

**NALCOR ENERGY**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2016**  
**(Unaudited)**

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

<i>As at (millions of Canadian dollars)</i>	Notes	September 30 2016	December 31 2015
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		135.4	148.5
Restricted cash		1,764.8	1,836.3
Short-term investments		252.9	1,026.2
Trade and other receivables		218.6	270.9
Inventories		88.6	77.9
Current portion of sinking funds	6	71.8	1.6
Prepayments		29.3	14.1
Derivative assets		1.4	9.1
<b>Total current assets</b>		<b>2,562.8</b>	<b>3,384.6</b>
Non-current assets			
Property, plant and equipment	3	10,645.6	8,317.6
Intangible assets	4	72.0	56.2
Investment property		1.0	1.0
Investment in joint arrangement		1.2	1.2
Long-term investments	7	-	90.6
Other long-term assets	6	275.9	326.2
<b>Total assets</b>		<b>13,558.5</b>	<b>12,177.4</b>
Regulatory deferrals	5	137.4	144.3
<b>Total assets and regulatory deferrals</b>		<b>13,695.9</b>	<b>12,321.7</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Short-term borrowings	8	118.0	97.0
Trade and other payables		1,240.1	997.1
Current portion of long-term debt	8	367.8	233.4
Derivative liabilities		-	5.2
Current portion of other liabilities	10,11,12	5.5	6.1
<b>Total current liabilities</b>		<b>1,731.4</b>	<b>1,338.8</b>
Non-current liabilities			
Long-term debt	8	5,873.3	6,008.1
Class B limited partnership units	9	325.4	207.4
Deferred credits	10	1,067.7	670.3
Deferred contributions	11	12.2	11.6
Decommissioning liabilities	12	113.0	102.0
Long-term payables		61.0	62.6
Employee future benefits		137.7	135.3
<b>Total liabilities</b>		<b>9,321.7</b>	<b>8,536.1</b>
Shareholder's equity			
Share capital	15	122.5	122.5
Shareholder contributions	15	2,694.4	2,203.8
Reserves		8.1	2.3
Retained earnings		1,200.9	1,127.0
<b>Total equity</b>		<b>4,025.9</b>	<b>3,455.6</b>
<b>Total liabilities and equity</b>		<b>13,347.6</b>	<b>11,991.7</b>
Regulatory deferrals	5	348.3	330.0
<b>Total liabilities, equity and regulatory deferrals</b>		<b>13,695.9</b>	<b>12,321.7</b>

Commitments and contingencies (Note 22)

Subsequent events (Note 26)

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	
		2016	2015	2016	2015
Energy sales		<b>141.8</b>	117.3	<b>565.5</b>	556.2
Other revenue		<b>12.3</b>	12.4	<b>31.2</b>	35.6
Revenue		<b>154.1</b>	129.7	<b>596.7</b>	591.8
Fuels		<b>17.4</b>	20.3	<b>117.6</b>	137.9
Power purchased		<b>13.5</b>	13.1	<b>46.4</b>	46.5
Operating costs	16	<b>53.1</b>	67.3	<b>171.6</b>	195.6
Production costs	17	<b>6.3</b>	4.0	<b>17.8</b>	10.2
Depreciation, depletion and amortization	3,4	<b>35.2</b>	23.3	<b>96.7</b>	68.8
Exploration and evaluation		-	0.3	<b>0.2</b>	0.9
Net finance (income) expense	18	<b>18.3</b>	18.0	<b>55.8</b>	54.5
Other (income) expense	19	<b>(0.6)</b>	1.2	<b>(9.0)</b>	(1.7)
Share of loss of joint arrangement		-	-	-	0.1
Profit (loss) before regulatory adjustments		<b>10.9</b>	(17.8)	<b>99.6</b>	79.0
Regulatory adjustments	5	<b>(26.6)</b>	(16.6)	<b>25.7</b>	58.7
Profit (loss) for the period		<b>37.5</b>	(1.2)	<b>73.9</b>	20.3
Other comprehensive income (loss)					
Total items that may or have been reclassified to profit or loss:					
Regulatory adjustment		<b>0.2</b>	-	<b>0.5</b>	-
Net fair value gains (losses) on available-for-sale financial instrument		<b>4.2</b>	(0.5)	<b>16.2</b>	8.3
Net fair value (losses) gains on cash flow hedges		<b>(1.1)</b>	5.7	<b>2.8</b>	6.2
Reclassification adjustments related to:					
Available-for-sale financial instruments		<b>(2.6)</b>	(2.5)	<b>(7.6)</b>	(7.4)
Cash flow hedges recognized in profit or loss		<b>0.4</b>	(3.0)	<b>(6.1)</b>	(7.5)
Other comprehensive income (loss) for the period		<b>1.1</b>	(0.3)	<b>5.8</b>	(0.4)
Total comprehensive income (loss) for the period		<b>38.6</b>	(1.5)	<b>79.7</b>	19.9

See accompanying notes

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

<i>(millions of Canadian dollars)</i>	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
<b>Balance at January 1, 2016</b>		<b>122.5</b>	<b>2,203.8</b>	<b>38.7</b>	<b>(36.4)</b>	<b>1,127.0</b>	<b>3,455.6</b>
<b>Profit for the period</b>		-	-	-	-	<b>73.9</b>	<b>73.9</b>
<b>Other comprehensive income</b>							
Net change in fair value of available-for-sale financial instruments	14	-	-	16.2	-	-	16.2
Net change in fair value of cash flow hedges	14	-	-	2.8	-	-	2.8
Net change in fair value of financial instruments reclassified to profit or loss	14	-	-	(13.7)	-	-	(13.7)
Regulatory adjustment	5,14	-	-	-	0.5	-	0.5
<b>Total comprehensive income for the period</b>		-	-	<b>5.3</b>	<b>0.5</b>	<b>73.9</b>	<b>79.7</b>
<b>Shareholder contributions</b>	15	-	<b>490.6</b>	-	-	-	<b>490.6</b>
<b>Balance at September 30, 2016</b>		<b>122.5</b>	<b>2,694.4</b>	<b>44.0</b>	<b>(35.9)</b>	<b>1,200.9</b>	<b>4,025.9</b>
Balance at January 1, 2015		122.5	1,469.1	40.5	(56.3)	1,146.2	2,722.0
Profit for the period		-	-	-	-	20.3	20.3
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	14	-	-	8.3	-	-	8.3
Net change in fair value of cash flow hedges	14	-	-	6.2	-	-	6.2
Net change in fair value of financial instruments reclassified to profit or loss	14	-	-	(14.9)	-	-	(14.9)
<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>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>

