</b>
<b>Profit for the period</b>		-	-	-	-	<b>20.3</b>	<b>20.3</b>
<b>Other comprehensive income</b>							
Net change in fair value of available-for-sale financial instruments		-	-	<b>8.3</b>	-	-	<b>8.3</b>
Net change in fair value of cash flow hedge		-	-	<b>(1.3)</b>	-	-	<b>(1.3)</b>
Net change in fair value of financial instruments reclassified to profit or loss		-	-	<b>(7.4)</b>	-	-	<b>(7.4)</b>
<b>Total comprehensive (loss) income for the period</b>		-	-	<b>(0.4)</b>	-	<b>20.3</b>	<b>19.9</b>
<b>Shareholder contributions</b>	<b>14</b>	-	<b>221.2</b>	-	-	-	<b>221.2</b>
<b>Balance at September 30, 2015</b>		<b>122.5</b>	<b>1,690.3</b>	<b>40.1</b>	<b>(56.3)</b>	<b>1,166.5</b>	<b>2,963.1</b>
Balance at January 1, 2014		122.5	1,141.8	11.3	(38.4)	1,030.6	2,267.8
Profit for the period		-	-	-	-	45.1	45.1
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments		-	-	20.7	-	-	20.7
Net change in fair value of financial instruments reclassified to profit or loss		-	-	(8.2)	-	-	(8.2)
<b>Total comprehensive income for the period</b>		-	-	<b>12.5</b>	-	<b>45.1</b>	<b>57.6</b>
<b>Shareholder contributions</b>		-	<b>121.4</b>	-	-	-	<b>121.4</b>
<b>Balance at September 30, 2014</b>		<b>122.5</b>	<b>1,263.2</b>	<b>23.8</b>	<b>(38.4)</b>	<b>1,075.7</b>	<b>2,446.8</b>

See accompanying notes

**NALCOR ENERGY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Unaudited)

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Notes	<b>Three months ended</b>		<b>Nine months ended</b>	
		<b>2015</b>	2014	<b>2015</b>	2014
Cash provided from (used in)					
Operating activities					
(Loss) profit for the period		<b>(1.2)</b>	(2.2)	<b>20.3</b>	45.1
Adjusted for items not involving a cash flow:					
Amortization, depreciation and depletion	3,4	<b>23.3</b>	20.9	<b>68.8</b>	70.1
Accretion	16	<b>1.5</b>	1.3	<b>4.2</b>	4.1
Amortization of deferred contributions	11	<b>(0.2)</b>	(0.1)	<b>(0.6)</b>	(0.5)
Employee benefits		<b>2.2</b>	1.9	<b>6.8</b>	5.7
Regulatory adjustments	5	<b>(16.6)</b>	(23.1)	<b>58.7</b>	(25.4)
Loss on disposal of property, plant and equipment		<b>0.7</b>	0.5	<b>1.4</b>	0.9
Share of (profit) loss of joint arrangement		-	(0.1)	<b>0.1</b>	(0.3)
Other		<b>(1.2)</b>	(1.3)	<b>(6.8)</b>	(0.2)
		<b>8.5</b>	(2.2)	<b>152.9</b>	99.5
Changes in non-cash working capital balances	21	<b>229.8</b>	215.1	<b>395.6</b>	326.2
<b>Net cash provided from operating activities</b>		<b>238.3</b>	212.9	<b>548.5</b>	425.7
Investing activities					
Additions to property, plant and equipment		<b>(734.2)</b>	(543.0)	<b>(1,740.0)</b>	(1,219.9)
Additions to intangible assets	4	<b>(20.3)</b>	(8.5)	<b>(23.4)</b>	(8.5)
(Increase) decrease in long-term receivables	6	<b>(3.0)</b>	(6.6)	<b>32.2</b>	(94.7)
Decrease (increase) in other long-term assets	6	<b>0.2</b>	-	<b>(0.5)</b>	-
Decrease in short-term investments		<b>207.4</b>	11.9	<b>517.9</b>	-
(Increase) decrease in sinking funds		<b>(3.6)</b>	(8.7)	<b>(6.8)</b>	103.9
Decrease in reserve fund		-	0.6	-	0.8
Decrease in long-term investments	7	<b>236.0</b>	398.7	<b>877.1</b>	1,116.3
Proceeds on disposal of property, plant and equipment		<b>0.5</b>	-	<b>0.5</b>	-
<b>Net cash used in investing activities</b>		<b>(317.0)</b>	(155.6)	<b>(343.0)</b>	(102.1)
Financing activities					
Additions to transmission congestion contracts		<b>(0.1)</b>	-	<b>(0.9)</b>	-
Issuance/retirement of long-term debt		-	197.1	-	72.4
Increase in restricted cash		<b>(110.7)</b>	(161.2)	<b>(435.7)</b>	(484.5)
Class B limited partnership unit contributions	9	<b>59.0</b>	-	<b>66.8</b>	-
Increase (decrease) in short-term borrowings		<b>43.0</b>	(103.5)	<b>18.0</b>	(41.0)
Decrease in long-term payable		<b>(0.3)</b>	(1.4)	<b>(10.3)</b>	(3.0)
Increase in shareholder contributions	14	<b>124.2</b>	33.6	<b>221.2</b>	121.4
Increase (decrease) in deferred contributions		<b>0.3</b>	0.4	<b>(2.8)</b>	0.9
Increase in deferred credits		<b>0.7</b>	0.2	<b>7.6</b>	0.2
<b>Net cash provided from (used in) financing activities</b>		<b>116.1</b>	(34.8)	<b>(136.1)</b>	(333.6)
Net increase (decrease) in cash and cash equivalents		<b>37.4</b>	22.5	<b>69.4</b>	(10.0)
Cash and cash equivalents, beginning of period		<b>92.8</b>	61.2	<b>60.8</b>	93.7
Cash and cash equivalents, end of period		<b>130.2</b>	83.7	<b>130.2</b>	83.7

