

**NALCOR ENERGY**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**September 30, 2017**  
**(Unaudited)**

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

| <i>As at (millions of Canadian dollars)</i>               | Notes | September 30<br>2017 | December 31<br>2016 |
|---|-------|----------------------|---------------------|
| <b>ASSETS</b>   |       |                      |                     |
| Current assets  |       |                      |                     |
| Cash and cash equivalents                                 |       | 133                  | 143                 |
| Restricted cash   |       | 924                  | 1,378               |
| Short-term investments                                    | 5     | 1,214                | 92                  |
| Trade and other receivables                               |       | 297                  | 293                 |
| Inventories   |       | 114                  | 93                  |
| Current portion of other long-term assets                 | 6     | 9                    | 82                  |
| Prepayments   |       | 19                   | 16                  |
| Derivative assets   |       | 2                    | 1                   |
| <b>Total current assets</b>                               |       | <b>2,712</b>         | <b>2,098</b>        |
| Non-current assets  |       |                      |                     |
| Property, plant and equipment                             | 3     | 13,842               | 11,417              |
| Intangible assets   | 4     | 105                  | 76                  |
| Long-term investments                                     | 5     | 616                  | 34                  |
| Other long-term assets                                    | 6     | 287                  | 274                 |
| <b>Total assets</b>                                       |       | <b>17,562</b>        | <b>13,899</b>       |
| Regulatory deferrals                                      | 7     | 112                  | 164                 |
| <b>Total assets and regulatory deferrals</b>              |       | <b>17,674</b>        | <b>14,063</b>       |
| <b>LIABILITIES AND EQUITY</b>                             |       |                      |                     |
| Current liabilities                                       |       |                      |                     |
| Short-term borrowings                                     | 8     | 545                  | 435                 |
| Trade and other payables                                  |       | 945                  | 1,162               |
| Current portion of long-term debt                         | 8     | 7                    | 143                 |
| Derivative liabilities                                    |       | 1                    | 5                   |
| Current portion of other liabilities                      |       | 2                    | 5                   |
| <b>Total current liabilities</b>                          |       | <b>1,500</b>         | <b>1,750</b>        |
| Non-current liabilities                                   |       |                      |                     |
| Long-term debt  | 8     | 9,057                | 5,873               |
| Class B limited partnership units                         | 9     | 481                  | 399                 |
| Deferred credits  | 10    | 1,598                | 1,161               |
| Deferred contributions                                    |       | 10                   | 11                  |
| Decommissioning liabilities                               |       | 85                   | 82                  |
| Long-term payables  |       | 56                   | 58                  |
| Employee future benefits                                  |       | 121                  | 117                 |
| <b>Total liabilities</b>                                  |       | <b>12,908</b>        | <b>9,451</b>        |
| Shareholder's equity                                      |       |                      |                     |
| Share capital   |       | 123                  | 123                 |
| Shareholder contributions                                 | 16    | 3,188                | 2,861               |
| Reserves  |       | (68)                 | 7                   |
| Retained earnings   |       | 1,430                | 1,273               |
| <b>Total equity</b>                                       |       | <b>4,673</b>         | <b>4,264</b>        |
| <b>Total liabilities and equity</b>                       |       | <b>17,581</b>        | <b>13,715</b>       |
| Regulatory deferrals                                      | 7     | 93                   | 348                 |
| <b>Total liabilities, equity and regulatory deferrals</b> |       | <b>17,674</b>        | <b>14,063</b>       |

Commitments and contingencies (Note 17)