See accompanying notes

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

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Notes	Three months ended		Nine months ended	
		2016	2015	2016	2015
Cash provided from (used in)					
Operating activities					
Profit (loss) for the period		37.5	(1.2)	73.9	20.3
Adjusted for items not involving a cash flow:					
Depreciation, depletion and amortization	3,4	35.2	23.3	96.7	68.8
Amortization of deferred contributions	11	(0.3)	(0.2)	(0.8)	(0.6)
Amortization of deferred credits	10	(0.3)	(0.3)	(2.9)	(0.9)
Accretion	18	1.8	1.4	5.7	4.2
Employee benefits		1.9	2.2	2.4	6.8
Loss on disposal of property, plant and equipment	19	0.2	0.7	0.9	1.4
Share of loss of joint arrangement		-	-	-	0.1
Regulatory adjustments	5	(26.8)	(16.6)	25.2	58.7
Other		(1.4)	(1.4)	(8.8)	(6.8)
		47.8	7.9	192.3	152.0
Changes in non-cash working capital balances	23	(64.9)	1.6	(20.6)	37.2
Net cash (used in) provided from operating activities		(17.1)	9.5	171.7	189.2
Investing activities					
Additions to property, plant and equipment	24	(848.8)	(734.2)	(2,001.1)	(1,740.0)
Additions to intangible assets	4	(8.7)	(20.3)	(23.1)	(23.4)
(Increase) decrease in long-term receivables	6	-	(3.0)	3.3	32.2
Decrease (increase) in other long-term assets		-	0.2	(0.1)	(0.5)
Contributions to sinking fund		(5.8)	(3.6)	(8.2)	(6.8)
Additions to financial transmission rights		(0.2)	-	(1.8)	(0.9)
Decrease in short-term investments		174.3	207.4	773.3	517.9
Decrease in long-term investments		61.6	235.9	90.6	877.1
Proceeds on disposal of property, plant and equipment		-	0.5	0.2	0.5
Changes in non-cash working capital balances	23	104.0	228.5	294.4	358.4
Net cash (used in) provided from investing activities		(523.6)	(88.6)	(872.5)	14.5
Financing activities					
Retirement of long-term debt		-	-	(0.1)	-
Decrease (increase) in restricted cash		221.4	(110.7)	71.5	(435.7)
Class B limited partnership unit contributions	9	36.7	59.0	101.8	66.8
Increase in short-term borrowings	8	84.0	43.0	21.0	18.0
Decrease in long-term payables		(1.2)	(0.3)	(4.1)	(10.3)
Increase in shareholder contributions	15	200.1	124.2	490.6	221.2
Increase (decrease) in deferred contributions	11	0.1	0.3	1.4	(2.8)
Increase in deferred credits		3.4	1.0	5.6	8.5
Net cash provided from (used in) financing activities		544.5	116.5	687.7	(134.3)
Net increase (decrease) in cash and cash equivalents		3.8	37.4	(13.1)	69.4
Cash and cash equivalents, beginning of period		131.6	92.8	148.5	60.8
Cash and cash equivalents, end of period		135.4	130.2	135.4	130.2
Interest received		5.9	10.4	21.7	37.1
Interest paid		34.4	34.1	172.7	172.3

See accompanying notes

## **NALCOR ENERGY**

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

---

#### **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, transmission and sale of electricity, oil and gas, industrial fabrication and energy marketing. Nalcor's head office is located at 500 Columbus Drive in St. John's, Newfoundland and Labrador A1B 0C9, Canada.

##### **1.1 Subsidiaries**

Nalcor holds interests in the following subsidiaries:

A 100% 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% interest in Nalcor Energy – Oil and Gas Inc. (Oil and Gas), Oil and Gas has a mandate to engage in the upstream and downstream sectors of the oil and gas industry. Upstream includes exploration, development, and production activities, while downstream includes transportation and processing activities.

A 100% 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% interest in Nalcor Energy Marketing Corporation (Energy Marketing), a subsidiary established to market Nalcor's energy throughout North America.

A 100% 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% 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 100% 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 Labrador-Island Link Limited Partnership (LIL LP).

A 100% interest in Labrador-Island Link Operating Corporation (LIL Opco), created to operate and maintain the LIL.

A 100% 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 (LCP) including planning, engineering and design management, construction management, risk management, finance, procurement and supply chain management.

A limited partnership interest in the 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% of the Class A and Class C limited partnership units.

Nalcor also holds a 100% interest in Gull Island Power Corporation (GIPCo) and a 51.0% interest in Lower Churchill Development Corporation (LCDC), both of which are inactive.

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

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

## **NALCOR ENERGY**

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

---

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

#### **1.3 Special Purpose Entities**

Nalcor consolidates the results of special purpose entities (SPEs) 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 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 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, 2015.

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 and available-for-sale financial assets which have been measured at fair value. The condensed consolidated interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest million, except when otherwise noted. The condensed consolidated interim financial statements were approved by Nalcor's Board of Directors on November 10, 2016.

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

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

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

# NALCOR ENERGY

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

### 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, 2015	1,527.5	718.2	837.2	207.9	3,016.4	6,307.2
Additions	(0.2)	-	221.2	-	2,538.8	2,759.8
Disposals	(3.0)	(3.1)	-	(3.6)	-	(9.7)
Transfers	179.1	58.7	-	23.6	(261.4)	-
Decommissioning liabilities and revisions	0.5	(0.3)	58.4	-	-	58.6
Other adjustments	-	-	-	190.9	(111.6)	79.3
<b>Balance at December 31, 2015</b>	<b>1,703.9</b>	<b>773.5</b>	<b>1,116.8</b>	<b>418.8</b>	<b>5,182.2</b>	<b>9,195.2</b>
<b>Additions</b>	<b>-</b>	<b>0.1</b>	<b>156.7</b>	<b>0.7</b>	<b>2,253.9</b>	<b>2,411.4</b>
<b>Disposals</b>	<b>(0.3)</b>	<b>(0.8)</b>	<b>-</b>	<b>(1.3)</b>	<b>-</b>	<b>(2.4)</b>
<b>Transfers</b>	<b>2.9</b>	<b>1.4</b>	<b>-</b>	<b>0.7</b>	<b>(5.0)</b>	<b>-</b>
<b>Decommissioning liabilities and revisions</b>	<b>-</b>	<b>-</b>	<b>8.6</b>	<b>-</b>	<b>-</b>	<b>8.6</b>
<b>Other adjustments</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>(1.3)</b>	<b>-</b>	<b>(1.5)</b>
<b>Balance at September 30, 2016</b>	<b>1,706.3</b>	<b>774.2</b>	<b>1,282.1</b>	<b>417.6</b>	<b>7,431.1</b>	<b>11,611.3</b>
<b>Depreciation, depletion and impairment</b>						
Balance at January 1, 2015	369.6	118.6	95.9	64.3	-	648.4
Depreciation and depletion	44.1	21.9	14.8	12.0	-	92.8
Impairment	-	-	61.7	-	-	61.7
Disposals	(1.5)	(0.8)	-	(2.3)	-	(4.6)
Other adjustments	-	-	-	79.3	-	79.3
<b>Balance at December 31, 2015</b>	<b>412.2</b>	<b>139.7</b>	<b>172.4</b>	<b>153.3</b>	<b>-</b>	<b>877.6</b>
<b>Depreciation and depletion</b>	<b>35.4</b>	<b>17.4</b>	<b>27.1</b>	<b>9.5</b>	<b>-</b>	<b>89.4</b>
<b>Disposals</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>-</b>	<b>(1.0)</b>	<b>-</b>	<b>(1.3)</b>
<b>Balance at September 30, 2016</b>	<b>447.5</b>	<b>156.9</b>	<b>199.5</b>	<b>161.8</b>	<b>-</b>	<b>965.7</b>
<b>Carrying value</b>						
Balance at January 1, 2015	1,157.9	599.6	741.3	143.6	3,016.4	5,658.8
Balance at December 31, 2015	1,291.7	633.8	944.4	265.5	5,182.2	8,317.6
<b>Balance at September 30, 2016</b>	<b>1,258.8</b>	<b>617.3</b>	<b>1,082.6</b>	<b>255.8</b>	<b>7,431.1</b>	<b>10,645.6</b>