Supplementary cash flow information (Note 21)

See accompanying notes

# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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### 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 of which are inactive.

## **NALCOR ENERGY**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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#### **1.2 Investment in Joint Arrangement**

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

Nalcor holds a 33.33% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation (Twin Falls), 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 November 10, 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 VIEs 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 the Shareholders' Agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of Churchill Falls be subject to approval jointly by representatives of Hydro and Hydro-Québec on the Board of Directors of Churchill Falls.

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

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

Churchill Falls holds 33.33% 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

<i>(millions of Canadian dollars)</i>	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Construction in Progress	Total
<b>Cost</b>						
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
<b>Balance at December 31, 2014</b>	<b>1,527.4</b>	<b>718.0</b>	<b>839.2</b>	<b>217.4</b>	<b>3,026.8</b>	<b>6,328.8</b>
<b>Additions</b>	<b>-</b>	<b>-</b>	<b>163.7</b>	<b>0.1</b>	<b>1,840.2</b>	<b>2,004.0</b>
<b>Disposals</b>	<b>(1.6)</b>	<b>(0.8)</b>	<b>-</b>	<b>(0.8)</b>	<b>(0.3)</b>	<b>(3.5)</b>
<b>Transfers</b>	<b>119.0</b>	<b>-</b>	<b>-</b>	<b>1.7</b>	<b>(120.7)</b>	<b>-</b>
<b>Other adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>190.8</b>	<b>(124.7)</b>	<b>66.1</b>
<b>Balance at September 30, 2015</b>	<b>1,644.8</b>	<b>717.2</b>	<b>1,002.9</b>	<b>409.2</b>	<b>4,621.3</b>	<b>8,395.4</b>
<b>Depreciation and depletion</b>						
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	-	-	-	-
<b>Balance at December 31, 2014</b>	<b>369.5</b>	<b>118.4</b>	<b>97.1</b>	<b>67.0</b>	<b>-</b>	<b>652.0</b>
<b>Depreciation and depletion</b>	<b>32.2</b>	<b>16.1</b>	<b>9.7</b>	<b>9.4</b>	<b>-</b>	<b>67.4</b>
<b>Disposals</b>	<b>(0.7)</b>	<b>(0.5)</b>	<b>-</b>	<b>(0.4)</b>	<b>-</b>	<b>(1.6)</b>
<b>Other adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66.1</b>	<b>-</b>	<b>66.1</b>
<b>Balance at September 30, 2015</b>	<b>401.0</b>	<b>134.0</b>	<b>106.8</b>	<b>142.1</b>	<b>-</b>	<b>783.9</b>
<b>Carrying value</b>						
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
<b>Balance at September 30, 2015</b>	<b>1,243.8</b>	<b>583.2</b>	<b>896.1</b>	<b>267.1</b>	<b>4,621.3</b>	<b>7,611.5</b>

### 4. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	<b>September 30 2015</b>	December 31 2014
Balance, beginning of period	<b>12.9</b>	-
Additions	<b>23.4</b>	12.9
Amortization	<b>(1.4)</b>	-
<b>Balance, end of period</b>	<b>34.9</b>	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 and gas reserves off the coast of Newfoundland and Labrador. Intangible assets are amortized on a straight-line basis over a six-year period.



# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

### 5. REGULATORY DEFERRALS

	January 1 2015	Regulatory activity	September 30 2015	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals				
Foreign exchange losses	58.4	(1.6)	56.8	26.25
Foreign exchange on fuel	0.3	0.2	0.5	n/a
Deferred lease costs	3.7	1.4	5.1	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	0.4	6.7	n/a
	124.2	0.4	124.6	
Regulatory liability deferrals				
Rate stabilization plan (RSP)	(246.0)	(59.6)	(305.6)	n/a
Insurance proceeds (net)	(5.6)	0.4	(5.2)	n/a
Deferred power purchase savings	(0.5)	0.1	(0.4)	11.75
	(252.1)	(59.1)	(311.2)	