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 |      |
|---|-------|--------------------|------|-------------------|------|
|   |       | 2017               | 2016 | 2017              | 2016 |
| Energy sales  |       | <b>147</b>         | 142  | <b>608</b>        | 566  |
| Other revenue   |       | <b>12</b>          | 13   | <b>57</b>         | 32   |
| Revenue   |       | <b>159</b>         | 155  | <b>665</b>        | 598  |
| Fuels   |       | <b>21</b>          | 18   | <b>146</b>        | 118  |
| Power purchased   |       | <b>15</b>          | 13   | <b>48</b>         | 46   |
| Operating costs   | 11    | <b>51</b>          | 47   | <b>157</b>        | 155  |
| Production, marketing and transportation costs                          |       | <b>7</b>           | 7    | <b>23</b>         | 18   |
| Transmission rental and market fees                                     |       | <b>6</b>           | 6    | <b>19</b>         | 17   |
| Depreciation, depletion and amortization                                |       | <b>39</b>          | 36   | <b>122</b>        | 97   |
| Net finance expense   | 12    | <b>15</b>          | 18   | <b>50</b>         | 56   |
| Other expense (income)  | 13    | <b>6</b>           | (1)  | <b>16</b>         | (9)  |
| Expenses  |       | <b>160</b>         | 144  | <b>581</b>        | 498  |
| (Loss) profit before regulatory adjustments                             |       | <b>(1)</b>         | 11   | <b>84</b>         | 100  |
| Regulatory adjustments  | 7     | <b>(23)</b>        | (26) | <b>(73)</b>       | 26   |
| Profit for the period   |       | <b>22</b>          | 37   | <b>157</b>        | 74   |
| Other comprehensive income  |       |                    |      |                   |      |
| Total items that may or have been reclassified to profit or loss:       |       |                    |      |                   |      |
| Regulatory adjustment   | 7, 14 | -                  | 1    | -                 | 1    |
| Net fair value (loss) gain on available-for-sale financial instruments  | 14    | <b>(7)</b>         | 3    | <b>(10)</b>       | 15   |
| Net fair value (loss) gain on cash flow hedges                          | 14    | -                  | -    | <b>(59)</b>       | 2    |
| Reclassification adjustments related to:                                |       |                    |      |                   |      |
| Available-for-sale financial instruments                                | 14    | <b>(3)</b>         | (4)  | <b>(7)</b>        | (9)  |
| Cash flow hedges recognized in profit or loss                           | 14    | -                  | (1)  | <b>1</b>          | (6)  |
| Other comprehensive (loss) income for the period                        |       | <b>(10)</b>        | (1)  | <b>(75)</b>       | 3    |
| Total comprehensive income for the period                               |       | <b>12</b>          | 36   | <b>82</b>         | 77   |

See accompanying notes

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

| <i>(millions of Canadian dollars)</i>  | Notes | Share<br>Capital | Shareholder<br>Contributions | Fair Value<br>Reserve | Employee<br>Benefit<br>Reserve | Retained<br>Earnings | Total |
|--|-------|------------------|------------------------------|-----------------------|--------------------------------|----------------------|-------|
| Balance at January 1, 2017   |       | 123              | 2,861                        | 33                    | (26)                           | 1,273                | 4,264 |
| Profit for the period  |       | -                | -                            | -                     | -                              | 157                  | 157   |
| Other comprehensive income   |       |                  |                              |                       |                                |                      |       |
| Net change in fair value of available-for-sale financial instruments             | 14    | -                | -                            | (10)                  | -                              | -                    | (10)  |
| Net change in fair value of cash flow hedges                                     | 14    | -                | -                            | (59)                  | -                              | -                    | (59)  |
| Net change in fair value of financial instruments reclassified to profit or loss | 14    | -                | -                            | (6)                   | -                              | -                    | (6)   |
| <b>Total comprehensive (loss) income for the period</b>                          |       | -                | -                            | (75)                  | -                              | 157                  | 82    |
| Shareholder contributions  | 16    | -                | 327                          | -                     | -                              | -                    | 327   |
| <b>Balance at September 30, 2017</b>   |       | 123              | 3,188                        | (42)                  | (26)                           | 1,430                | 4,673 |
| <br>   |       |                  |                              |                       |                                |                      |       |
| Balance at January 1, 2016   |       | 123              | 2,204                        | 39                    | (27)                           | 1,137                | 3,476 |
| Profit for the period  |       | -                | -                            | -                     | -                              | 74                   | 74    |
| Other comprehensive income   |       |                  |                              |                       |                                |                      |       |
| Net change in fair value of available-for-sale financial instruments             | 14    | -                | -                            | 15                    | -                              | -                    | 15    |
| Net change in fair value of cash flow hedges                                     | 14    | -                | -                            | 2                     | -                              | -                    | 2     |
| Net change in fair value of financial instruments reclassified to profit or loss | 14    | -                | -                            | (15)                  | -                              | -                    | (15)  |
| Regulatory adjustment  | 7,14  | -                | -                            | -                     | 1                              | -                    | 1     |
| <b>Total comprehensive income for the period</b>                                 |       | -                | -                            | 2                     | 1                              | 74                   | 77    |
| Shareholder contributions  |       | -                | 490                          | -                     | -                              | -                    | 490   |
| <b>Balance at September 30, 2016</b>   |       | 123              | 2,694                        | 41                    | (26)                           | 1,211                | 4,043 |