# NALCOR ENERGY

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

### 4. INTANGIBLE ASSETS

<i>(millions of Canadian dollars)</i>	Computer Software	Feasibility Studies	Exploration Assets	Intellectual Property	Assets Under Development	Total
<b>Cost</b>						
Balance at January 1, 2015	11.4	1.8	13.0	8.6	-	34.8
Additions	3.2	-	27.6	-	0.4	31.2
Disposals	(1.1)	-	-	-	-	(1.1)
Transfers	0.1	-	-	-	(0.1)	-
Balance at December 31, 2015	13.6	1.8	40.6	8.6	0.3	64.9
<b>Additions</b>	<b>0.3</b>	<b>-</b>	<b>16.3</b>	<b>-</b>	<b>6.5</b>	<b>23.1</b>
<b>Balance at September 30, 2016</b>	<b>13.9</b>	<b>1.8</b>	<b>56.9</b>	<b>8.6</b>	<b>6.8</b>	<b>88.0</b>
<b>Amortization</b>						
Balance at January 1, 2015	3.0	1.0	-	-	-	4.0
Amortization	1.4	0.2	3.1	-	-	4.7
Balance at December 31, 2015	4.4	1.2	3.1	-	-	8.7
<b>Amortization</b>	<b>1.4</b>	<b>0.2</b>	<b>5.7</b>	<b>-</b>	<b>-</b>	<b>7.3</b>
<b>Balance at September 30, 2016</b>	<b>5.8</b>	<b>1.4</b>	<b>8.8</b>	<b>-</b>	<b>-</b>	<b>16.0</b>
<b>Carrying value</b>						
Balance at January 1, 2015	8.4	0.8	13.0	8.6	-	30.8
Balance at December 31, 2015	9.2	0.6	37.5	8.6	0.3	56.2
<b>Balance at September 30, 2016</b>	<b>8.1</b>	<b>0.4</b>	<b>48.1</b>	<b>8.6</b>	<b>6.8</b>	<b>72.0</b>

### 5. REGULATORY DEFERRALS

<i>As at (millions of Canadian dollars)</i>	January 1 2016	Regulatory activity	September 30 2016	Remaining Recovery Settlement Period (years)
<b>Regulatory asset deferrals</b>				
Foreign exchange losses	56.2	(1.6)	<b>54.6</b>	25.25
Foreign exchange on fuel	0.7	(1.1)	<b>(0.4)</b>	n/a
Deferred lease costs	5.1	1.5	<b>6.6</b>	n/a
2014 cost deferral	38.6	(4.6)	<b>34.0</b>	n/a
2015 cost deferral	27.8	(0.7)	<b>27.1</b>	n/a
Phase Two hearing costs	-	0.7	<b>0.7</b>	n/a
Fuel supply deferral	9.6	(1.7)	<b>7.9</b>	n/a
Deferred energy conservation costs	6.3	0.6	<b>6.9</b>	n/a
	144.3	(6.9)	<b>137.4</b>	
<b>Regulatory liability deferrals</b>				
Rate stabilization plan (RSP)	(324.6)	(18.8)	<b>(343.4)</b>	n/a
Insurance amortization and proceeds	(5.0)	0.5	<b>(4.5)</b>	n/a
Deferred power purchase savings	(0.4)	-	<b>(0.4)</b>	10.75
	(330.0)	(18.3)	<b>(348.3)</b>	

# NALCOR ENERGY

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

### 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	
	2016	2015	2016	2015
RSP amortization	(12.4)	(2.2)	(19.9)	31.1
Rural rate adjustment	(1.8)	(0.7)	(5.6)	5.4
RSP fuel deferral	(19.3)	(19.2)	25.0	7.0
RSP interest	6.6	5.8	19.3	16.1
<b>Total RSP activity</b>	<b>(26.9)</b>	<b>(16.3)</b>	<b>18.8</b>	<b>59.6</b>
2014 cost deferral	-	-	4.6	-
2015 cost deferral	-	-	0.7	-
Fuel supply deferral	-	-	1.7	-
Amortization of deferred foreign exchange losses	0.5	0.5	1.6	1.6
Deferred foreign exchange on fuel	0.3	(0.4)	1.1	(0.2)
Deferred energy conservation	(0.4)	(0.3)	(0.6)	(0.4)
Deferred purchased power savings	-	-	-	(0.1)
Employee benefits actuarial loss	0.2	-	0.5	-
Phase Two hearing costs	(0.2)	-	(0.7)	-
Insurance amortization and proceeds	(0.2)	(0.1)	(0.5)	(0.4)
Deferred lease costs	0.1	-	(1.5)	(1.4)
	<b>(26.6)</b>	<b>(16.6)</b>	<b>25.7</b>	<b>58.7</b>

The following section describes Hydro's regulatory deferrals which will be, or are expected to be, reflected in customer rates in future periods and have been established through the rate setting process. In the absence of rate regulation, these amounts would be reflected in operating results in the year and profit for the period ended September 30, 2016 would have increased by \$25.7 million (2015 - \$58.7 million).

### 5.2 Fuel Supply Deferral

Pursuant to Order No. P.U. 56 (2014), Hydro received approval in 2014 to defer \$9.6 million as a regulatory asset in additional capacity related supply costs incurred during the three months ended March 31, 2014. Recovery of this balance is subject to a future Newfoundland and Labrador Board of Commissioners of Public Utilities (PUB) Order. In April 2016, Hydro received Order No. P.U. 13 (2016) which outlines the results of a Prudence Review of certain projects and expenditures of Hydro. As a result, Hydro recorded in regulatory adjustments an expense of \$1.7 million and a corresponding reduction to the Fuel Supply Deferral.

### 5.3 2014 Cost Deferral

As per Order No. P.U. 58 (2014), Hydro received approval in 2014 to defer \$45.9 million in relation to Hydro's proposed 2014 revenue requirement with recovery subject to a future PUB Order. In 2015, Hydro decreased this regulatory asset by \$7.3 million to recognize an allowance for adjustments to certain costs that were discussed through the General Rate Application (GRA) process. In April 2016, Hydro received Order No. P.U. 13 (2016) which outlines the results of a Prudence Review of certain projects and expenditures of Hydro. As a result, Hydro recorded an expense of \$4.6 million and a corresponding reduction to the 2014 Cost Deferral.