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

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
RSP amortization	(2.2)	8.7	31.1	26.5
Rural rate adjustment	(0.7)	2.1	5.4	7.7
RSP fuel deferral	(19.2)	(36.8)	7.0	(69.6)
RSP interest	5.8	4.4	16.1	13.7
Total RSP activity	(16.3)	(21.6)	59.6	(21.7)
Amortization of deferred foreign exchange losses	0.5	0.5	1.6	1.6
Deferred foreign exchange on fuel	(0.4)	(0.4)	(0.2)	(0.6)
Deferred energy conservation	(0.3)	(0.7)	(0.4)	(1.3)
Deferred purchased power savings	-	-	(0.1)	-
Insurance proceeds (net)	(0.1)	(0.1)	(0.4)	(0.4)
Deferred lease costs	-	(0.8)	(1.4)	(3.0)
	(16.6)	(23.1)	58.7	(25.4)

### 6. OTHER LONG-TERM ASSETS

	September 30 2015	December 31 2014
<i>(millions of Canadian dollars)</i>		
Long-term receivables (a)	5.0	37.2
Long-term prepayments	10.6	15.0
Reserve fund	34.2	34.2
Sinking funds	279.8	268.6
Other	0.5	-
Other long-term assets, end of period	330.1	355.0
Less: current portion of sinking funds	-	(1.5)
	330.1	353.5

(a) As at September 30, 2015, long-term receivables include \$1.1 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 \$74.9 million (2014 - \$69.2 million) is included in trade and other receivables.

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 7. LONG-TERM INVESTMENTS

As at September 30, 2015, long-term investments consist of structured deposit notes of \$1,509.8 million (2014 - \$2,871.4 million) related to Muskrat Falls, Labrador Transco and the LIL Partnership.

<i>(millions of Canadian dollars)</i>	September 30 2015	December 31 2014
Long-term investments, beginning of period	2,871.4	4,477.4
Redemptions	(1,387.3)	(1,667.4)
Earnings	25.7	61.4
Long-term investments, end of period	1,509.8	2,871.4
Less: redemptions to be received within one year (a)	(1,271.1)	(1,755.6)
	238.7	1,115.8

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

#### 8. DEBT

##### 8.1 Short-term Borrowings

Nalcor maintains a \$250.0 million CAD or USD equivalent committed revolving term credit facility with its banker. In June 2015, the maturity date of this facility was extended to January 31, 2017. There were no amounts drawn on this facility as at September 30, 2015 (2014 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances (BAs) and letters of credit. Borrowings in USD may take the form of Base Rate Advances, London Interbank Offer Rate (LIBOR) Advances and letters of credit. The facility also provides coverage for overdrafts on Nalcor's bank accounts, with interest calculated at the Prime Rate. Nalcor has issued eleven irrevocable letters of credit, with a total value of \$11.6 million. Three of these letters, totaling \$4.8 million, are in favour of Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. Another eight letters, totaling \$6.8 million, are in favour of Energy Marketing and relate to collateral requirements in the Quebec, Ontario, New York, New England, Midwest United States and PJM (Pennsylvania-New Jersey-Maryland) electricity markets. In September 2015, Nalcor issued a \$50,000 USD letter of credit to PJM Settlement Inc. and a \$50,000 USD letter of credit to Midcontinent Independent System Operator Inc., relating to collateral required for market participation. Also in September 2015, Nalcor issued a \$52,000 USD letter of credit to Eversource Energy Service Company, relating to collateral required for transmission customers.

Hydro maintains a \$50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at September 30, 2015, there was \$0.7 million outstanding on this facility (2014 - \$nil), presented with cash and cash equivalents. Borrowings in CAD may take the form of Prime Rate Advance, BAs, and letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and letters of credit. The facility also provides coverage for overdrafts on Hydro's bank accounts, with interest calculated at the Prime Rate. Hydro has issued one irrevocable letter of credit, for \$0.3 million, as a performance guarantee in relation to the Department of Fisheries and Oceans Fish Habitat Compensation Program.

Promissory notes outstanding in Hydro as at September 30, 2015 were \$71.0 million (2014 - \$53.0 million).

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at September 30, 2015, there were no amounts drawn on this facility (2014 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances, BAs, or letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. Churchill Falls has issued three irrevocable letters of credit, totaling \$2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

Oil and Gas maintains a \$5.0 million USD or CAD equivalent unsecured credit facility with its banker and as at September 30, 2015, there were no amounts drawn on this facility (2014 - \$nil). Borrowings in CAD may take the form of Prime Rate Advances and letters of credit. Borrowings in USD may take the form of Base Rate Advances and letters of credit.

Energy Marketing maintains a \$20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at September 30, 2015, there was \$1.5 million drawn on this facility (2014 - \$nil), presented with cash and cash equivalents. This facility has an unconditional and irrevocable guarantee from Nalcor. Borrowings in CAD may take the form of Prime Rate Advances, BAs and letters of credit. Borrowings in USD may take the form of Base Rate Advances, LIBOR Advances and letters of credit.