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 |              |
|---|-------|--------------------|--------------|-------------------|--------------|
|   |       | 2017               | 2016         | 2017              | 2016         |
| <b>Operating activities</b>   |       |                    |              |                   |              |
| Profit for the period   |       | 22                 | 37           | 157               | 74           |
| Adjusted for the following non-cash items:                              |       |                    |              |                   |              |
| Depreciation and depletion - property, plant and equipment              | 3     | 35                 | 34           | 111               | 93           |
| Amortization - intangible assets  | 4     | 4                  | 2            | 11                | 4            |
| Sinking fund earnings   |       | (2)                | (4)          | (9)               | (12)         |
| Regulatory adjustments  | 7     | (23)               | (26)         | (73)              | 26           |
| Other   |       | 5                  | 5            | 17                | 5            |
|   |       | 41                 | 48           | 214               | 190          |
| Changes in non-cash working capital balances                            | 18    | (12)               | (67)         | (28)              | (20)         |
| <b>Net cash provided from (used in) operating activities</b>            |       | <b>29</b>          | <b>(19)</b>  | <b>186</b>        | <b>170</b>   |
| <b>Investing activities</b>   |       |                    |              |                   |              |
| Additions to property, plant and equipment                              | 19    | (793)              | (853)        | (2,096)           | (2,001)      |
| Additions to intangible assets  | 19    | (18)               | (4)          | (40)              | (23)         |
| Change in long-term receivables   | 6     | 56                 | -            | (26)              | 4            |
| Change in sinking fund  |       | 90                 | (6)          | 88                | (8)          |
| Change in short-term investments  |       | (1,199)            | 174          | (1,122)           | 773          |
| Change in long-term investments   |       | (582)              | 62           | (582)             | 91           |
| Other   |       | 12                 | -            | 12                | (2)          |
| Changes in non-cash working capital balances                            | 18    | (79)               | 104          | (214)             | 294          |
| <b>Net cash used in investing activities</b>                            |       | <b>(2,513)</b>     | <b>(523)</b> | <b>(3,980)</b>    | <b>(872)</b> |
| <b>Financing activities</b>   |       |                    |              |                   |              |
| Proceeds from long-term debt  |       | -                  | -            | 3,186             | -            |
| Retirement of long-term debt  |       | (150)              | -            | (150)             | -            |
| Change in restricted cash   |       | 2,484              | 221          | 454               | 71           |
| Class B limited partnership unit contributions                          | 9     | -                  | 37           | 55                | 102          |
| Change in short-term borrowings   |       | 157                | 84           | 110               | 21           |
| Change in shareholder contributions                                     | 16    | -                  | 200          | 327               | 490          |
| Rate stabilization plan payout  | 7     | (2)                | -            | (129)             | -            |
| Settlement of cash flow hedges  |       | -                  | -            | (67)              | -            |
| Other   |       | (3)                | 3            | (2)               | 4            |
| <b>Net cash provided from financing activities</b>                      |       | <b>2,486</b>       | <b>545</b>   | <b>3,784</b>      | <b>688</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>             |       | <b>2</b>           | <b>3</b>     | <b>(10)</b>       | <b>(14)</b>  |
| Cash and cash equivalents, beginning of period                          |       | 131                | 132          | 143               | 149          |
| Cash and cash equivalents, end of period                                |       | 133                | 135          | 133               | 135          |
| Interest received   |       | 33                 | 6            | 40                | 22           |
| Interest paid   |       | 36                 | 35           | 174               | 173          |

See accompanying notes

# NALCOR ENERGY

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

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### 1. DESCRIPTION OF BUSINESS

Nalcor Energy (Nalcor or the Company) is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador (the Province) as a Crown corporation and its business includes the development, generation, 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.

The operating structure as at September 30, 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 Newfoundland and Labrador Board of Commissioners of Public Utilities (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 (LIL) 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 Menihék 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 Menihék 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 to third parties.

**Corporate** - encompasses corporate support and shared services functions.

# NALCOR ENERGY

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

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### 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 November 7, 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 special purpose entities, for which Nalcor has been determined the primary beneficiary, are included in these condensed consolidated interim financial statements. Intercompany transactions and balances have been eliminated upon consolidation.