### 5.4 2015 Cost Deferral

As per Order No. P.U. 36 (2015), Hydro received approval to defer \$30.2 million in relation to Hydro's proposed 2015 net profit deficiency with recovery subject to a future PUB Order. Accordingly, these costs have been recognized as a regulatory asset. In 2015, Hydro decreased the regulatory asset by \$2.4 million to recognize an allowance for adjustments to certain costs that were discussed through the GRA process. In April 2016, Hydro received Order No. P.U. 13 (2016) which outlines the results of a Prudence Review of certain projects and expenditures of Hydro. As a result, Hydro recorded an expense of \$0.7 million and a corresponding reduction to the 2015 Cost Deferral.

### 5.5 Deferred Lease Costs

Pursuant to Order No. P.U. 38 (2013), Order No. P.U. 17 (2016) and P.U. 23 (2016), Hydro deferred lease costs of \$1.6 million (2015 - \$1.4 million) for diesel plants and other necessary infrastructure to ensure black start capability at the

## NALCOR ENERGY

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

Holyrood Thermal Generating Station (HTGS). In Order No. P.U. 17 (2016) and No. P.U. 23 (2016), the Board also approved the amortization of \$1.6 million of the balance over a period of 5 years with \$1.6 million to be included in rate base. This was partially mitigated by amortization of \$0.1 million (2015 - \$nil) of the deferred lease costs. The recovery of the remaining \$5.1 million of the regulatory asset is subject to a future PUB Order.

#### 5.6 Phase Two Hearing Costs

In April 2016, Hydro received Order No. P.U. 13 (2016) which approves the deferral of consulting fees, salary transfers and overtime costs for 2014, 2015 and subsequent years relating to Phase Two of the investigation into the reliability and adequacy of power on the Island Interconnected system after the interconnection with the Muskrat Falls generating station. As a result, Hydro recorded a regulatory asset of \$0.7 million.

#### 6. OTHER LONG-TERM ASSETS

	September 30	December 31
	2016	2015
<i>As at (millions of Canadian dollars)</i>		
Long-term receivables	0.3	3.6
Long-term prepayments	4.8	9.2
Reserve fund	30.9	30.9
Sinking funds	311.1	283.6
Other	0.6	0.5
Other long-term assets, end of period	347.7	327.8
Less: current portion of sinking funds	(71.8)	(1.6)
	275.9	326.2

The sinking funds consist of the following:

	September 30	December 31
	2016	2015
<i>As at (millions of Canadian dollars)</i>		
Sinking funds, beginning of period	283.6	268.6
Contributions	8.2	8.1
Earnings	10.6	6.8
Disposals	-	(1.5)
Mark-to-market adjustment	8.7	1.6
Sinking funds, end of period	311.1	283.6
Less: current portion	(71.8)	(1.6)
	239.3	282.0

**NALCOR ENERGY****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)****7. LONG-TERM INVESTMENTS**

Long-term investments consist of structured deposit notes of \$238.6 million (2015 - \$1,115.8 million) related to Muskrat Falls, Labrador Transco and the LIL Partnership.

<i>As at (millions of Canadian dollars)</i>	Year of Maturity	<b>September 30 2016</b>	December 31 2015
<b>Muskrat Falls</b>			
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dealer Offered Rate (CDOR) plus 0.38%.	2017	<b>48.1</b>	57.0
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	<b>4.0</b>	53.6
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	2016	<b>16.2</b>	214.2
<b>Labrador Transco</b>			
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2017	<b>13.6</b>	18.0
\$478.2 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	<b>1.1</b>	16.9
\$1,912.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.5937% per annum.	2016	<b>4.6</b>	67.6
<b>LIL LP</b>			
\$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2017	<b>75.0</b>	75.0
\$883.5 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2016	<b>30.4</b>	245.4
\$1,325.3 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.6182% per annum.	2016	<b>45.6</b>	368.1
Long-term investments, end of period		<b>238.6</b>	1,115.8
Less: redemptions to be received within the next year	(a)	<b>(238.6)</b>	(1,025.2)
		-	90.6

(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, with a maturity date of January 31, 2017. There were no amounts drawn on this facility as at September 30, 2016 (2015 - \$nil), however \$38.2 million of the borrowing limit has been used to issue 14 irrevocable letters of credit (2015 - \$12.0 million). 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.

Three letters of credit, totaling \$30.6 million, are on behalf of Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. Another eleven letters, totaling \$7.6 million, are on behalf 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.

## **NALCOR ENERGY**

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

---

Hydro maintains a \$50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and as at September 30, 2016, there were no amounts drawn on this facility (2015 - \$nil), however \$0.3 million of the borrowing limit has been used to issue irrevocable letters of credit (2015 - \$0.3 million). Borrowings in CAD may take the form of Prime Rate Advances, Bankers' Acceptances 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.

In addition, Hydro utilized promissory notes to fulfil its short-term funding requirements. As at September 30, 2016, there were \$118.0 million in short-term borrowings outstanding with a maturity date of October 6, 2016 bearing an interest rate of 0.68% (2015 - \$97.0 million). Upon maturity, the promissory notes were reissued.

Churchill Falls maintains a \$10.0 million CAD or USD equivalent unsecured demand operating credit facility with its primary banker. There were no amounts drawn on this facility as at September 30, 2016 (2015 - \$nil), however \$1.0 million of the borrowing limit has been used to issue irrevocable letters of credit (2015 - \$1.0 million). Borrowings in CAD may take the form of Prime Rate Advances, BAs, or letters of credit, with interest calculated at the Prime Rate or prevailing Government BA fee. Borrowings in USD may take the form of Base Rate Advances. The facility also provides coverage for overdrafts on Churchill Falls bank accounts, with interest calculated at the Prime Rate. Churchill Falls has issued three irrevocable letters of credit, totaling \$2.0 million, to ensure satisfactory management of its waste management and compliance with a certificate of approval for the transportation of special hazardous wastes granted by the Department of Environment and Conservation.

Oil and Gas maintains a \$5.0 million USD or CAD equivalent unsecured credit facility with its banker and as at September 30, 2016, there were no amounts drawn on this facility (2015 - \$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. During the quarter, Oil and Gas issued an irrevocable letter of guarantee in the amount of \$0.5 million to the Canada-Newfoundland and Labrador Offshore Petroleum Board, to satisfy liability requirements related to seabed mapping and geochemical sample acquisition work being carried out by a third party.

Energy Marketing maintains a \$20.0 million CAD or USD equivalent demand operating credit facility with its banker, and as at September 30, 2016, there were no amounts drawn on this facility (2015 - \$8.2 million). 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.

## NALCOR ENERGY

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

#### 8.2 Long-term Debt

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

<i>As at (millions of Canadian dollars)</i>	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	September 30 2016	December 31 2015
Hydro						
V	0.2	10.50	1989	2014	0.2	0.3
X*	150.0	10.25	1992	2017	149.9	149.8
Y*	300.0	8.40	1996	2026	294.9	294.7
AB*	300.0	6.65	2001	2031	305.5	305.7
AD*	125.0	5.70	2003	2033	123.8	123.8
AE	225.0	4.30	2006	2016	225.0	224.8
AF	200.0	3.60	2014	2045	197.2	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	1,275.2
Total debentures	6,300.2				6,297.6	6,297.3
Less: Sinking fund investments in own debentures					56.5	55.8
					6,241.1	6,241.5
Less: payments due within one year					367.8	233.4
					5,873.3	6,008.1

\*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 three and nine months ended September 30, 2016 was \$1.1 million and \$3.4 million, respectively (2015 - \$1.1 million and \$3.4 million).