#### 8.2 Long-term Debt

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

<i>(millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	September 30 2015	December 31 2014
Hydro						
V*	0.3	10.50	1989	2014	0.3	0.3
X*	150.0	10.25	1992	2017	149.8	149.7
Y*	300.0	8.40	1996	2026	294.5	294.3
AB*	300.0	6.65	2001	2031	305.8	305.9
AD*	125.0	5.70	2003	2033	123.7	123.7
AE	225.0	4.30	2006	2016	224.8	224.6
AF	200.0	3.60	2014	2045	197.1	197.1
LIL LP						
Tranche A	725.0	3.76	2013	2033	725.3	725.3
Tranche B	600.0	3.86	2013	2045	600.1	600.1
Tranche C	1,075.0	3.85	2013	2053	1,075.2	1,075.2
Labrador Transco/Muskrat Falls						
Tranche A	650.0	3.63	2013	2029	650.2	650.2
Tranche B	675.0	3.83	2013	2037	675.1	675.1
Tranche C	1,275.0	3.86	2013	2048	1,275.3	1,275.3
Total debentures	6,300.3				6,297.2	6,296.8
Less: Sinking fund investments in own debentures					55.1	47.9
					6,242.1	6,248.9
Less: payments due within one year					8.4	8.4
Total debentures					6,233.7	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 September 30, 2015 was \$3.4 million (2014 - \$2.8 million).

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

On November 29, 2013, the Project Trust entered into the IT Project Finance Agreement (IT PFA) with the 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 Project Trust which proceeds to on-lend the funds to LIL LP under the terms of the LIL Project

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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Financial Agreement (LIL PFA). The purpose of the LIL Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Government of Canada and to on-lend the proceeds to the Project Trust. The proceeds of the facility are to be used exclusively for the construction of the LIL.

On December 13, 2013, all three tranches of the LIL construction facility were drawn down by way of a single advance to the Project Trust of \$2.4 billion. Under the terms of the IT PFA, the 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, 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 and Labrador Transco entered into the MF/LTA Project Finance Agreement (MF/LTA PFA) with the Muskrat Falls/Labrador Transmission Assets Funding Trust (MF/LTA Funding Trust) and Labrador Transco. Under the terms and conditions of the MF/LTA PFA, the MF/LTA Funding Trust agreed to provide a non-revolving credit facility in the amount of \$2.6 billion available in three tranches (Tranches A, B and C). The purpose of the MF/LTA Funding Trust is to issue long-term debentures to the public, which debt is guaranteed by the Government of Canada and to on-lend the proceeds to Muskrat Falls and Labrador Transco. Muskrat Falls and Labrador Transco are both jointly and severally liable for the full amount of the credit facility.

On December 13, 2013, all three tranches of the MF/LTA construction facility were drawn down by way of a single advance of \$2.6 billion. Under the terms of the MF/LTA PFA, the 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.

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:

<i>(millions of Canadian dollars)</i>	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 Newfoundland and Labrador Island Link Incorporated's (Emera NL) 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) expense and capitalized as non-cash additions to property, plant and equipment.

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

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

<i>(millions of Canadian dollars)</i>	September 30		December 31	
	Units	2015	Units	2014
Class B limited partnership units, beginning of period	25	79.4	25	73.0
Contributions	-	66.8	-	-
Accrued interest	-	5.8	-	6.4
Class B limited partnership units, end of period	25	152.0	25	79.4

#### 10. DEFERRED CREDITS

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

<i>(millions of Canadian dollars)</i>	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	-	0.4	258.2	8.1	266.7
Amortization	-	(0.9)	-	-	(0.9)
<b>Deferred credits, end of period</b>	<b>0.7</b>	<b>3.8</b>	<b>588.2</b>	<b>9.6</b>	<b>602.3</b>
<b>Less: current portion</b>	<b>(0.7)</b>	<b>(1.7)</b>	<b>-</b>	<b>(1.8)</b>	<b>(4.2)</b>
	<b>-</b>	<b>2.1</b>	<b>588.2</b>	<b>7.8</b>	<b>598.1</b>

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 energy sales of \$588.2 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.

<i>(millions of Canadian dollars)</i>	September 30 2015	December 31 2014
Deferred contributions, beginning of period	15.8	11.3
Additions	0.8	5.2
Adjustments	(3.6)	-
Amortization	(0.6)	(0.7)
Deferred contributions, end of period	12.4	15.8
Less: current portion	(0.8)	(0.8)
	11.6	15.0

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 12. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generating Station, disposal of Polychlorinated Biphenyls and decommissioning liabilities resulting from its net ownership interests in petroleum and natural gas properties and related well sites.

The reconciliation of beginning and ending carrying amounts of decommissioning liabilities as at September 30, 2015 and December 31, 2014 are as follows:

	September	December 31
	2015	2014
<i>(millions of Canadian dollars)</i>		
Decommissioning liabilities, beginning of period	43.2	33.9
Liabilities incurred	-	5.9
Liabilities settled	(0.1)	-
Accretion	1.1	1.3
Revisions	-	2.1
Decommissioning liabilities, end of period	44.2	43.2
Less: current portion	(0.2)	(1.1)
	44.0	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 for the period ended September 30, 2015 of \$8.6 million (2014 - \$5.6 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 \$2.5 million (2014 - \$2.4 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		Nine months ended	
	2015	2014	2015	2014
<i>For the period ended September 30 (millions of Canadian dollars)</i>				
Component of benefit cost				
Current service cost	1.6	1.2	4.6	3.6
Interest cost	1.6	1.5	4.7	4.5
Total benefit expense for the period	3.2	2.7	9.3	8.1

# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

### 14. SHAREHOLDER'S EQUITY

#### 14.1 Share Capital

	September 30	December 31
	2015	2014
<i>(millions of Canadian dollars)</i>		
Common shares of par value \$1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	122.5	122.5

#### 14.2 Shareholder Contributions

	September 30	December 31
	2015	2014
<i>(millions of Canadian dollars)</i>		
Total shareholder contributions	1,690.3	1,469.1

During 2015, the Province contributed capital in the amount of \$221.1 million (2014 - \$327.1 million). In addition, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed \$0.1 million (2014 - \$0.2 million).