Effective June 18, 1999, Hydro, Churchill Falls, and Hydro-Québec entered into a shareholders' agreement (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<br>Plant | Transmission<br>and<br>Distribution | Petroleum<br>and Natural<br>Gas<br>Properties | Other      | Construction<br>in Progress | Total         |
|--|---------------------|-------------------------------------|---|------------|-----------------------------|---------------|
| <b>Cost</b>                                      |                     |                                     |   |            |                             |               |
| Balance at January 1, 2016                       | 1,711               | 773                                 | 1,117   | 419        | 5,182                       | 9,202         |
| Additions  | -                   | -                                   | 208   | 1          | 3,041                       | 3,250         |
| Disposals  | (6)                 | (3)                                 | -   | (4)        | -                           | (13)          |
| Transfers  | 94                  | 98                                  | -   | 28         | (220)                       | -             |
| Decommissioning liabilities and revisions        | (14)                | 1                                   | (10)  | -          | -                           | (23)          |
| Other adjustments                                | -                   | -                                   | -   | (2)        | -                           | (2)           |
| <b>Balance at December 31, 2016</b>              | <b>1,785</b>        | <b>869</b>                          | <b>1,315</b>                                  | <b>442</b> | <b>8,003</b>                | <b>12,414</b> |
| <b>Additions</b>                                 | <b>-</b>            | <b>-</b>                            | <b>109</b>                                    | <b>20</b>  | <b>2,429</b>                | <b>2,558</b>  |
| <b>Disposals</b>                                 | <b>(1)</b>          | <b>(1)</b>                          | <b>(9)</b>                                    | <b>(2)</b> | <b>-</b>                    | <b>(13)</b>   |
| <b>Transfers</b>                                 | <b>2</b>            | <b>2</b>                            | <b>-</b>                                      | <b>5</b>   | <b>(9)</b>                  | <b>-</b>      |
| <b>Decommissioning liabilities and revisions</b> | <b>-</b>            | <b>-</b>                            | <b>1</b>                                      | <b>-</b>   | <b>-</b>                    | <b>1</b>      |
| <b>Other adjustments</b>                         | <b>-</b>            | <b>-</b>                            | <b>-</b>                                      | <b>-</b>   | <b>(13)</b>                 | <b>(13)</b>   |
| <b>Balance at September 30, 2017</b>             | <b>1,786</b>        | <b>870</b>                          | <b>1,416</b>                                  | <b>465</b> | <b>10,410</b>               | <b>14,947</b> |
| <b>Depreciation and depletion</b>                |                     |                                     |   |            |                             |               |
| Balance at January 1, 2016                       | 412                 | 140                                 | 172   | 153        | -                           | 877           |
| Depreciation and depletion                       | 48                  | 23                                  | 40  | 14         | -                           | 125           |
| Disposals  | (2)                 | (1)                                 | -   | (2)        | -                           | (5)           |
| <b>Balance at December 31, 2016</b>              | <b>458</b>          | <b>162</b>                          | <b>212</b>                                    | <b>165</b> | <b>-</b>                    | <b>997</b>    |
| <b>Depreciation and depletion</b>                | <b>38</b>           | <b>19</b>                           | <b>43</b>                                     | <b>11</b>  | <b>-</b>                    | <b>111</b>    |
| <b>Disposals</b>                                 | <b>(1)</b>          | <b>-</b>                            | <b>-</b>                                      | <b>(2)</b> | <b>-</b>                    | <b>(3)</b>    |
| <b>Balance at September 30, 2017</b>             | <b>495</b>          | <b>181</b>                          | <b>255</b>                                    | <b>174</b> | <b>-</b>                    | <b>1,105</b>  |
| <b>Carrying value</b>                            |                     |                                     |   |            |                             |               |
| Balance at January 1, 2016                       | 1,299               | 633                                 | 945   | 266        | 5,182                       | 8,325         |
| Balance at December 31, 2016                     | 1,327               | 707                                 | 1,103   | 277        | 8,003                       | 11,417        |
| <b>Balance at September 30, 2017</b>             | <b>1,291</b>        | <b>689</b>                          | <b>1,161</b>                                  | <b>291</b> | <b>10,410</b>               | <b>13,842</b> |

Capitalized interest for the period ended September 30, 2017, was \$193.4 million (September 30, 2016 - \$145.0 million) related to assets under development.