#### 9. CLASS B LIMITED PARTNERSHIP UNITS

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

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

## NALCOR ENERGY

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

<i>As at (millions of Canadian dollars)</i>	September 30		December 31	
	Units	2016	Units	2015
Class B limited partnership units, beginning of period	25	207.4	25	79.4
Contributions	-	101.8	-	118.4
Accrued interest	-	16.2	-	9.6
Class B limited partnership units, end of period	25	325.4	25	207.4

#### 10. DEFERRED CREDITS

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

<i>(millions of Canadian dollars)</i>	Hydro Wind Funding	Oil and Gas Program Funding and Overlift	Deferred Energy Sales	Deferred Lease Revenue	Total
Deferred credits, beginning of period	0.5	5.9	659.0	8.9	674.3
Additions	0.4	-	394.1	5.2	399.7
Amortization	(0.4)	(2.3)	-	(0.2)	(2.9)
Deferred credits, end of period	0.5	3.6	1,053.1	13.9	1,071.1
Less: current portion	(0.5)	(1.1)	-	(1.8)	(3.4)
	-	2.5	1,053.1	12.1	1,067.7

Hydro has received funding from the Province for wind feasibility studies in Labrador. The funding is recognized as other revenue when the related expenditures are incurred.

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

Nalcor has recorded deferred energy sales of \$1,053.1 million (2015 - \$659.0 million) which equals the construction costs to date incurred by Emera related to the Maritime Link. 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.

Deferred lease revenue includes prepaid rent received from Bull Arm Fabrication's lessee and deferred lease revenue related to the Menihék plant.

#### 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 property, plant and equipment asset.

## NALCOR ENERGY

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

	September 30	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2016</b>	2015
Deferred contributions, beginning of period	12.7	15.8
Additions	1.4	1.4
Adjustments	-	(3.6)
Amortization	<b>(0.8)</b>	(0.9)
Deferred contributions, end of period	<b>13.3</b>	12.7
Less: current portion	<b>(1.1)</b>	(1.1)
	<b>12.2</b>	11.6

## 12. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the HTGS, 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, 2016 and December 31, 2015 are as follows:

	September 30	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2016</b>	2015
Decommissioning liabilities, beginning of period	<b>103.0</b>	43.2
Liabilities settled	<b>(0.4)</b>	(0.2)
Accretion	<b>2.8</b>	1.4
Revisions	<b>8.6</b>	58.6
Decommissioning liabilities, end of period	<b>114.0</b>	103.0
Less: current portion	<b>(1.0)</b>	(1.0)
	<b>113.0</b>	102.0

## 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 \$8.8 million (2015 - \$8.6 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 2016, cash payments to beneficiaries for its unfunded other employee future benefits were \$6.4 million (2015 - \$2.5 million). An actuarial valuation was performed as at December 31, 2015, with an extrapolation to December 31, 2016.

	Three months ended		Nine months ended	
<i>For the period ended September 30 (millions of Canadian dollars)</i>	<b>2016</b>	2015	<b>2016</b>	2015
Component of benefit cost				
Current service cost	<b>1.7</b>	1.6	<b>4.6</b>	4.6
Interest cost	<b>1.4</b>	1.6	<b>4.2</b>	4.7
Total benefit expense for the period	<b>3.1</b>	3.2	<b>8.8</b>	9.3



**NALCOR ENERGY****NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)****14. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The components of, and changes in, accumulated other comprehensive income (loss) are as follows:

*Items that may or have been be reclassified to profit or loss:*

<i>(millions of Canadian dollars)</i>	<b>2016</b>	2015
Employee future benefits		
Balance at January 1	<b>(36.4)</b>	(56.3)
Regulatory adjustment	<b>0.5</b>	-
Balance at September 30	<b>(35.9)</b>	(56.3)
<i>(millions of Canadian dollars)</i>	<b>2016</b>	2015
Available-for-sale financial instruments		
Balance at January 1	<b>45.0</b>	44.6
Net fair value gain on available-for-sale during the period	<b>16.2</b>	8.3
Amounts reclassified to profit (loss)	<b>(7.6)</b>	(7.4)
Balance at September 30	<b>53.6</b>	45.5
<i>(millions of Canadian dollars)</i>	<b>2016</b>	2015
Cash flow hedges		
Balance at January 1	<b>(6.3)</b>	(4.1)
Fair value gains during the period	<b>2.8</b>	6.2
Amounts reclassified to profit (loss)	<b>(6.1)</b>	(7.5)
Balance at September 30	<b>(9.6)</b>	(5.4)

**15. SHAREHOLDER'S EQUITY****15.1 Share Capital**

	<b>September 30</b>	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2016</b>	2015
Common shares of par value \$1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	<b>122.5</b>	122.5

**15.2 Shareholder Contributions**

	<b>September 30</b>	December 31
<i>As at (millions of Canadian dollars)</i>	<b>2016</b>	2015
Total shareholder contributions	<b>2,694.4</b>	2,203.8

During 2016, Nalcor's shareholder contributed capital in the amount of \$490.4 million (2015 - \$734.6 million) in relation to Nalcor's capital expenditures.

During 2016, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital in the amount of \$0.2 million (2015 - \$0.1 million).

## NALCOR ENERGY

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

#### 16. OPERATING COSTS

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Salaries and benefits expense	29.4	34.3	101.1	107.4
Transmission rental	5.4	5.0	15.9	15.1
Maintenance and materials	8.8	13.0	21.6	29.4
Professional services	4.1	8.2	13.1	19.7
Travel and transportation	1.3	2.6	4.2	7.4
Rental and royalty expense	0.3	0.3	3.4	3.5
Equipment rental	0.8	1.7	3.4	4.5
Other operating costs	3.0	2.2	8.9	8.6
	<b>53.1</b>	67.3	<b>171.6</b>	195.6

#### 17. PRODUCTION COSTS

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Processing and marketing expense	1.8	0.3	4.1	1.0
Transportation and transshipment expense	1.0	0.7	3.0	1.7
Project operating costs	3.5	3.0	10.7	7.5
	<b>6.3</b>	4.0	<b>17.8</b>	10.2

#### 18. NET FINANCE (INCOME) EXPENSE

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Finance income				
Interest on sinking fund	3.8	3.7	11.4	10.9
Interest on reserve fund	0.2	0.2	0.6	0.7
Interest on investments	1.5	6.6	7.8	26.1
Interest on restricted cash	3.8	3.1	11.2	9.2
Other interest income	0.3	0.2	1.2	0.7
	<b>9.6</b>	13.8	<b>32.2</b>	47.6
Finance expense				
Long-term debt	68.7	68.7	206.2	206.2
Class B limited partnership units	5.9	2.4	16.2	5.8
Debt guarantee fee	1.1	1.1	3.4	3.4
Accretion	1.8	1.4	5.7	4.2
Other	0.7	0.2	1.5	0.9
	<b>78.2</b>	73.8	<b>233.0</b>	220.5
Interest capitalized during construction	(50.3)	(42.0)	(145.0)	(118.4)
	<b>27.9</b>	31.8	<b>88.0</b>	102.1
Net finance (income) expense	<b>18.3</b>	18.0	<b>55.8</b>	54.5

