NALCOR ENERGY
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2017
(Unaudited)

NALCOR ENERGY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (millions of Canadian dollars)	Notes	**March 31 2017**	December 31 2016
ASSETS			
Current assets			
Cash and cash equivalents		**134.4**	142.9
Restricted cash		**1,193.8**	1,378.0
Short-term investments		**14.5**	91.5
Trade and other receivables		**275.5**	293.5
Inventories		**98.7**	93.1
Current portion of other long-term assets	6	**87.2**	81.7
Prepayments		**21.0**	16.2
Derivative assets		**1.2**	0.7
Total current assets		**1,826.3**	2,097.6
Non-current assets			
Property, plant and equipment	3	**12,075.9**	11,416.5
Intangible assets	4	**76.1**	75.5
Long-term investments	7	**34.1**	34.1
Other long-term assets	6	**309.8**	274.0
Total assets		**14,322.2**	13,897.7
Regulatory deferrals	5	**163.3**	163.8
Total assets and regulatory deferrals		**14,485.5**	14,061.5
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	8	**342.0**	435.0
Trade and other payables		**1,047.0**	1,161.7
Current portion of long-term debt	8	**143.5**	142.6
Derivative liabilities		**0.5**	5.4
Current portion of other liabilities	10,11,12	**4.8**	4.9
Total current liabilities		**1,537.8**	1,749.6
Non-current liabilities			
Long-term debt	8	**6,154.8**	5,872.8
Class B limited partnership units	9	**435.7**	399.1
Deferred credits	10	**1,314.6**	1,160.9
Deferred contributions	11	**9.9**	11.1
Decommissioning liabilities	12	**82.4**	81.7
Long-term payables		**57.5**	58.1
Employee future benefits		**118.3**	117.1
Total liabilities		**9,711.0**	9,450.4
Shareholder's equity			
Share capital	15	**122.5**	122.5
Shareholder contributions	15	**3,103.2**	2,860.7
Reserves		**(3.8)**	6.5
Retained earnings		**1,330.2**	1,273.0
Total equity		**4,552.1**	4,262.7
Total liabilities and equity		**14,263.1**	13,713.1
Regulatory deferrals	5	**222.4**	348.4
Total liabilities, equity and regulatory deferrals		**14,485.5**	14,061.5

Commitments and contingencies (Note 23)
Subsequent events (Note 26)

See accompanying notes

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

For the period ended March 31 (millions of Canadian dollars)	Notes	Three months ended 2017	2016
Energy sales		**270.0**	253.4
Other revenue		**9.9**	9.5
Revenue		**279.9**	262.9
Fuels		**84.0**	72.6
Power purchased		**18.5**	17.4
Operating costs	16	**52.8**	53.9
Production, marketing and transportation costs	17	**8.5**	5.2
Transmission rental and market fees	18	**6.3**	5.3
Depreciation, depletion and amortization	3,4	**40.7**	29.5
Exploration and evaluation		**0.1**	-
Net finance expense	19	**17.2**	19.0
Other expense (income)	20	**1.3**	(8.3)
Expenses		**229.4**	194.6
Profit before regulatory adjustments		**50.5**	68.3
Regulatory adjustments	5	**(6.7)**	40.3
Profit for the period		**57.2**	28.0
Other comprehensive income			
Total items that may or have been reclassified to profit or loss:			
Regulatory adjustment		**-**	0.2
Net fair value (loss) gain on available-for-sale financial instruments		**(13.2)**	3.0
Net fair value gain on cash flow hedges		**4.3**	3.5
Reclassification adjustments related to:			
Available-for-sale financial instruments		**(2.3)**	(2.5)
Cash flow hedges recognized in profit or loss		**0.9**	(3.3)
Other comprehensive (loss) income for the period		**(10.3)**	0.9
Total comprehensive income for the period		**46.9**	28.9

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(millions of Canadian dollars)	Notes	Share Capital	Shareholder Contributions	Fair Value Reserve	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2017		**122.5**	**2,860.7**	**32.8**	**(26.3)**	**1,273.0**	**4,262.7**
Profit for the period		**-**	**-**	**-**	**-**	**57.2**	**57.2**
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	**14**	**-**	**-**	**(13.2)**	**-**	**-**	**(13.2)**
Net change in fair value of cash flow hedges	**14**	**-**	**-**	**4.3**	**-**	**-**	**4.3**
Net change in fair value of financial instruments reclassified to profit or loss	**14**	**-**	**-**	**(1.4)**	**-**	**-**	**(1.4)**
Total comprehensive (loss) income for the period		**-**	**-**	**(10.3)**	**-**	**57.2**	**46.9**
Shareholder contributions	**15**	**-**	**242.5**	**-**	**-**	**-**	**242.5**
Balance at March 31, 2017		**122.5**	**3,103.2**	**22.5**	**(26.3)**	**1,330.2**	**4,552.1**
Balance at January 1, 2016		122.5	2,204.3	38.7	(26.9)	1,136.7	3,475.3
Profit for the period		-	-	-	-	28.0	28.0
Other comprehensive income							
Net change in fair value of available-for-sale financial instruments	14	-	-	3.0	-	-	3.0
Net change in fair value of cash flow hedges	14	-	-	3.5	-	-	3.5
Net change in fair value of financial instruments reclassified to profit or loss	14	-	-	(5.8)	-	-	(5.8)
Regulatory adjustment	5,14	-	-	-	0.2	-	0.2
Total comprehensive income for the period		-	-	0.7	0.2	28.0	28.9
Shareholder contributions	15	-	78.9	-	-	-	78.9
Balance at March 31, 2016		122.5	2,283.2	39.4	(26.7)	1,164.7	3,583.1