# NALCOR ENERGY

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

### 4. INTANGIBLE ASSETS

| <i>(millions of Canadian dollars)</i> | Computer Software | Feasibility Studies | Seismic Data Acquisitions | Intellectual Property | Assets Under Development | Total      |
|---------------------------------------|-------------------|---------------------|---------------------------|-----------------------|--------------------------|------------|
| <b>Cost</b>                           |                   |                     |                           |                       |                          |            |
| Balance at January 1, 2016            | 16                | 2                   | 41                        | 2                     | -                        | 61         |
| Additions                             | -                 | -                   | 28                        | -                     | 9                        | 37         |
| Transfers                             | 2                 | -                   | -                         | -                     | (2)                      | -          |
| Balance at December 31, 2016          | 18                | 2                   | 69                        | 2                     | 7                        | 98         |
| <b>Additions</b>                      | -                 | -                   | <b>31</b>                 | -                     | <b>9</b>                 | <b>40</b>  |
| <b>Balance at September 30, 2017</b>  | <b>18</b>         | <b>2</b>            | <b>100</b>                | <b>2</b>              | <b>16</b>                | <b>138</b> |
| <b>Amortization</b>                   |                   |                     |                           |                       |                          |            |
| Balance at January 1, 2016            | 8                 | 1                   | 3                         | -                     | -                        | 12         |
| Amortization                          | 2                 | -                   | 8                         | -                     | -                        | 10         |
| Balance at December 31, 2016          | 10                | 1                   | 11                        | -                     | -                        | 22         |
| <b>Amortization</b>                   | <b>2</b>          | -                   | <b>9</b>                  | -                     | -                        | <b>11</b>  |
| <b>Balance at September 30, 2017</b>  | <b>12</b>         | <b>1</b>            | <b>20</b>                 | -                     | -                        | <b>33</b>  |
| <b>Carrying value</b>                 |                   |                     |                           |                       |                          |            |
| Balance at January 1, 2016            | 8                 | 1                   | 38                        | 2                     | -                        | 49         |
| Balance at December 31, 2016          | 8                 | 1                   | 58                        | 2                     | 7                        | 76         |
| <b>Balance at September 30, 2017</b>  | <b>6</b>          | <b>1</b>            | <b>80</b>                 | <b>2</b>              | <b>16</b>                | <b>105</b> |

# NALCOR ENERGY

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

### 5. LONG-TERM INVESTMENTS

In July 2017, Muskrat Falls Corporation (Muskrat Falls), Labrador Transmission Corporation (Labrador Transco), and the LIL Construction Project Trust (the IT) purchased six additional structured deposit notes using the proceeds from the issue of long-term debt. The investments are restricted in nature and subject to the provisions contained within the Muskrat Falls/Labrador Transmission Assets Project Finance Agreement (MF/LTA PFA) and the LIL Project Finance Agreement (LIL PFA).

| <i>As at (millions of Canadian dollars)</i>  | Year of<br>Maturity | September 30<br>2017 | December 31<br>2016 |
|--|---------------------|----------------------|---------------------|
| <b>Muskrat Falls</b>   |                     |                      |                     |
| \$75.0 million Floating Rate Deposit Note, with interest paid at the one-month Canadian Dollar Offered Rate (CDOR) plus 0.38%. | 2017                | -                    | 49                  |
| \$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.                                | 2019                | 60                   | -                   |
| \$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.                    | 2019                | 332                  | -                   |
| \$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.                          | 2019                | 499                  | -                   |
| <b>Labrador Transco</b>  |                     |                      |                     |
| \$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.                                | 2017                | -                    | 13                  |
| \$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.                                | 2019                | 15                   | -                   |
| \$483.8 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.                    | 2019                | 83                   | -                   |
| \$725.7 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.679% per annum.                          | 2019                | 125                  | -                   |
| <b>LIL LP</b>  |                     |                      |                     |
| \$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.38%.                                | 2017                | -                    | 29                  |
| \$75.0 million Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.                                | 2019                | 75                   | -                   |
| \$182.9 million Amortizing Floating Rate Deposit Note, with interest paid at the one-month CDOR plus 0.20%.                    | 2019                | 152                  | -                   |
| \$548.6 million Amortizing Fixed Rate Deposit Note, with interest paid at a rate of 1.644% per annum.                          | 2019                | 455                  | -                   |
| <b>Churchill Falls</b>   |                     |                      |                     |
| \$18.4 million Redeemable Guaranteed Investment Certificate (GIC), with interest paid at a rate of 1.40% per annum.            | 2019                | 18                   | 18                  |
| \$15.5 million Redeemable GIC, with interest paid at a rate of 1.46% per annum.  | 2019                | 16                   | 16                  |
| Total long-term investments  |                     | 1,830                | 125                 |
| Less: redemptions to be received within the next year <sup>1</sup>   |                     | (1,214)              | (91)                |
|  |                     | 616                  | 34                  |

<sup>1</sup> Redemptions to be received within one year have been reclassified to short-term investments.