## NALCOR ENERGY

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

#### 19. OTHER (INCOME) EXPENSE

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Mark-to-market commodity swaps	-	3.1	-	1.6
Mark-to-market foreign exchange forward contracts	-	(0.5)	(0.7)	1.2
Settlement of commodity swaps	(0.1)	(7.1)	(9.6)	(14.5)
Settlement of foreign exchange forward contracts	(0.5)	3.0	0.3	5.5
Financial transmission rights income and amortization	0.1	-	(0.9)	(0.3)
Hedge ineffectiveness	0.1	-	-	-
Loss on disposal of property, plant and equipment	0.2	0.7	0.9	1.4
Asset disposal costs	0.1	1.7	0.3	2.2
Unrealized foreign exchange (gain) loss	(0.8)	0.1	1.2	1.5
Realized foreign exchange loss (gain)	0.3	0.1	0.5	(0.4)
Other	-	0.1	(1.0)	0.1
Other (income) expense	(0.6)	1.2	(9.0)	(1.7)

#### 20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### 20.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2016 and December 31, 2015 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 for the period ended September 30, 2016 and the year ended December 31, 2015.

# NALCOR ENERGY

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

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
		September 30, 2016	September 30, 2016	December 31, 2015	December 31, 2015
<i>(millions of Canadian dollars)</i>					
Financial assets					
Derivative assets	2,3	1.4	1.4	9.1	9.1
Sinking funds - investments in Hydro debt issue	2	56.5	71.2	55.8	69.9
Sinking funds - other investments	2	311.1	311.1	283.6	283.6
Long-term investments	2	-	-	90.6	90.6
Reserve fund	2	30.9	30.9	30.9	30.9
Long-term receivables <sup>1</sup>	2	0.3	0.3	3.6	3.6
Financial liabilities					
Derivative liabilities	2	-	-	5.2	5.2
Long-term debt including amount due within one year (before sinking funds)	2	6,297.6	7,969.4	6,297.3	7,557.1
Class B limited partnership units	3	325.4	325.4	207.4	207.4
Long-term payables <sup>2</sup>	2	61.0	78.2	70.0	86.4

<sup>1</sup>As at March 31, 2016, the long-term receivable relating to the Annual Energy Base of \$2.6 million (fair value - \$2.8 million) was classified to trade and other receivables.

<sup>2</sup>As at June 30, 2015, Oil and Gas' long-term payable balance of \$7.1 million was reclassified to trade and other payables. At December 31, 2015, Churchill Falls' long-term payable balance of \$0.3 million was reclassified to trade and other payables.

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

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

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at September 30, 2016.

	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
<i>(millions of Canadian dollars)</i>				
Derivative asset (Financial transmission rights)	1.1	Modelled pricing	Price, seasonality and market factors	23-29%

Methodologies for calculating the fair values of financial transmission rights are determined by using underlying contractual data as well as observable and unobservable inputs. Fair value methodologies are reviewed by Management on a quarterly basis to assess the reasonability of the assumptions made and models are adjusted as necessary for significant expected changes in fair value due to changes in key inputs. As at September 30, 2016, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in \$244.5 thousand to \$314.1 thousand change in the carrying value of the financial transmission rights.

## NALCOR ENERGY

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

The table below sets forth a summary of changes in fair value of Nalcor's Level 3 financial liabilities given a one percent change in the discount rate while holding other variables constant:

<i>(millions of Canadian dollars)</i>	1% increase in discount rate	1% decrease in discount rate
Class B limited partnership units	(4.7)	4.6

## 20.2 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

In the course of carrying out its operating, financing and investing activities, Nalcor is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Nalcor has significant exposure include those relating to prevailing interest rates, foreign exchange rates, most notably USD/CAD, and current commodity prices, most notably the spot prices for oil and electricity. These exposures are addressed as part of the Financial Risk Management Strategy. Tactics for addressing foreign exchange rates and commodity prices include the use of forward rate agreements and fixed price commodity swaps. The components of change impacting the carrying value of derivative assets and liabilities for the periods ended September 30, 2016 and 2015 are as follows:

<i>(millions of Canadian dollars)</i>	Commodity and forward contracts		Other derivatives		Total	
	Level II	Level II	Level III	Level II	Level III	
<b>Balance at January 1, 2016</b>	<b>1.6</b>	<b>0.1</b>	<b>2.2</b>	<b>1.7</b>	<b>2.2</b>	
<b>Purchases</b>	-	-	<b>1.8</b>	-	<b>1.8</b>	
	<b>1.6</b>	<b>0.1</b>	<b>4.0</b>	<b>1.7</b>	<b>4.0</b>	
<b>Changes to profit (loss)</b>						
<b>Amortization</b>	-	-	<b>(1.1)</b>	-	<b>(1.1)</b>	
<b>Mark-to-market</b>	<b>5.5</b>	<b>(0.1)</b>	-	<b>5.4</b>	-	
<b>Settlements</b>	<b>(2.8)</b>	-	<b>(1.8)</b>	<b>(2.8)</b>	<b>(1.8)</b>	
<b>Total</b>	<b>2.7</b>	<b>(0.1)</b>	<b>(2.9)</b>	<b>2.6</b>	<b>(2.9)</b>	
<b>Changes in other comprehensive income (loss)</b>						
<b>Mark-to-market</b>	<b>2.8</b>	-	-	<b>2.8</b>	-	
<b>Realized in (profit) loss</b>	<b>(6.8)</b>	-	-	<b>(6.8)</b>	-	
<b>Total</b>	<b>(4.0)</b>	-	-	<b>(4.0)</b>	-	
<b>Balance at September 30, 2016</b>	<b>0.3</b>	-	<b>1.1</b>	<b>0.3</b>	<b>1.1</b>	
Balance at January 1, 2015	7.6	2.5	0.1	10.1	0.1	
Purchases	-	-	0.9	-	0.9	
	7.6	2.5	1.0	10.1	1.0	
<b>Changes to profit (loss)</b>						
<b>Amortization</b>	-	-	<b>(0.6)</b>	-	<b>(0.6)</b>	
<b>Mark-to-market</b>	<b>2.5</b>	<b>(0.2)</b>	-	<b>2.3</b>	-	
<b>Settlements</b>	<b>(5.1)</b>	-	-	<b>(5.1)</b>	-	
<b>Total</b>	<b>(2.6)</b>	<b>(0.2)</b>	<b>(0.6)</b>	<b>(2.8)</b>	<b>(0.6)</b>	
<b>Changes in other comprehensive income (loss)</b>						
<b>Mark-to-market</b>	<b>6.2</b>	-	-	<b>6.2</b>	-	
<b>Realized in profit (loss)</b>	<b>(8.1)</b>	-	-	<b>(8.1)</b>	-	
<b>Total</b>	<b>(1.9)</b>	-	-	<b>(1.9)</b>	-	
<b>Balance at September 30, 2015</b>	<b>3.1</b>	<b>2.3</b>	<b>0.4</b>	<b>5.4</b>	<b>0.4</b>	

## NALCOR ENERGY

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

---

#### *Foreign Currency and Commodity Exposure*

As at September 30, 2016, Oil and Gas has three remaining commodity price swaps with a notional value of \$1.5 million USD. These contracts will provide an average fixed price of \$51.66 USD per barrel on 29,716 barrels of production. As the outstanding contracts have been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income. During 2016, \$6.1 million in gains have been included in other (income) expense related to commodity price swaps and \$0.1 million in unrealized gains remain in other comprehensive income. As at September 30, 2016, the fair value of Oil and Gas' derivative assets presented on the Statement of Financial Position was \$0.1 million (December 31, 2015 - \$6.9 million).