See accompanying notes

NALCOR ENERGY
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended March 31 (millions of Canadian dollars)	Notes	Three months ended **2017**	2016
Operating activities			
Profit for the period		**57.2**	28.0
Adjusted for items not involving a cash flow:			
Depreciation, depletion and amortization	3,4	**40.7**	29.5
Amortization of deferred contributions	11	**(0.3)**	(0.3)
Amortization of deferred credits	10	**(1.1)**	(0.9)
Accretion	19	**1.6**	2.0
Employee future benefits		**1.2**	1.9
Loss on disposal of property, plant and equipment	20	**0.9**	0.4
Regulatory adjustments	5	**(6.7)**	40.1
Other		**(2.2)**	(5.8)
		91.3	94.9
Changes in non-cash working capital balances	24	**(64.8)**	(19.1)
Net cash provided from operating activities		**26.5**	75.8
Investing activities			
Additions to property, plant and equipment	25	**(536.2)**	(451.2)
Additions to intangible assets	4	**(4.1)**	(2.5)
(Increase) decrease in long-term receivables	6	**(51.7)**	1.7
Contributions to sinking funds	6	**(2.5)**	(2.3)
Additions to financial transmission rights		**(0.9)**	(1.4)
Decrease in short-term investments		**77.0**	243.1
Decrease in long-term investments	7	**-**	29.0
Proceeds on disposal of property, plant and equipment		**0.2**	-
Changes in non-cash working capital balances	24	**(40.9)**	(79.8)
Net cash used in investing activities		**(559.1)**	(263.4)
Financing activities			
Proceeds from issuance of long-term debt	8	**282.5**	-
Retirement of long-term debt		**-**	(0.1)
Decrease in restricted cash		**184.2**	52.2
Class B limited partnership unit contributions	9	**28.4**	38.3
Decrease in short-term borrowings	8	**(93.0)**	(14.0)
Decrease in long-term payables		**(1.4)**	(1.4)
Increase in shareholder contributions	15	**242.5**	62.6
(Decrease) increase in deferred contributions	11	**(0.9)**	0.5
Increase in deferred credits	10	**1.1**	2.5
Rate stabilization plan payout	5	**(119.3)**	-
Net cash provided from financing activities		**524.1**	140.6
Net decrease in cash and cash equivalents		**(8.5)**	(47.0)
Cash and cash equivalents, beginning of period		**142.9**	148.5
Cash and cash equivalents, end of period		**134.4**	101.5
Interest received		**3.9**	8.1
Interest paid		**35.2**	34.3

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) as a Crown corporation and its business includes the development, generation, 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 Labrador-Island Link Holding Corporation (LIL Holdco), created to control, manage and hold Nalcor's 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 Labrador-Island Link (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 LIL, a transmission link to be constructed between the Muskrat Falls plant and the Newfoundland and Labrador Island Interconnected System. LIL Holdco holds 100% of the Class A and Class C limited partnership units.

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

1.2 Investment in Joint Arrangement

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

Nalcor holds a 33.33% beneficial interest (through Churchill Falls) in Twin Falls Power Corporation Limited (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, 2016.

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 May 9, 2017.

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.

3. PROPERTY, PLANT AND EQUIPMENT

(millions of Canadian dollars)	Generation Plant	Transmission and Distribution	Petroleum and Natural Gas Properties	Other	Construction in Progress	Total
Cost						
Balance at January 1, 2016	1,710.8	773.5	1,116.8	418.8	5,182.2	9,202.1
Additions	-	0.1	208.2	0.3	3,041.3	3,249.9
Disposals	(6.1)	(3.2)	(0.3)	(3.5)	-	(13.1)
Transfers	93.8	97.8	-	28.7	(220.3)	-
Decommissioning liabilities and revisions	(13.9)	1.0	(10.4)	-	-	(23.3)
Other adjustments	(0.4)	-	-	(1.6)	-	(2.0)
Balance at December 31, 2016	1,784.2	869.2	1,314.3	442.7	8,003.2	12,413.6
Additions	**-**	**-**	**41.7**	**-**	**656.4**	**698.1**
Disposals	**-**	**-**	**(1.0)**	**(0.2)**	**-**	**(1.2)**
Transfers	**0.6**	**1.4**	**-**	**3.6**	**(5.6)**	**-**
Other adjustments	**-**	**-**	**-**	**(0.4)**	**-**	**(0.4)**
Balance at March 31, 2017	**1,784.8**	**870.6**	**1,355.0**	**445.7**	**8,654.0**	**13,110.1**
Depreciation and depletion						
Balance at January 1, 2016	412.2	139.7	172.4	153.3	-	877.6
Depreciation and depletion	47.6	23.4	40.0	13.8	-	124.8
Disposals	(1.8)	(1.0)	-	(2.5)	-	(5.3)
Balance at December 31, 2016	458.0	162.1	212.4	164.6	-	997.1
Depreciation and depletion	**12.8**	**6.6**	**14.3**	**3.5**	**-**	**37.2**
Disposals	**-**	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Balance at March 31, 2017	**470.8**	**168.7**	**226.7**	**168.0**	**-**	**1,034.2**
Carrying value						
Balance at January 1, 2016	1,298.6	633.8	944.4	265.5	5,182.2	8,324.5
Balance at December 31, 2016	1,326.2	707.1	1,101.9	278.1	8,003.2	11,416.5
Balance at March 31, 2017	**1,314.0**	**701.9**	**1,128.3**	**277.7**	**8,654.0**	**12,075.9**