# NALCOR ENERGY

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

### 6. OTHER LONG-TERM ASSETS

| <i>As at (millions of Canadian dollars)</i> | September 30<br>2017 | December 31<br>2016 |
|---|----------------------|---------------------|
| Investment property                         | 1                    | 1                   |
| Investment in joint arrangement             | 1                    | 1                   |
| Long-term receivables (a)                   | 53                   | 27                  |
| Long-term prepayments                       | 1                    | 4                   |
| Reserve fund                                | 15                   | 15                  |
| Sinking funds (b)                           | 224                  | 307                 |
| Other                                       | 1                    | 1                   |
| Other long-term assets                      | 296                  | 356                 |
| Less: current portion                       | (9)                  | (82)                |
|   | <b>287</b>           | <b>274</b>          |

(a) As at September 30, 2017, long-term receivables include \$53.0 million (December 31, 2016 - \$26.9 million) related to long-term advances to suppliers in relation to construction of the Lower Churchill Project. The current portion of \$84.4 million (December 31, 2016 - \$38.2 million) is included in trade and other receivables.

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

| <i>As at (millions of Canadian dollars)</i> | September 30<br>2017 | December 31<br>2016 |
|---|----------------------|---------------------|
| Sinking funds, beginning of period          | 307                  | 284                 |
| Contributions                               | 7                    | 8                   |
| Earnings                                    | 21                   | 14                  |
| Disposals                                   | (95)                 | (2)                 |
| Mark-to-market adjustment                   | (16)                 | 3                   |
| Sinking funds, end of period                | 224                  | 307                 |
| Less: current portion                       | -                    | (77)                |
|   | <b>224</b>           | <b>230</b>          |

### 7. REGULATORY DEFERRALS

| <i>As at (millions of Canadian dollars)</i> | January 1<br>2017 | Reclass and<br>Disposition | Regulatory<br>Activity | September 30<br>2017 | Remaining<br>Recovery<br>Settlement<br>Period (years) |
|---|-------------------|----------------------------|------------------------|----------------------|---|
| Regulatory asset deferrals                  |                   |                            |                        |                      |   |
| 2014 cost deferral                          | 39                | (38)                       | (1)                    | -                    | n/a   |
| 2015 cost deferral                          | 25                | (28)                       | 3                      | -                    | n/a   |
| 2016 cost deferral                          | 32                | (36)                       | 4                      | -                    | n/a   |
| Deferred energy conservation costs          | 8                 | -                          | 1                      | 9                    | n/a   |
| Deferred lease costs                        | 5                 | -                          | (1)                    | 4                    | 3.7   |
| Energy supply deferral                      | -                 | 31                         | 15                     | 46                   | n/a   |
| Foreign exchange losses                     | 54                | -                          | (2)                    | 52                   | 24.3  |
| Phase Two hearing costs                     | 1                 | -                          | -                      | 1                    | n/a   |
|   | 164               | (71)                       | 19                     | 112                  |   |
| Regulatory liability deferrals              |                   |                            |                        |                      |   |
| Insurance amortization and proceeds         | (4)               | -                          | -                      | (4)                  | n/a   |
| Labrador refund                             | -                 | -                          | -                      | -                    | 2.3   |
| Rate stabilization plan (RSP)               | (344)             | 202                        | 53                     | (89)                 | n/a   |
|   | (348)             | 202                        | 53                     | (93)                 |   |

# NALCOR ENERGY

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

### 7.1 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 period and the profit for the period ended September 30, 2017 would have decreased by \$72.6 million (September 30, 2016 - an increase of \$25.6 million).