As at September 30, 2016, Bull Arm Fabrication has five remaining foreign exchange forward contracts, with a notional value of \$6.7 million USD and an average rate of \$1.33 CAD per USD. As these contracts have all been designated as hedged instruments, changes in fair value have been recorded in other comprehensive income. During 2016, \$0.2 million in losses have been included in other (income) expense related to the forward contracts and \$1.3 million in unrealized gains have been included in other comprehensive income. As at September 30, 2016, Bull Arm Fabrication's fair value of the derivative assets as presented on the Statement of Financial Position was \$0.1 million. As at December 31, 2015, the fair value of the derivative liabilities was \$1.1 million.

As at September 30, 2016, Energy Marketing has three remaining foreign exchange forward contracts, with a notional value of USD \$6.4 million, and an average rate of \$1.34 CAD per USD. During 2016, \$0.1 million in losses have been included in other (income) expense related to foreign exchange forward contracts. As at September 30, 2016, \$0.2 million in unrealized gains remained in other comprehensive income related to the remaining contracts.

As at September 30, 2016, Energy Marketing had no remaining fixed price commodity price swaps. During 2016, \$3.5 million in gains have been included in other (income) expense related to settled contracts.

During 2016, additional financial transmission rights with notional values of \$1.4 million USD were purchased to mitigate risk on congestion for the remainder of 2016 and a significant portion of 2017. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other (income) expense.

## 21. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship
The Province	100.0% shareholder of Nalcor
Churchill Falls	Joint arrangement of Hydro
Hydro-Québec	34.2% shareholder of Churchill Falls
Twin Falls	Joint venture of Churchill Falls
The Trust	Created by the Province with Churchill Falls as the beneficiary
LIL LP	Partnership in which Nalcor holds 75 Class A Partnership Units
PUB	Agency of the Province

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

## 22. COMMITMENTS AND CONTINGENCIES

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

## NALCOR ENERGY

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

- (b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately \$1.9 billion as at September 30, 2016 (2015 - \$2.8 billion). Outstanding commitments related to pre-funded equity requirements associated with the Project Finance Agreements total approximately \$3.5 billion as at September 30, 2016 (2015 - \$0.7 billion)
- (c) As part of the LIL Project Finance Agreement (PFA), LIL LP has pledged its current and future assets as security to the Collateral Agent. Under the terms and conditions of the Project Trust PFA, LIL LP has also provided a guarantee of the Project Trust's payment obligations to the Collateral Agent for the benefit of the Labrador-Island Link Funding Trust. LIL LP has pledged the escrow account, where the pre-funded equity contribution has been deposited, as security to the Collateral Agent.
- (d) As part of the Muskrat Falls/Labrador Transmission Assets PFA, Muskrat Falls and Labrador Transco have pledged its present and future assets as security to the Collateral Agent.
- (e) On August 31, 2016, a one-year extension, commencing March 7, 2017, was signed between Bull Arm Fabrication and the site's current tenant. The remaining minimum lease payments associated with the lease arrangement of Bull Arm Fabrication's assets and facilities over the next five years will be as follows:

<i>(millions of Canadian dollars)</i>	2016	2017	2018	2019	2020	Thereafter
Minimum lease payments	5.3	21.2	3.3	-	-	-

### 23. SUPPLEMENTARY CASH FLOW INFORMATION

<i>For the period ended September 30 (millions of Canadian dollars)</i>	Three months ended		Nine months ended	
	2016	2015	2016	2015
Trade and other receivables	<b>(60.5)</b>	13.5	<b>52.3</b>	43.4
Prepayments	<b>(11.8)</b>	-	<b>(10.8)</b>	4.0
Inventories	<b>(11.8)</b>	(0.9)	<b>(10.7)</b>	20.5
Trade and other payables	<b>123.2</b>	217.5	<b>243.0</b>	327.7
Changes in non-cash working capital balances	<b>39.1</b>	230.1	<b>273.8</b>	395.6
Related to:				
Operating activities	<b>(64.9)</b>	1.6	<b>(20.6)</b>	37.2
Investing activities	<b>104.0</b>	228.5	<b>294.4</b>	358.4
	<b>39.1</b>	230.1	<b>273.8</b>	395.6

## NALCOR ENERGY

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

#### 24. 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.

<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, 2016								
Energy sales	381.4	69.4	84.0	62.2	-	-	-	(31.5)	565.5
Other revenue	2.9	0.4	3.7	5.1	16.0	-	-	3.1	31.2
Revenue	384.3	69.8	87.7	67.3	16.0	-	-	(28.4)	596.7
Fuels	117.6	-	-	-	-	-	-	-	117.6
Power purchased	45.8	-	-	31.9	-	-	-	(31.3)	46.4
Operating costs	92.0	32.9	6.1	23.6	0.9	0.9	15.2	-	171.6
Production costs	-	-	17.8	-	-	-	-	-	17.8
Depreciation, depletion and amortization	51.0	12.1	33.0	0.3	-	-	0.3	-	96.7
Exploration and evaluation	-	-	0.2	-	-	-	-	-	0.2
Net finance (income) expense	55.0	(0.7)	2.5	0.2	-	(1.4)	0.2	-	55.8
Other (income) expense	(0.1)	(0.1)	(4.6)	(4.8)	0.2	0.2	0.2	-	(9.0)
Preferred dividends	-	(3.1)	-	-	-	-	-	3.1	-
Profit (loss) before regulatory adjustments	23.0	28.7	32.7	16.1	14.9	0.3	(15.9)	(0.2)	99.6
Regulatory adjustments	25.7	-	-	-	-	-	-	-	25.7
(Loss) profit for the period	(2.7)	28.7	32.7	16.1	14.9	0.3	(15.9)	(0.2)	73.9
Capital expenditures*	122.8	34.5	156.6	-	-	2,092.7	5.3	(0.5)	2,411.4
Total assets	2,290.7	556.2	1,222.9	19.7	4.1	9,285.0	359.2	(41.9)	13,695.9

\*Capital expenditures include non-cash additions of \$394.1 million related to the Maritime Link and \$16.2 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of \$1,056.5 million related to the Maritime Link and \$37.4 million related to Class B Limited Partnership Unit accrued interest.