4. INTANGIBLE ASSETS

(millions of Canadian dollars)	Computer Software	Feasibility Studies	Seismic Data Acquisitions	Intellectual Property	Assets Under Development	Total
Cost						
Balance at January 1, 2016	17.2	1.8	40.6	1.5	0.3	61.4
Additions	-	-	28.1	-	8.3	36.4
Transfers	1.9	-	-	-	(1.9)	-
Balance at December 31, 2016	19.1	1.8	68.7	1.5	6.7	97.8
Additions	**-**	**-**	**1.7**	**-**	**2.4**	**4.1**
Balance at March 31, 2017	**19.1**	**1.8**	**70.4**	**1.5**	**9.1**	**101.9**
Amortization						
Balance at January 1, 2016	7.8	1.2	3.1	-	-	12.1
Amortization	1.7	0.2	8.3	-	-	10.2
Balance at December 31, 2016	9.5	1.4	11.4	-	-	22.3
Amortization	**0.6**	**-**	**2.9**	**-**	**-**	**3.5**
Balance at March 31, 2017	**10.1**	**1.4**	**14.3**	**-**	**-**	**25.8**
Carrying value						
Balance at January 1, 2016	9.4	0.6	37.5	1.5	0.3	49.3
Balance at December 31, 2016	9.6	0.4	57.3	1.5	6.7	75.5
Balance at March 31, 2017	**9.0**	**0.4**	**56.1**	**1.5**	**9.1**	**76.1**

5. REGULATORY DEFERRALS

As at (millions of Canadian dollars)	January 1 2017	RSP Payout	Regulatory Activity	**March 31 2017**	Remaining Recovery Settlement Period (years)
Regulatory asset deferrals					
2014 cost deferral	38.7	-	-	**38.7**	n/a
2015 cost deferral	24.5	-	-	**24.5**	n/a
2016 cost deferral	32.4	-	-	**32.4**	n/a
Asset disposal	0.4	-	-	**0.4**	20.15
Deferred energy conservation costs	8.3	-	0.1	**8.4**	n/a
Deferred foreign exchange on fuel	(0.2)	-	0.2	**-**	n/a
Deferred lease costs	4.5	-	(0.3)	**4.2**	4.15
Foreign exchange losses	54.0	-	(0.6)	**53.4**	24.75
Hearing costs	0.3	-	(0.1)	**0.2**	0.75
Phase Two hearing costs	0.9	-	0.2	**1.1**	n/a
	163.8	-	(0.5)	**163.3**	
Regulatory liability deferrals					
Deferred power purchase savings	(0.4)	-	-	**(0.4)**	10.25
Insurance amortization and proceeds	(4.4)	-	0.1	**(4.3)**	n/a
Rate stabilization plan (RSP)	(343.6)	119.3	6.6	**(217.7)**	n/a
	(348.4)	119.3	6.7	**(222.4)**	

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

The following table shows 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 March 31, 2017 would have decreased by $6.7 million (2016 - an increase of $40.3 million).

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
RSP amortization	**(26.2)**	(4.4)
RSP fuel deferral	**17.2**	32.0
RSP interest	**5.5**	6.1
Rural rate adjustment	**(3.1)**	(2.0)
Total RSP activity	**(6.6)**	31.7
2014 cost deferral	**-**	4.6
2015 cost deferral	**-**	0.7
Amortization of deferred foreign exchange losses	**0.6**	0.5
Deferred energy conservation	**(0.1)**	(0.1)
Deferred foreign exchange on fuel	**(0.2)**	1.2
Deferred lease costs	**0.3**	-
Employee future benefits actuarial loss	**-**	0.2
Fuel supply deferral	**-**	1.7
Hearing costs	**0.1**	-
Insurance amortization and proceeds	**(0.1)**	(0.2)
Non-customer contributions in aid of construction	**(0.5)**	-
Phase Two hearing costs	**(0.2)**	-
	(6.7)	40.3

5.2 RSP Payout

As per Board Order P.U. 36 (2016), the rate stabilization plan has been reduced by $119.3 million relating to the refund of the utility surplus balance. The reduction was comprised of $118.9 million refund to utility customers and $0.4 million in administrative costs.

6. OTHER LONG-TERM ASSETS

		March 31	December 31
As at March 31 (millions of Canadian dollars)		**2017**	2016
Investment property	(a)	**1.0**	1.0
Investment in joint arrangement		**1.2**	1.2
Long-term receivables	(b)	**79.1**	27.4
Long-term prepayments		**1.9**	3.3
Reserve fund		**14.9**	14.9
Sinking funds	(c)	**297.9**	307.1
Other		**1.0**	0.8
Other long-term assets		**397.0**	355.7
Less: current portion		**(87.2)**	(81.7)
		309.8	274.0

(a) As at March 31, 2017, the fair value measurement of the investment property is categorized as a Level 3 valuation due to the nature of the property and lack of comparable market data. The fair value of the investment property at March 31, 2017 is estimated to be $15.0 million (December 31, 2016 - $19.4 million). Due to the nature of the property and lack of comparable market data, the fair value of the investment property is determined using the present value of future cash flows. Bull Arm Fabrication's 2017 estimate is based on cash flows estimated to occur between 2017 and 2022, discounted at a rate of 12.0%.

(b) As at March 31, 2017, long-term receivables include $78.6 million (2016 - $26.9 million) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. The current portion of $34.1 million (2016 - $38.2 million) is included in trade and other receivables. The remaining $0.5 million (2016 - $0.5 million) includes the non-current portion of receivables associated with customer payment plans and the long-term portion of employee purchase programs.

(c) The reconciliation of beginning and ending carrying values of sinking funds are as follows:

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Sinking funds, beginning of period	**307.1**	283.6
Contributions	**2.5**	8.1
Earnings	**3.9**	13.8
Disposals	**-**	(1.6)
Mark-to-market adjustment	**(15.6)**	3.2
Sinking funds, end of period	**297.9**	307.1
Less: current portion	**(79.7)**	(76.8)
	218.2	230.3

7. LONG-TERM INVESTMENTS

As at (millions of Canadian dollars)	Year of Maturity	**March 31 2017**	December 31 2016
Muskrat Falls			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dollar Offered Rate (CDOR) plus 0.38%.	2017	**-**	48.7
Labrador Transco			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2017	**-**	12.9
LIL LP			
$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.	2017	**-**	29.0
Churchill Falls			
$28.0 million Redeemable Guaranteed Investment Certificate (GIC), with interest paid at a rate of 1.40% per annum.	2019	**18.5**	18.5
$23.6 million Redeemable GIC, with interest paid at a rate of 1.46% per annum.	2019	**15.5**	15.5
GIPCo			
$0.2 million Term Deposit, with interest paid at a rate of 5.16% per annum.	2020	**0.1**	0.1
Total long-term investments		**34.1**	124.7
Less: redemptions to be received within the next year[1]		**-**	(90.6)
		34.1	34.1

[1] Redemptions to be received within one year have been reclassified to short-term investments.