| <i>For the period ended September 30 (millions of Canadian dollars)</i> | Three months ended |             | Nine months ended |           |
|---|--------------------|-------------|-------------------|-----------|
|   | 2017               | 2016        | 2017              | 2016      |
| RSP amortization  | (3)                | (12)        | (47)              | (20)      |
| RSP fuel deferral   | (17)               | (19)        | (10)              | 25        |
| RSP interest  | 1                  | 7           | 7                 | 20        |
| Rural rate adjustment   | (1)                | (2)         | (3)               | (6)       |
| <b>Total RSP activity</b>   | <b>(20)</b>        | <b>(26)</b> | <b>(53)</b>       | <b>19</b> |
| 2014 cost deferral  | -                  | -           | 1                 | 5         |
| 2015 cost deferral  | -                  | -           | (3)               | 1         |
| 2016 cost deferral  | -                  | -           | (4)               | -         |
| Amortization of deferred foreign exchange losses                        | 1                  | 1           | 2                 | 2         |
| Deferred energy conservation  | -                  | (1)         | (1)               | (1)       |
| Deferred foreign exchange on fuel                                       | -                  | -           | -                 | 1         |
| Deferred lease costs  | -                  | -           | 1                 | (2)       |
| Employee future benefits actuarial loss                                 | -                  | 1           | -                 | 1         |
| Energy supply deferral  | (4)                | -           | (15)              | -         |
| Fuel supply deferral  | -                  | -           | -                 | 2         |
| Insurance amortization and proceeds                                     | -                  | (1)         | -                 | (1)       |
| Phase Two hearing costs   | -                  | -           | -                 | (1)       |
| Other   | -                  | -           | (1)               | -         |
|   | <b>(23)</b>        | <b>(26)</b> | <b>(73)</b>       | <b>26</b> |

### 7.2 RSP Refund

As per Board Order P.U. 36 (2016), the RSP was reduced by \$129.3 million relating to the refund of the utility surplus balance. The reduction was comprised of \$127.7 million refund to customers and \$1.6 million in administrative costs.

### 7.3 2014 Cost Deferral

In Board Order P.U. 22 (2017), the Board approved the 2014 cost deferral of \$37.7 million, resulting in a decrease in profit for the period of \$1.0 million, and the disposition of the balance from the RSP.

### 7.4 2015 Cost Deferral

In Board Order P.U. 22 (2017), the Board approved the 2015 cost deferral of \$27.7 million, resulting in an increase in profit for the period of \$3.2 million, and the disposition of the balance from the RSP.

### 7.5 2016 Cost Deferral

The 2016 cost deferral of \$32.4 million consisted of energy supply costs of \$31.0 million and other costs (net of allowances) of \$1.4 million. As a result of Board Order P.U. 22 (2017), \$31.0 million was re-classified to the energy supply deferral. The Board approved the remaining 2016 costs of \$5.0 million, which resulted in an increase in profit of \$3.7 million for the period, and the disposition of the balance from the RSP.

### 7.6 Energy Supply Deferrals

The energy supply deferral account includes \$31.0 million which was re-classified from the 2016 cost deferral. In Board Order P.U. 22 (2017), the Board approved the deferral of energy supply costs with recovery subject to a future Board order. The net impact for the period was an increase in profit of \$15.1 million.

# NALCOR ENERGY

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

### 7.7 Labrador Refund

Pursuant to Board Order P.U. 22 (2017), the Board ordered Hydro to refund Labrador Industrial Transmission customers' excess revenues relating to the period from 2014 to 2017. The Board also ordered that Hydro apply a rate reduction for a 30 month period to Hydro's rural customers on the Labrador Interconnected System relating to excess revenue collected.

## 8. DEBT

### 8.1 Short-term Borrowings

On September 29, 2017, Nalcor refinanced the \$225.0 million promissory note from the Province dated March 31, 2017. The new promissory note matures March 30, 2018 and carries an interest rate of 1.845%. Hydro refinanced its promissory note to Nalcor on identical terms and conditions.

Hydro utilized its government guaranteed promissory note program to fulfill its short-term funding requirements. As at September 30, 2017, there were \$300.0 million in promissory notes outstanding with a maturity date of October 6, 2017 bearing an interest rate of 1.13% (2016 - \$210.0 million bearing an interest rate of 0.63%). Upon maturity, the promissory notes were reissued.

During July 2017, Hydro converted a \$50.0 million unsecured demand operating facility with its banker to a \$200.0 million committed revolving term credit facility, with a maturity date of July 27, 2019. As at September 30, 2017, \$20.0 million was drawn on the facility (2016 - \$nil) in the form of a Bankers' Acceptance (BA) at a rate of 1.845% and a maturity date of October 5, 2017. Upon maturity, the BA was reissued. As of September 30, 2017, there were no irrevocable letters of credit issued under the credit limit (2016 - \$0.3 million).