### 15. OPERATING COSTS

	Three months ended		Nine months ended	
	2015	2014	2015	2014
<i>For the period ended September 30 (millions of Canadian dollars)</i>				
Salaries and benefits expense	34.3	31.9	107.4	93.7
Transmission rental	5.0	5.3	15.1	15.0
Maintenance and materials	13.0	10.9	29.4	25.3
Oil and gas production costs	4.0	2.8	10.2	8.9
Professional services	8.2	7.1	19.7	17.6
Travel and transportation	2.6	2.6	7.4	7.5
Other operating costs	4.2	2.1	16.6	12.1
	71.3	62.7	205.8	180.1

### 16. NET FINANCE (INCOME) EXPENSE

	Three months ended		Nine months ended	
	2015	2014	2015	2014
<i>For the period ended September 30 (millions of Canadian dollars)</i>				
Finance income				
Interest on sinking fund	3.7	3.5	10.9	13.6
Interest on reserve fund	0.2	0.4	0.7	1.1
Interest on investments	6.6	14.7	26.1	48.5
Interest on restricted cash	3.0	2.4	8.8	5.8
Other interest income	0.3	0.3	1.1	0.7
	13.8	21.3	47.6	69.7
Finance expense				
Long-term debt	68.7	67.2	206.2	207.8
Class B limited partnership units	2.4	1.7	5.8	4.8
Debt guarantee fee	1.1	1.0	3.4	2.8
Accretion	1.5	1.3	4.2	4.1
Other	0.1	0.9	0.9	1.8
	73.8	72.1	220.5	221.3
Interest capitalized during construction	(42.0)	(33.7)	(118.4)	(96.9)
	31.8	38.4	102.1	124.4
Net finance (income) expense	18.0	17.1	54.5	54.7

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

#### 17. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2015	2014	2015	2014
Mark-to-market of commodity swaps	3.1	(2.7)	1.6	(1.7)
Settlement of commodity swaps	(7.0)	0.5	(14.5)	2.6
Mark-to-market of forward contracts	(0.5)	1.0	1.2	0.3
Transmission congestion contract (income) expense	(0.1)	0.2	(0.4)	0.4
Asset disposal costs	2.7	2.7	3.4	3.4
Foreign exchange loss (gain)	2.8	(0.3)	6.8	3.6
Other	0.2	0.7	0.2	(0.1)
Other (income) expense	1.2	2.1	(1.7)	8.5

#### 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### 18.1 Fair Value

The estimated fair values of financial instruments as at September 30, 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 for the period ended September 30, 2015 and the year ended December 31, 2014.



# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2015		December 31, 2014	
<i>(millions of Canadian dollars)</i>					
<b>Financial assets</b>					
Cash and cash equivalents	1	130.2	130.2	60.8	60.8
Restricted cash	1	1,566.3	1,566.3	1,130.6	1,130.6
Short-term investments	1	1,272.1	1,272.1	1,790.0	1,790.0
Trade and other receivables	1	205.8	205.8	249.2	249.2
Derivative assets	2,3	9.3	9.3	11.8	11.8
Sinking funds - investments in same Hydro issue	2	55.1	69.4	47.9	62.3
Sinking funds - other investments	2	279.8	279.8	268.6	268.6
Long-term investments	2	238.7	238.7	1,115.8	1,115.8
Reserve fund	2	34.2	34.2	34.2	34.2
Long-term receivables	2	5.0	5.0	37.2	37.2
<b>Financial liabilities</b>					
Short-term borrowings	1	71.0	71.0	53.0	53.0
Trade and other payables	1	999.8	999.8	672.1	672.1
Derivative liabilities	2	3.5	3.5	1.6	1.6
Long-term debt including amount due within one year (before sinking funds)	2	6,297.2	7,621.0	6,296.8	7,626.7
Class B limited partnership units	3	152.0	152.0	79.4	79.4
Long-term payables	2	66.4	75.9	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 approximates their carrying values due to their short-term maturity.

### 18.2 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.

#### Market Risk

##### *Commodity Exposure*

Oil and Gas has entered into a series of commodity price swaps to mitigate commodity price exposure. Oil and Gas has seven contracts in place that provide an average fixed price of \$63.37 USD per barrel on 133,500 barrels of production for the first and second quarters of 2016. Oil and Gas has five remaining contracts in place for 2015 production, with average fixed price of \$87.63 USD per barrel on 76,554 barrels of production. As the contracts have been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income.

Bull Arm has entered into a series of foreign exchange forward contracts to mitigate foreign exchange risk on rental revenues. Bull Arm has three remaining contracts in place with a notional value of \$4.6 million, with an average exchange rate of \$1.15 CAD per USD.