8. DEBT

8.1 Short-term Borrowings

On January 13, 2017, Nalcor replaced the $225.0 million promissory note from the Province dated October 13, 2017 by way of a new promissory note, and these funds were then loaned to Hydro. This loan matured on March 31, 2017 and carried an interest rate of 0.951%. On March 31, 2017, Nalcor replaced the $225.0 promissory note from the Province dated January 13, 2017 by way of a new promissory note, and these funds were then loaned to Hydro. This loan matures on September 30, 2017 and carries an interest rate of 1.112%.

In addition, Hydro utilized its government guaranteed promissory note program to fulfill its short-term funding requirements. As at March 31, 2017, there were $117.0 million in promissory notes outstanding with a maturity date of April 3, 2017 bearing an interest rate of 0.57% (December 31, 2016 - $210.0 million bearing an interest rate of 0.63%).

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, 2018. There were no amounts drawn on this facility as at March 31, 2017 (December 31, 2016 - $nil), however $34.1 million of the borrowing limit has been used to issue 14 irrevocable letters of credit (December 31, 2016 - $34.1 million).

Two letters of credit, totaling $25.7 million, are on behalf of Oil and Gas to ensure compliance with regulations relating to petroleum and natural gas exploration and production activities. Another 12 letters, totaling $8.4 million, are on behalf of Energy Marketing and relate to power purchases and sale contracts with various independent system operators, transmission providers and bilateral counterparties.

Hydro maintains a $50.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker and, as at March 31, 2017, there were no amounts drawn on this facility (December 31, 2016 - $nil) and $nil of the borrowing limit has been used to issue an irrevocable letter of credit (December 31, 2016 - $0.3 million).

Churchill Falls maintains a $10.0 million CAD or USD equivalent unsecured demand operating credit facility with its banker. There were no amounts drawn on this facility as at March 31, 2017 (December 31, 2016 - $nil), however $1.0 million of the borrowing limit has been used to issue irrevocable letters of credit (December 31, 2016 - $1.0 million). Churchill Falls has issued an additional irrevocable letter of credit in the amount of $1.0 million (December 31, 2016 - $1.0 million), which does not impact the borrowing limit of the operating credit facility. The letters of credit ensure satisfactory 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 $30.0 million USD or CAD equivalent unsecured credit facility with its banker, and as at March 31, 2017, there were no amounts drawn on this facility (December 31, 2016 - $nil) however $0.5 million of the borrowing limit has been used to issue one irrevocable letter of guarantee (December 31, 2016 - $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 March 31, 2017, there were no amounts drawn on this facility (December 31, 2016 - $nil). This facility has an unconditional and irrevocable guarantee from Nalcor.

8.2 Long-term Debt

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

As at (millions of Canadian dollars)	Face Value	Coupon Rate %	Year of Issue	Year of Maturity	**March 31 2017**	December 31 2016
Hydro						
V	0.2	10.50	1989	2014	**0.2**	0.2
X*	150.0	10.25	1992	2017	**150.0**	149.9
Y*	300.0	8.40	1996	2026	**295.1**	295.0
AB*	300.0	6.65	2001	2031	**305.5**	305.5
AD*	125.0	5.70	2003	2033	**123.8**	123.8
AF	500.0	3.60	2014/2017	2045	**479.7**	197.2
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	6,375.2				**6,355.4**	6,072.7
Less: Sinking fund investments in own debentures					**(57.1)**	(57.3)
					6,298.3	6,015.4
Less: payments due within one year					**(143.5)**	(142.6)
					6,154.8	5,872.8

*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 for debt outstanding as of December 31, 2010. For debt issued subsequent to December 31, 2010, the guarantee rate shall be 25 basis points annually on the total debt (net of sinking funds) with an original term to maturity of less than 10 years and 50 basis points annually on total debt (net of sinking funds) with an original term to maturity greater than 10 years. The fee for March 31, 2017 was $1.0 million (2016 - $1.1 million).

On January 20, 2017, Hydro issued new long-term debt through the reopening and sale of $300.0 million of Series AF debentures to its underwriting syndicate with net cash proceeds of $282.5 million. The debentures mature on December 1, 2045 with a coupon rate of 3.60%, paid semi-annually.

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.

As at (millions of Canadian dollars)	**Units**	**March 31 2017**	Units	December 31 2016
Class B limited partnership units, beginning of period	**25**	**399.1**	25	207.4
Contributions	**-**	**28.4**	-	168.1
Accrued interest	**-**	**8.2**	-	23.6
Class B limited partnership units, end of period	**25**	**435.7**	25	399.1

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.

As at March 31, 2017 (millions of Canadian dollars)	Government Funding	Oil and Gas Over-lift	Deferred Energy Sales	Deferred Lease Revenue	Total
Deferred credits, beginning of period	2.1	0.9	1,144.2	16.5	1,163.7
Additions	0.8	0.3	153.7	-	154.8
Amortization	(0.8)	-	-	(0.3)	(1.1)
Deferred credits, end of period	2.1	1.2	1,297.9	16.2	1,317.4
Less: current portion	(1.1)	-	-	(1.7)	(2.8)
	1.0	1.2	1,297.9	14.5	1,314.6

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

Nalcor has recorded deferred energy sales of $1,297.9 million (December 31, 2016 - $1,144.2 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 Menihek 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.