# NALCOR ENERGY

## NOTES TO 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, 2016									
Energy sales	70.2	15.9	39.5	26.2	-	-	-	(10.0)	141.8
Other revenue	1.0	0.1	2.9	2.2	5.2	-	-	0.9	12.3
<b>Revenue</b>	<b>71.2</b>	<b>16.0</b>	<b>42.4</b>	<b>28.4</b>	<b>5.2</b>	<b>-</b>	<b>-</b>	<b>(9.1)</b>	<b>154.1</b>
Fuels	17.4	-	-	-	-	-	-	-	17.4
Power purchased	13.1	-	-	10.4	-	-	-	(10.0)	13.5
Operating costs	29.3	10.4	1.6	8.1	0.2	0.5	3.0	-	53.1
Production costs	-	-	6.3	-	-	-	-	-	6.3
Depreciation, depletion and amortization	17.2	4.1	13.8	0.1	-	-	-	-	35.2
Net finance (income) expense	17.9	(0.1)	0.9	0.1	-	(0.5)	-	-	18.3
Other (income) expense	(0.2)	(0.2)	(0.3)	(0.3)	(0.1)	0.3	0.2	-	(0.6)
Preferred dividends	-	(0.9)	-	-	-	-	-	0.9	-
<b>(Loss) profit before regulatory adjustments</b>	<b>(23.5)</b>	<b>2.7</b>	<b>20.1</b>	<b>10.0</b>	<b>5.1</b>	<b>(0.3)</b>	<b>(3.2)</b>	<b>-</b>	<b>10.9</b>
Regulatory adjustments	(26.6)	-	-	-	-	-	-	-	(26.6)
<b>Profit (loss) for the period</b>	<b>3.1</b>	<b>2.7</b>	<b>20.1</b>	<b>10.0</b>	<b>5.1</b>	<b>(0.3)</b>	<b>(3.2)</b>	<b>-</b>	<b>37.5</b>
Capital expenditures*	71.7	17.1	47.2	-	-	893.4	3.2	(0.1)	1,032.5
Total assets	2,290.7	556.2	1,222.9	19.7	4.1	9,285.0	359.2	(41.9)	13,695.9

\*Capital expenditures include non-cash additions of \$177.8 million related to the Maritime Link and \$5.9 million related to Class B Limited Partnership Unit accrued interest. Total assets include total-to-date amounts of \$1,056.5 million related to the Maritime Link and \$37.4 million related to Class B Limited Partnership Unit accrued interest.

# NALCOR ENERGY

## NOTES TO 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									
Energy sales	426.7	70.1	19.7	70.7	-	-	-	(31.0)	556.2
Other revenue	2.5	0.4	9.9	4.2	15.1	-	-	3.5	35.6
Revenue	429.2	70.5	29.6	74.9	15.1	-	-	(27.5)	591.8
Fuels	137.9	-	-	-	-	-	-	-	137.9
Power purchased	46.0	-	-	31.4	-	-	-	(30.9)	46.5
Operating costs	113.7	33.1	7.6	23.2	0.8	0.9	16.3	-	195.6
Production costs	-	-	10.2	-	-	-	-	-	10.2
Depreciation, depletion and amortization	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	-
Profit (loss) before regulatory adjustments	26.3	29.9	5.7	22.0	12.8	(0.5)	(17.1)	(0.1)	79.0
Regulatory adjustments	58.7	-	-	-	-	-	-	-	58.7
(Loss) profit for the period	(32.4)	29.9	5.7	22.0	12.8	(0.5)	(17.1)	(0.1)	20.3
Capital expenditures	91.1	24.6	163.7	0.1	-	1,717.6	6.9	-	2,004.0
Total assets	2,154.5	521.4	968.8	7.9	4.0	7,617.0	360.4	(14.7)	11,619.3

\*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 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	Corporate	Inter- Segment	Total
						Lower Churchill Project	and Other Activities		
For the three months ended September 30, 2015									
Energy sales	81.5	14.7	6.5	24.9	-	-	-	(10.3)	117.3
Other revenue	0.8	0.1	3.6	1.6	5.2	-	(0.1)	1.2	12.4
Revenue	82.3	14.8	10.1	26.5	5.2	-	(0.1)	(9.1)	129.7
Fuels	20.3	-	-	-	-	-	-	-	20.3
Power purchased	12.8	-	-	10.5	-	-	-	(10.2)	13.1
Operating costs	40.0	11.2	2.6	7.8	0.3	0.3	5.1	-	67.3
Production costs	-	-	4.0	-	-	-	-	-	4.0
Depreciation, depletion and amortization	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	-
(Loss) profit before regulatory adjustments	(26.7)	0.9	1.9	7.6	4.2	(0.2)	(5.4)	(0.1)	(17.8)
Regulatory adjustments	(16.6)	-	-	-	-	-	-	-	(16.6)
(Loss) profit for the period	(10.1)	0.9	1.9	7.6	4.2	(0.2)	(5.4)	(0.1)	(1.2)
Capital expenditures	31.7	14.3	56.7	-	-	693.8	4.6	-	801.1
Total assets	2,154.5	521.4	968.8	7.9	4.0	7,617.0	360.4	(14.7)	11,619.3

\*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 \$37.4 million related to Class B Limited Partnership Unit accrued interest.

## NALCOR ENERGY

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

---

#### 25. COMPARATIVE FIGURES

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

<i>(millions of Canadian dollars)</i>	Previously reported	Curtailed energy presentation	Production cost reclass	Reclassified balance
Energy sales	556.9	(0.7)	-	<b>556.2</b>
Power purchased	47.2	(0.7)	-	<b>46.5</b>
Operating costs	205.8	-	(10.2)	<b>195.6</b>
Production costs	-	-	10.2	<b>10.2</b>

#### 26. SUBSEQUENT EVENTS

On October 12, 2016, Nalcor borrowed \$225.0 million from the Province by way of a promissory note, and these funds were then loaned to Hydro. The proceeds of this loan, which matures on January 11, 2017 and carries an interest rate of 0.90%, were used to repay Hydro's Series AE long-term debentures. Hydro intends to refinance this loan in the coming months, with a long-term debt issuance in the capital markets.

On October 18, 2016, an irrevocable letter of credit in the amount of \$4.9 million, issued by Nalcor on behalf of Oil and Gas, was cancelled by the beneficiary as it was no longer required.

In October 2016, Hydro identified two additional unforeseen capital projects; a project related to the Bay d'Espoir penstock in the amount of \$12.9 million, and a project that resulted from damage sustained from Hurricane Matthew, the Bay d'Espoir Access Roads Refurbishment project in the amount of \$4.6 million.

On October 31, 2016, Nalcor, on behalf of Energy Marketing, issued an irrevocable letter of credit in the amount of \$0.3 million to a counterparty, as credit support for obligations under a Master Power Purchase and Sale Agreement.

On November 3, 2016, the Government of Canada announced a commitment to provide additional loan guarantees of up to \$2.9 billion to support additional borrowings for the components of the Lower Churchill projects led by Nalcor. The specific conditions of this support will be finalized by Canada, the Government of Newfoundland and Labrador and Nalcor in the near future.

On November 7, 2016, the maturity date of Nalcor's \$250.0 million revolving term credit facility was extended to January 31, 2018.