In March and April 2015, Energy Marketing entered into series of annual and semi-annual transmission rights contracts with notional values totaling \$674,700 USD to hedge congestion fees on a portion of planned electricity sales during peak transmission times. As the contracts have not been designated as hedged instruments, changes in fair value have been recorded in other (income) expense. In September 2015, Energy Marketing entered into additional annual and semi-annual transmission rights contracts, effective November 1, 2015, with notional values totaling \$173,100 USD to hedge congestion fees on a portion of planned electricity sales during peak transmission times. As the contracts have not been designated as hedged instruments, changes in fair value are recorded in other

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

(income) expense. In September 2015, Energy Marketing entered into two one-month transmission rights contracts, effective October 1, 2015, with notional values totaling \$78,900 CAD to hedge congestion fees on a portion of planned electricity sales during peak transmission times.

Hydro has entered into a series of electricity price forward contracts to mitigate commodity price exposure. Hydro has six remaining contracts in place with a notional value of \$8.3 million USD, with an average price of USD \$39.38 per MWH (On Peak) and USD \$30.02 (Off Peak).

As the contracts for Bull Arm, Energy Marketing and Hydro have not been designated as hedged instruments, changes in fair value are recorded in other (income) expense.

#### 19. 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 (PUB)	Agency of the Province

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

- Hydro is required to contribute to the cost of operations of the PUB as well as the cost of hearings and applications costs. As at September 30, 2015, Hydro incurred \$2.1 million (2014 - \$2.7 million) in costs related to the PUB, of which, \$2.3 million (2014 - \$2.4 million) is included in trade and other payables.
- On March 31, 2015, Hydro paid the Province a debt guarantee fee of \$4.5 million (2014 - \$3.7 million). For the nine months ended September 30, \$3.4 million (2014 - \$2.8 million) has been recorded in net finance (income) expense.
- Hydro received contributions in aid of construction from the Province related to wind feasibility studies. As at September 30, 2015, \$0.6 million (2014 - \$0.7 million) has been recorded in deferred credits.
- For the period ended September 30, 2015, Hydro has purchased \$21.6 million (2014 - \$21.7 million) of power generated from assets related to Exploits Generation, which are held by the Province. In addition, Hydro operates these assets on behalf of Nalcor and recovered costs in the amount of \$12.5 million (2014 - \$10.1 million).
- Hydro recorded \$0.3 million (2014 - \$0.4 million) as a rate subsidy for rural isolated customers from the Province and \$1.5 million (2014 - \$1.5 million) as an energy rebate to offset the cost of basic electricity consumption for Labrador rural isolated residential customer under the Northern Strategic Plan. As at September 30, 2015, there is a balance of \$0.6 million outstanding (2014 - \$0.6 million).
- The Province provides cash to fund investing activities that are periodically settled by shareholder contributions. For the period ended September 30, 2015, the Province provided \$148.5 million (December 31, 2014 - \$212.5 million) in shareholder contributions relating to Oil and Gas, \$57.5 million (December 31, 2014 - \$26.6 million) relating to Muskrat Falls, \$12.2 million (2014 - \$27.9 million) relating to Labrador Transco and \$2.9 million (December 31, 2014 - \$60.1 million) relating to LIL Holdco.

## NALCOR ENERGY

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

- (g) Total funding to be received under the Petroleum Exploration Enhancement Program was \$4.5 million over five years. For the period ended September 30, 2015, there were no new funds received (2014 - \$nil). Included in deferred revenue at September 30, 2015, is \$1.1 million (2014 - \$1.2 million) related to funding received.
- (h) Total funding to be received under Offshore Geoscience Data Project was \$14.3 million over four years. For the period ended September 30, 2015, \$0.5 million (2014 - \$0.5 million) was received from the Province. Included in deferred revenue at September 30, 2015, is \$2.1 million (2014 - \$2.5 million) related to funding received.

#### 20. 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 \$3,936.1 million as at September 30, 2015 (2014 - \$3,740.7 million). In addition, Oil and Gas has committed to fund its share of all exploration and development projects.

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

#### 21. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (millions of Canadian dollars)</i>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
Trade and other receivables	<b>11.5</b>	29.0	<b>43.4</b>	61.4
Prepayments	-	(2.6)	<b>4.0</b>	(6.5)
Inventories	<b>(0.9)</b>	(10.3)	<b>20.5</b>	(27.7)
Trade and other payables	<b>219.2</b>	199.0	<b>327.7</b>	299.0
Changes in non-cash working capital balances	<b>229.8</b>	215.1	<b>395.6</b>	326.2
Interest received	<b>10.4</b>	18.4	<b>37.1</b>	75.7
Interest paid	<b>34.1</b>	54.4	<b>172.3</b>	168.1

## **NALCOR ENERGY**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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#### **22. SEGMENT INFORMATION**