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Deferred contributions, beginning of period	**12.2**	12.2
Additions	**-**	1.1
Disposals	**(0.9)**	(0.1)
Amortization	**(0.3)**	(1.0)
Deferred contributions, end of period	**11.0**	12.2
Less: current portion	**(1.1)**	(1.1)
	9.9	11.1

12. DECOMMISSIONING LIABILITIES

Nalcor has recognized liabilities associated with the retirement of portions of the Holyrood Thermal Generating Station, disposal of Polychlorinated Biphenyls (PCB) 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 March 31, 2017 and December 31, 2016 are as follows:

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Decommissioning liabilities, beginning of period	**82.7**	103.0
Liabilities settled	**(0.1)**	(0.8)
Accretion	**0.7**	3.8
Revisions	**-**	(23.3)
Decommissioning liabilities, end of period	**83.3**	82.7
Less: current portion	**(0.9)**	(1.0)
	82.4	81.7

13. EMPLOYEE FUTURE BENEFITS

13.1 Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions of $2.9 million (2016 - $2.9 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 2017, cash payments to beneficiaries for its unfunded other employee future benefits were $1.2 million (2016 - $1.1 million). An actuarial valuation was performed as at December 31, 2016.

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Component of benefit cost		
Current service cost	**1.2**	1.5
Interest cost	**1.2**	1.5
Total benefit expense for the period	**2.4**	3.0

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:

(millions of Canadian dollars)	**2017**	2016
Employee future benefits		
Balance at January 1	**(26.3)**	(26.9)
Regulatory adjustment	**-**	0.2
Balance at March 31	**(26.3)**	(26.7)

(millions of Canadian dollars)	**2017**	2016
Available-for-sale financial instruments		
Balance at January 1	**48.0**	45.0
Net fair value (loss) gain during the period	**(13.2)**	3.0
Amounts reclassified to profit or loss	**(2.3)**	(2.5)
Balance at March 31	**32.5**	45.5

(millions of Canadian dollars)	**2017**	2016
Cash flow hedges		
Balance at January 1	**(15.2)**	(6.3)
Fair value gain during the period	**4.3**	3.5
Amounts reclassified to profit or loss	**0.9**	(3.3)
Balance at March 31	**(10.0)**	(6.1)

15. SHAREHOLDER'S EQUITY

15.1 Share Capital

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Common shares of par value $1 each		
Authorized - unlimited		
Issued and outstanding - 122,500,000	**122.5**	122.5

15.2 Shareholder Contributions

As at (millions of Canadian dollars)	**March 31 2017**	December 31 2016
Total shareholder contributions	**3,103.2**	2,860.7

During 2017, Nalcor's shareholder contributed capital in the amount of $242.5 million (December 31, 2016 - $656.1 million) in relation to Nalcor's capital expenditures.

During 2017, the Churchill Falls (Labrador) Corporation Trust (the Trust) contributed capital in the amount of $nil (December 31, 2016 - $0.3 million).

16. OPERATING COSTS

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Salaries and benefits	**35.7**	36.5
Maintenance and materials	**6.5**	5.5
Professional services	**2.9**	3.8
Travel and transportation	**2.0**	1.5
Rental and royalty	**2.0**	2.5
Equipment rental	**0.6**	1.4
Other operating costs	**3.1**	2.7
	52.8	53.9

17. PRODUCTION, MARKETING AND TRANSPORTATION COSTS

Production, marketing and transportation costs include costs incurred related to the operating, processing and transportation of oil.

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Project operating costs	**5.0**	3.4
Processing and marketing	**2.3**	1.0
Transportation and transshipment	**1.2**	0.8
	8.5	5.2

18. TRANSMISSION RENTAL AND MARKET FEES

Transmission rental and market fees are related to the sale and transmission of energy to export markets.

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Transmission rental	**6.0**	5.1
Market fees	**0.3**	0.2
	6.3	5.3

19. NET FINANCE EXPENSE

For the period ended March 31 (millions of Canadian dollars)	Three months ended 2017	2016
Finance income		
Interest on sinking fund	**3.7**	3.8
Interest on reserve fund	**0.1**	0.2
Interest on investments	**0.2**	3.7
Interest on restricted cash	**2.5**	3.6
Other interest income	**1.0**	0.3
	7.5	11.6
Finance expense		
Long-term debt	**67.9**	68.7
Class B limited partnership units	**8.2**	4.7
Debt guarantee fee	**1.0**	1.1
Accretion	**1.6**	2.0
Other	**1.4**	0.5
	80.1	77.0
Interest capitalized during construction	**(55.4)**	(46.4)
	24.7	30.6
Net finance expense	**17.2**	19.0

20. OTHER EXPENSE (INCOME)

For the period ended March 31 (millions of Canadian dollars)	Three months ended 2017	2016
Mark-to-market commodity swaps	**-**	(1.7)
Settlement of commodity swaps	**0.8**	(9.5)
Settlement of foreign exchange forward contracts	**(0.1)**	0.7
Financial transmission rights income and amortization	**-**	(0.1)
Loss on disposal of property, plant and equipment	**0.9**	0.4
Asset disposal costs	**(0.2)**	0.2
Mark-to-market of open market positions	**0.1**	0.1
Unrealized foreign exchange loss	**0.2**	1.4
Realized foreign exchange (gain) loss	**(0.4)**	0.2
Other expense (income)	**1.3**	(8.3)

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

21.1 Fair Value

The estimated fair values of financial instruments as at March 31, 2017 and December 31, 2016 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 March 31, 2017 and the year ended December 31, 2016.

	Level	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
(millions of Canadian dollars)			**March 31, 2017**		December 31, 2016
Financial assets					
Derivative assets	**2,3**	**1.2**	**1.2**	0.7	0.7
Sinking funds - investments in Hydro debt issue	**2**	**57.1**	**71.3**	57.3	71.3
Sinking funds - other investments	**2**	**297.9**	**297.9**	307.1	307.1
Long-term investments	**1,2**	**34.1**	**34.1**	34.1	34.1
Reserve fund	**2**	**14.9**	**14.9**	14.9	14.9
Long-term receivables	**2**	**79.1**	**79.1**	27.4	27.4
Financial liabilities					
Derivative liabilities	**2**	**0.5**	**0.5**	5.4	5.4
Long-term debt including amount due within one year (before sinking funds)	**2**	**6,355.4**	**7,316.9**	6,072.7	6,964.8
Class B limited partnership units	**3**	**435.7**	**435.7**	399.1	399.1
Long-term payables	**2**	**57.5**	**76.4**	58.1	75.0

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 March 31, 2017.

(millions of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	1.1	Modelled pricing	Price, seasonality and market factors	12-15%

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 March 31, 2017, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in $0.2 million to $0.1 million change in the carrying value of the financial transmission rights.

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:

(millions of Canadian dollars)	1% increase in discount rate	1% decrease in discount rate
Class B limited partnership units	(6.7)	6.6

21.2 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.

Interest Rates

Changes in prevailing interest rates will impact the fair value of financial assets and liabilities classified as held for trading or available-for-sale, which includes Nalcor's cash and cash equivalents, short-term investments, sinking funds and reserve fund. Expected future cash flows associated with those financial instruments can also be impacted.

Foreign Currency and Commodity Exposure

As at March 31, 2017, Oil and Gas had 9 commodity price swaps remaining with a notional value of $22.4 million USD, and an average fixed price of $52.79 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2017, $0.8 million in realized losses (2016 - $4.1 million in gains) have been included in other expense (income) and $0.3 million in unrealized losses (2016 - $2.9 million in gains) remain in other comprehensive income.

As at March 31, 2017, Oil and Gas had 10 foreign exchange forward contracts remaining, with a notional value of $25.8 million USD, and an average rate of $1.33 CAD per USD. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive income. During 2017, $0.1 million in realized gains have been included in other expense (income) and $0.1 million in unrealized gains remain in other comprehensive income. There were no foreign exchange forward contracts held at March 31, 2016.

As at March 31, 2017, Energy Marketing had 18 foreign exchange forward contracts remaining, with a notional value of $15.2 million USD, and an average rate of $1.32 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 2017, $26,000 in gains (2016 - $901,000 in losses) have been included in other income related to the forward contracts and $57,000 in unrealized losses (2016 - $945,000 in gains) remain in other comprehensive income. As at March 31, 2017, the fair value of the foreign exchange forward contract liability presented on the Statement of Financial Position was $57,000 (December 31, 2016 - $313,000).

During 2017, Energy Marketing purchased additional annual and semi-annual financial transmission rights with notional values totaling $0.6 million USD to mitigate risk on congestion during peak transmission hours for the remainder of 2017 and a portion of 2018. As the rights have not been designated as hedging instruments, changes in fair value have been recorded in other income.

Energy Marketing participates in the day-ahead market of several independent system operators and enters into fixed price transactions with bilateral counterparties. Changes in fair value associated with the difference between the committed energy price and real time energy during the hour the energy physically flows are included in energy sales on the Statement of Profit and Comprehensive Income. For the period ended March 31, 2017, $0.9 million in realized gains (2016 - $0.7 million in gains) related to these fair value differences were included in energy sales.

As at March 31, 2017, Bull Arm Fabrication had 11 foreign exchange forward contracts remaining, with a notional value of $14.8 million USD and an average rate of $1.32 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 2017, $25.0 thousand in gains (2016 - $0.5 million in losses) have been included in other (income) expense related to the forward contracts and $0.1 million in unrealized losses (2016 - $0.5 million in gains) remain in other comprehensive income. As at March 31, 2017, the fair value of the derivative liabilities presented on the Statement of Financial Position was $0.1 million (December 31, 2016 – $0.3 million).

The components of change impacting the carrying value of derivative assets and liabilities for the periods ended March 31, 2017 and 2016 are as follows:

	Commodity and forward contracts	Other derivatives		Total	
(millions of Canadian dollars)	Level II	Level II	Level III	Level II	Level III
Balance at January 1, 2017	**(5.4)**	**0.1**	**0.6**	**(5.3)**	**0.6**
Purchases	**-**	**-**	**0.9**	**-**	**0.9**
	(5.4)	**0.1**	**1.5**	**(5.3)**	**1.5**
Changes to profit					
Amortization	**-**	**-**	**(0.6)**	**-**	**(0.6)**
Mark-to-market	**-**	**(0.1)**	**-**	**(0.1)**	**-**
Total	**-**	**(0.1)**	**(0.6)**	**(0.1)**	**(0.6)**
Changes in other comprehensive income					
Mark-to-market	**4.3**	**-**	**-**	**4.3**	**-**
Settlements realized in profit or loss	**0.9**	**-**	**-**	**0.9**	**-**
Total	**5.2**	**-**	**-**	**5.2**	**-**
Balance at March 31, 2017	**(0.2)**	**-**	**0.9**	**(0.2)**	**0.9**
Balance at January 1, 2016	1.6	2.0	0.3	3.6	0.3
Purchases	-	-	1.4	-	1.4
	1.6	2.0	1.7	3.6	1.7
Changes to profit					
Amortization	-	-	(0.3)	-	(0.3)
Mark-to-market	7.0	(2.0)	-	5.0	-
Settlements	(2.7)	-	-	(2.7)	-
Total	4.3	(2.0)	(0.3)	2.3	(0.3)
Changes in other comprehensive income					
Mark-to-market	3.5	-	-	3.5	-
Settlements realized in profit or loss	(3.3)	-	-	(3.3)	-
Total	0.2	-	-	0.2	-
Balance at March 31, 2016	6.1	-	1.4	6.1	1.4

22. 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. Outstanding balances due to or from related parties are non-interest bearing with no set terms of repayment, unless otherwise stated.