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

# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter- Segment	Total
For the nine months ended September 30, 2015									
<b>Revenue</b>									
Energy sales	426.7	70.1	19.7	71.4	-	-	-	(31.0)	556.9
Other revenue	2.5	0.4	9.9	4.2	15.1	-	-	3.5	35.6
	<b>429.2</b>	<b>70.5</b>	<b>29.6</b>	<b>75.6</b>	<b>15.1</b>	<b>-</b>	<b>-</b>	<b>(27.5)</b>	<b>592.5</b>
<b>Expenses</b>									
Fuels	137.9	-	-	-	-	-	-	-	137.9
Power purchased	46.0	-	-	32.1	-	-	-	(30.9)	47.2
Operating costs	113.7	33.1	17.8	23.2	0.8	0.9	16.3	-	205.8
Amortization, depreciation and depletion	46.4	10.8	11.2	-	-	-	0.4	-	68.8
Exploration and evaluation	-	-	0.9	-	-	-	-	-	0.9
Net finance (income) expense	54.8	(0.8)	0.5	-	-	(0.4)	0.4	-	54.5
Other (income) expense	4.1	0.9	(6.5)	(1.7)	1.5	-	-	-	(1.7)
Share of loss of joint arrangement	-	0.1	-	-	-	-	-	-	0.1
Preferred dividends	-	(3.5)	-	-	-	-	-	3.5	-
<b>Profit (loss) before regulatory adjustments</b>	<b>26.3</b>	<b>29.9</b>	<b>5.7</b>	<b>22.0</b>	<b>12.8</b>	<b>(0.5)</b>	<b>(17.1)</b>	<b>(0.1)</b>	<b>79.0</b>
<b>Regulatory adjustments</b>	<b>58.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58.7</b>
<b>(Loss) profit for the period</b>	<b>(32.4)</b>	<b>29.9</b>	<b>5.7</b>	<b>22.0</b>	<b>12.8</b>	<b>(0.5)</b>	<b>(17.1)</b>	<b>(0.1)</b>	<b>20.3</b>
<b>Capital expenditures*</b>	<b>91.1</b>	<b>24.6</b>	<b>163.7</b>	<b>0.1</b>	<b>-</b>	<b>1,717.6</b>	<b>6.9</b>	<b>-</b>	<b>2,004.0</b>
<b>Total assets</b>	<b>2,154.5</b>	<b>521.4</b>	<b>968.8</b>	<b>7.9</b>	<b>4.0</b>	<b>7,617.0</b>	<b>360.4</b>	<b>(14.7)</b>	<b>11,619.3</b>

\*Capital expenditures include non-cash additions of \$258.2 million related to the Maritime Link and \$5.8 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of \$590.5 million related to the Maritime Link and \$17.5 million related to Class B Limited Partnership Unit accrued interest.

# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter- Segment	Total
For the nine months ended September 30, 2014									
Revenue									
Energy sales	400.8	48.2	55.6	64.1	-	-	-	(2.9)	565.8
Other revenue	1.6	0.7	6.5	-	13.2	-	-	2.0	24.0
	402.4	48.9	62.1	64.1	13.2	-	-	(0.9)	589.8
Expenses									
Fuels	203.7	-	-	-	-	-	-	-	203.7
Power purchased	49.2	-	-	6.1	-	-	-	(2.9)	52.4
Operating costs	101.6	30.7	16.1	20.3	0.7	0.5	10.2	-	180.1
Depreciation and depletion	41.0	10.1	18.6	-	-	-	0.4	-	70.1
Exploration and evaluation	-	-	0.9	-	-	-	-	-	0.9
Net finance (income) expense	54.3	(1.0)	0.3	-	-	0.1	1.0	-	54.7
Other (income) expense	5.3	1.7	(1.8)	3.2	0.3	-	(0.2)	-	8.5
Share in profit of joint arrangement	-	(0.3)	-	-	-	-	-	-	(0.3)
Preferred dividends	-	(2.0)	-	-	-	-	-	2.0	-
(Loss) profit before regulatory adjustments	(52.7)	9.7	28.0	34.5	12.2	(0.6)	(11.4)	-	19.7
Regulatory adjustments	(25.4)	-	-	-	-	-	-	-	(25.4)
(Loss) profit for the period	(27.3)	9.7	28.0	34.5	12.2	(0.6)	(11.4)	-	45.1
Capital expenditures	142.9	23.9	177.6	0.7	-	997.8	2.1	-	1,345.0
Total assets	2,011.6	488.1	708.0	7.3	3.7	6,687.7	281.3	-	10,187.7

\*Capital expenditures include non-cash additions of \$120.4 million related to the Maritime Link and \$4.7 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of \$214.0 million related to the Maritime Link and \$10.0 million related to Class B Limited Partnership Unit accrued interest.

# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter- Segment	Total
<b>For the three months ended September 30, 2015</b>									
<b>Revenue</b>									
Energy sales	81.5	14.7	6.4	25.1	-	-	-	(10.1)	117.6
Other revenue	0.8	0.1	3.6	1.6	5.2	-	-	1.1	12.4
	<b>82.3</b>	<b>14.8</b>	<b>10.0</b>	<b>26.7</b>	<b>5.2</b>	<b>-</b>	<b>-</b>	<b>(9.0)</b>	<b>130.0</b>
<b>Expenses</b>									
Fuels	20.3	-	-	-	-	-	-	-	20.3
Power purchased	12.8	-	-	10.8	-	-	-	(10.2)	13.4
Operating costs	40.0	11.2	6.5	7.8	0.3	0.3	5.2	-	71.3
Amortization, depreciation and depletion	15.6	3.5	4.0	-	-	-	0.2	-	23.3
Exploration and evaluation	-	-	0.3	-	-	-	-	-	0.3
Net finance (income) expense	18.1	(0.3)	0.2	-	-	(0.1)	0.1	-	18.0
Other (income) expense	2.2	0.7	(2.9)	0.6	0.7	-	(0.1)	-	1.2
Preferred dividends	-	(1.2)	-	-	-	-	-	1.2	-
<b>(Loss) profit before regulatory adjustments</b>	<b>(26.7)</b>	<b>0.9</b>	<b>1.9</b>	<b>7.5</b>	<b>4.2</b>	<b>(0.2)</b>	<b>(5.4)</b>	<b>-</b>	<b>(17.8)</b>
<b>Regulatory adjustments</b>	<b>(16.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16.6)</b>
<b>(Loss) profit for the period</b>	<b>(10.1)</b>	<b>0.9</b>	<b>1.9</b>	<b>7.5</b>	<b>4.2</b>	<b>(0.2)</b>	<b>(5.4)</b>	<b>-</b>	<b>(1.2)</b>
<b>Capital expenditures*</b>	<b>31.7</b>	<b>14.3</b>	<b>56.7</b>	<b>-</b>	<b>-</b>	<b>693.8</b>	<b>4.6</b>	<b>-</b>	<b>801.1</b>
<b>Total assets</b>	<b>2,154.5</b>	<b>521.4</b>	<b>968.8</b>	<b>7.9</b>	<b>4.0</b>	<b>7,617.0</b>	<b>360.4</b>	<b>(14.7)</b>	<b>11,619.3</b>

\*Capital expenditures include non-cash additions of \$64.5 million related to the Maritime Link and \$2.4 million related to Class B Limited Partnership Unit accrued interest.

Total assets include total-to-date amounts of \$590.5 million related to the Maritime Link and \$17.5 million related to Class B Limited Partnership Unit accrued interest.

# NALCOR ENERGY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

<i>(millions of Canadian dollars)</i>	Hydro Regulated	Churchill Falls	Oil and Gas	Energy Marketing	Bull Arm	Phase 1 Lower Churchill Project	Corporate and Other Activities	Inter- Segment	Total
For the three months ended September 30, 2014									
Revenue									
Energy sales	79.1	8.2	11.0	17.8	-	-	-	(0.9)	115.2
Other revenue	(0.4)	0.2	3.7	-	4.4	-	-	0.5	8.4
	78.7	8.4	14.7	17.8	4.4	-	-	(0.4)	123.6
Expenses									
Fuels	32.5	-	-	-	-	-	-	-	32.5
Power purchased	11.6	-	-	2.6	-	-	-	(0.9)	13.3
Operating costs	36.2	9.9	5.7	7.5	0.3	(0.1)	3.2	-	62.7
Depreciation and depletion	12.8	3.4	4.5	-	-	-	0.2	-	20.9
Exploration and evaluation	-	-	0.4	-	-	-	-	-	0.4
Net finance (income) expense	16.4	(0.3)	0.1	-	-	-	0.9	-	17.1
Other (income) expense	3.0	1.2	(2.3)	0.1	0.3	-	(0.2)	-	2.1
Share in profit of joint arrangement	-	(0.1)	-	-	-	-	-	-	(0.1)
Preferred dividends	-	(0.5)	-	-	-	-	-	0.5	-
(Loss) profit before regulatory adjustments	(33.8)	(5.2)	6.3	7.6	3.8	0.1	(4.1)	-	(25.3)
Regulatory adjustments	(23.1)	-	-	-	-	-	-	-	(23.1)
(Loss) profit for the period	(10.7)	(5.2)	6.3	7.6	3.8	0.1	(4.1)	-	(2.2)
Capital expenditures*	59.2	8.8	64.4	0.7	-	464.9	-	-	598.0
Total assets	2,011.6	488.1	708.0	7.3	3.7	6,687.7	281.3	-	10,187.7

\*Capital expenditures include non-cash additions of \$53.4 million related to the Maritime Link and \$1.6 million related to Class B Limited Partnership Unit accrued interest.

Total assets include total-to-date amounts of \$214.0 million related to the Maritime Link and \$14.8 million related to Class B Limited Partnership Unit accrued interest.



## **NALCOR ENERGY**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)**

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#### **23. SUBSEQUENT EVENTS**

On October 5, 2015, Nalcor issued a \$250,000 letter of credit, on behalf of Energy Marketing, to Brookfield Energy Marketing LP ("Brookfield"), as credit assurance for obligations under the Master Power Purchase and Sale Agreement between Energy Marketing and Brookfield.

On October 21, 2015, the letter of credit for \$0.1 million issued by Nalcor in favour of Oil and Gas, to the Canada-Newfoundland and Labrador Offshore Petroleum Board (CNLOPB) was cancelled by the beneficiary as it was no longer required.

#### **24. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform with presentation adopted during the current reporting period. Specifically, foreign exchange gains and losses, previously reported in net finance (income) expense, have been presented with other (income) expense.