23. 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.

(b) Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately $1.8 billion as at March 31, 2017 (December 31, 2016 - $2.1 billion). Outstanding commitments related to pre-funded equity requirements associated with the Project Finance Agreements total approximately $0.8 billion as at March 31, 2017 (December 31, 2016 - $3.3 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) The minimum lease payments associated with the lease arrangement of Bull Arm Fabrication's assets and facilities over the next five years are estimated as follows:

(millions of Canadian dollars)	2017	2018	2019	2020	2021	Thereafter
Minimum lease payments	16.5	3.7	-	-	-	-

24. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
For the period ended March 31 (millions of Canadian dollars)	**2017**	2016
Trade and other receivables	**18.0**	2.9
Prepayments	**(3.4)**	(10.7)
Inventories	**(5.6)**	0.6
Trade and other payables	**(114.7)**	(91.7)
Changes in non-cash working capital balances	**(105.7)**	(98.9)
Related to:		
Operating activities	**(64.8)**	(19.1)
Investing activities	**(40.9)**	(79.8)
	(105.7)	(98.9)

25. SEGMENT INFORMATION

The operating structure as at March 31, 2017 reflects organizational changes that resulted in revised operating segments effective January 1, 2017. The designation of segments is based on a combination of regulatory status and management accountability. Previously reported segmented information has been presented to conform with the current operating structure. The following summary provides a brief overview of the nature of the operations included in each of the Company's six business segments.

Hydro - is comprised of both regulated and non-regulated activities.

- **Hydro Regulated** activities encompass sales of electricity to customers within the Province that are regulated by the PUB.
- **Hydro Non-Regulated** activities include the sale of power, purchased from Churchill Falls, to mining operations in Labrador West as well as costs related to operations that Hydro manages that are not subject to rate regulation by the PUB.

Power Development - includes the development activities of the 824 MW **Muskrat Falls** hydroelectric generating facility currently under construction in Labrador on the Lower Churchill River. Once construction is complete this asset will become part of the Power Supply segment.

Power Supply - includes Churchill Falls, the Labrador-Island Link and Labrador Transmission Assets (both components of the Lower Churchill Project (LCP)), the Maritime Link (which is owned by Emera, but consolidated by Nalcor), the Menihek Generating Station, and other support activities for the Power Supply business.

- **LCP Transmission** includes the construction and operation of the Labrador Island Link and Labrador Transmission Assets, which consists of transmission lines connecting the Muskrat Falls hydroelectric plant, the Churchill Falls hydroelectric facility, and certain portions of the transmission system in Labrador to the island of Newfoundland.
- **Churchill Falls** owns and operates a hydroelectric generating facility which sells electricity to Hydro-Québec and Hydro.
- **Other** includes costs associated with Nalcor's operation of the Menihek Generating Station and the related revenues and cost recoveries from Hydro-Québec, the Maritime Link, administration costs related to Power Supply, and costs associated with the management of LCP construction.

Energy Markets - includes energy trading activities and commercial activities related to development of energy markets.

- **Energy Trading** includes the sale of available Recapture to export markets in eastern Canada and the northeastern United States. Recapture refers to excess energy from the 300 MW block of electricity, which Churchill Falls has agreed to sell and deliver to Hydro to service its residential, commercial and industrial Labrador Interconnected customers.
- **Commercial and other** includes development costs associated with Gull Island, Phase Two of LCP, and business development activities related to exploring additional markets and sources for future energy generation and transmission.

Offshore Development - includes the Oil and Gas business and the Bull Arm Fabrication business.

- **Oil and Gas** activities include exploration, development, production, transportation and processing sectors of the oil and gas industry.
- **Bull Arm Fabrication** consists of an industrial fabrication site which is leased for major construction of development projects.

Corporate encompasses corporate support and shared services functions.

	Hydro		Power Development	Power Supply			Energy Markets		Offshore Development				
(millions of Canadian dollars)	Regulated	Non-Regulated	Muskrat Falls	LCP Transmission	Churchill Falls	Other	Energy Trading	Commercial and other	Oil and Gas	Bull Arm	Corporate	Inter-Segment	Total
	For the period ended March 31, 2017												
Energy sales	174.3	11.1	-	-	31.4	-	11.1	-	53.5	-	-	(11.4)	270.0
Other revenue	1.0	-	-	-	0.1	2.5	0.1	-	0.3	5.3	-	0.6	9.9
Revenue	175.3	11.1	-	-	31.5	2.5	11.2	-	53.8	5.3	-	(10.8)	279.9
Fuels	84.0	-	-	-	-	-	-	-	-	-	-	-	84.0
Power purchased	18.0	10.3	-	-	-	-	1.2	-	-	-	-	(11.0)	18.5
Operating costs	33.8	(0.3)	0.1	0.3	11.1	1.7	1.3	0.1	1.2	0.3	3.2	-	52.8
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	8.5	-	-	-	8.5
Transmission rental and market fees	-	-	-	-	-	-	6.3	-	-	-	-	-	6.3
Depreciation, depletion and amortization	18.7	-	-	-	4.4	0.1	0.1	-	17.2	-	0.2	-	40.7
Exploration and evaluation	-	-	-	-	-	-	-	-	0.1	-	-	-	0.1
Net finance expense (income)	17.0	-	-	(0.5)	(0.2)	-	-	-	0.8	-	0.1	-	17.2
Other (income) expense	(0.2)	-	-	(0.2)	-	-	0.1	-	1.6	-	-	-	1.3
Preferred dividends	-	-	-	-	(0.7)	-	-	-	-	-	-	0.7	-
Expenses	171.3	10.0	0.1	(0.4)	14.6	1.8	9.0	0.1	29.4	0.3	3.5	(10.3)	229.4
Profit (loss) before regulatory adjustments	4.0	1.1	(0.1)	0.4	16.9	0.7	2.2	(0.1)	24.4	5.0	(3.5)	(0.5)	50.5
Regulatory adjustments	(6.7)	-	-	-	-	-	-	-	-	-	-	-	(6.7)
Profit (loss) for the period	10.7	1.1	(0.1)	0.4	16.9	0.7	2.2	(0.1)	24.4	5.0	(3.5)	(0.5)	57.2
Capital expenditures*	63.6	-	162.6	273.6	5.0	153.7	-	0.9	43.4	-	2.8	(3.3)	702.2
Total assets**	2,483.7	44.2	3,797.9	4,737.4	569.1	1,148.1	13.1	187.6	1,266.1	4.0	383.2	(148.9)	14,485.5
Total debt***	1,381.1	-	2,054.4	3,382.4	-	-	-	-	-	-	-	-	6,817.9

*Capital expenditures include non-cash additions of $153.7 million related to the Maritime Link and $8.2 million related to Class B Limited Partnership Unit accrued interest.
**Total assets include $1,146.5 million related to the Maritime Link and $53.0 million related to Class B Limited Partnership Unit accrued interest.
***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds ($258.1 million), and Class B Limited Partnership Units.

	Hydro		Power Development	Power Supply			Energy Markets		Offshore Development				
(millions of Canadian dollars)	Regulated	Non-Regulated	Muskrat Falls	LCP Transmission	Churchill Falls	Other	Energy Trading	Commercial and other	Oil and Gas	Bull Arm	Corporate	Inter-Segment	Total
	For the period ended March 31, 2016												
Energy sales	194.3	10.6	-	-	38.1	-	6.8	-	14.9	-	-	(11.3)	253.4
Other revenue	1.0	-	-	-	0.1	1.6	-	-	0.1	5.6	-	1.1	9.5
Revenue	195.3	10.6	-	-	38.2	1.6	6.8	-	15.0	5.6	-	(10.2)	262.9
Fuels	72.6	-	-	-	-	-	-	-	-	-	-	-	72.6
Power purchased	17.5	10.1	-	-	-	-	0.9	-	-	-	-	(11.1)	17.4
Operating costs	31.5	0.3	0.1	0.6	12.1	0.9	1.3	0.3	2.3	0.3	4.2	-	53.9
Production, marketing and transportation costs	-	-	-	-	-	-	-	-	5.2	-	-	-	5.2
Transmission rental and market fees	-	-	-	-	-	-	5.3	-	-	-	-	-	5.3
Depreciation, depletion and amortization	16.9	-	-	-	4.0	-	-	-	8.4	-	0.2	-	29.5
Net finance expense (income)	18.8	-	-	(0.5)	(0.3)	-	0.1	-	0.8	-	0.1	-	19.0
Other expense (income)	0.5	-	0.5	(0.4)	-	-	(6.6)	-	(2.7)	0.5	(0.1)	-	(8.3)
Preferred dividends	-	-	-	-	(1.3)	-	-	-	-	-	-	1.3	-
Expenses	157.8	10.4	0.6	(0.3)	14.5	0.9	1.0	0.3	14.0	0.8	4.4	(9.8)	194.6
Profit (loss) before regulatory adjustments	37.5	0.2	(0.6)	0.3	23.7	0.7	5.8	(0.3)	1.0	4.8	(4.4)	(0.4)	68.3
Regulatory adjustments	40.3	-	-	-	-	-	-	-	-	-	-	-	40.3
(Loss) profit for the period	(2.8)	0.2	(0.6)	0.3	23.7	0.7	5.8	(0.3)	1.0	4.8	(4.4)	(0.4)	28.0
Capital expenditures*	20.5	-	149.2	234.1	4.8	103.0	-	-	51.9	-	0.8	(2.9)	561.4
Total assets**	2,245.3	52.3	3,263.6	4,296.4	544.9	681.2	3.7	182.5	1,067.4	4.4	120.7	38.0	12,500.4
Total debt***	1,074.7	-	1,976.4	3,275.1	-	-	-	-	-	-	-	-	6,326.2

*Capital expenditures include non-cash additions of $103.0 million related to the Maritime Link and $4.7 million related to Class B Limited Partnership Unit accrued interest.

**Total assets include $764.3 million related to the Maritime Link and $26.0 million related to Class B Limited Partnership Unit accrued interest.

***Total debt includes short-term borrowings, long-term debt including current portion less Hydro's sinking funds ($267.0 million), and Class B Limited Partnership Units.

26. SUBSEQUENT EVENTS

In August 2016, Churchill Falls received judgment from the Québec Court of Appeal upholding the 2014 Québec Superior Court ruling on the motion filed by Churchill Falls to address the inequities of the pricing terms of the 1969 Power Contract between Churchill Falls and Hydro-Québec. The Court ruled against Churchill Falls. On April 20, 2017 Churchill Falls was granted leave to appeal the case to the Supreme Court of Canada. A hearing date is anticipated to be scheduled within 12 months.

On April 25, 2017, the expiry date of Nalcor's $250.0 million committed revolving term facility was extended to January 31, 2019.

In December 2016, Hydro received Board Order No. P.U. 49 (2016) (the GRA Order) in relation to its General Rate Application. In January 2017, Hydro filed an application with the PUB seeking approval of final customer rates in compliance with the GRA Order. On May 1, 2017, Hydro received Board Order No. P.U. 14 (2017). While this Order provided additional clarity surrounding certain components of the Order requested by Hydro, additional regulatory process is required prior to the determination of final customer rates and any financial statement impact.