On April 10, 2017 and July 27, 2017, Oil and Gas issued two irrevocable letters of credit in the amounts of \$4.9 million and \$1.5 million, respectively, to the Canada-Newfoundland and Labrador Offshore Petroleum Board. The purpose of these letters was to provide proof of financial responsibility with respect to the Hebron project.

The following table represents the value of short-term borrowings at September 30, 2017 and December 31, 2016:

| <i>As at (millions of Canadian dollars)</i> | Maturity Date   | Interest Rate | September 30<br>2017 | December 31<br>2016 |
|---|-----------------|---------------|----------------------|---------------------|
| Promissory note from the Province           | March 30, 2018  | 1.845%        | 225                  | 225                 |
| Government guaranteed promissory note       | October 6, 2017 | 1.130%        | 300                  | 210                 |
| Bankers' Acceptance                         | October 5, 2017 | 1.845%        | 20                   | -                   |
|   |                 |               | <b>545</b>           | <b>435</b>          |

# 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 2017 | December 31 2016 |
|---|--------------|---------------|---------------|------------------|-------------------|------------------|
| <b>Hydro</b>  |              |               |               |                  |                   |                  |
| X*  | 150          | 10.25         | 1992          | 2017             | -                 | 150              |
| Y*  | 300          | 8.40          | 1996          | 2026             | 295               | 295              |
| AB*   | 300          | 6.65          | 2001          | 2031             | 306               | 306              |
| AD*   | 125          | 5.70          | 2003          | 2033             | 124               | 124              |
| AF  | 500          | 3.60          | 2014/2017     | 2045             | 480               | 197              |
| <b>LIL LP</b>   |              |               |               |                  |                   |                  |
| Tranche A   | 725          | 3.76          | 2013          | 2033             | 726               | 726              |
| Tranche B   | 600          | 3.86          | 2013          | 2045             | 600               | 600              |
| Tranche C   | 1,075        | 3.85          | 2013          | 2053             | 1,075             | 1,075            |
| Tranche 1-10  | 105          | 1.14-1.75     | 2017          | 2020-2025        | 105               | -                |
| Tranche 11-20   | 105          | 1.84-2.37     | 2017          | 2025-2030        | 105               | -                |
| Tranche 21-30   | 105          | 2.41-2.64     | 2017          | 2030-2035        | 105               | -                |
| Tranche 31-40   | 105          | 2.66-2.80     | 2017          | 2035-2040        | 105               | -                |
| Tranche 41-50   | 105          | 2.81-2.86     | 2017          | 2040-2045        | 105               | -                |
| Tranche 51-60   | 105          | 2.84-2.86     | 2017          | 2045-2050        | 105               | -                |
| Tranche 61-70   | 105          | 2.85          | 2017          | 2050-2055        | 105               | -                |
| Tranche 71-74   | 315          | 2.85          | 2017          | 2055-2057        | 316               | -                |
| <b>Labrador Transco/Muskrat Falls</b>                   |              |               |               |                  |                   |                  |
| Tranche A   | 650          | 3.63          | 2013          | 2029             | 650               | 650              |
| Tranche B   | 675          | 3.83          | 2013          | 2037             | 675               | 675              |
| Tranche C   | 1,275        | 3.86          | 2013          | 2048             | 1,275             | 1,275            |
| Tranche 1-10  | 205          | 1.14-1.75     | 2017          | 2020-2025        | 205               | -                |
| Tranche 11-20   | 224          | 1.84-2.37     | 2017          | 2025-2030        | 224               | -                |
| Tranche 21-30   | 253          | 2.41-2.64     | 2017          | 2030-2035        | 253               | -                |
| Tranche 31-40   | 288          | 2.66-2.80     | 2017          | 2035-2040        | 289               | -                |
| Tranche 41-50   | 331          | 2.81-2.86     | 2017          | 2040-2045        | 331               | -                |
| Tranche 51-60   | 381          | 2.84-2.86     | 2017          | 2045-2050        | 382               | -                |
| Tranche 61-64   | 168          | 2.85          | 2017          | 2050-2052        | 168               | -                |
| <b>Total debentures</b>                                 | <b>9,275</b> |               |               |                  | <b>9,109</b>      | <b>6,073</b>     |
| <b>Less: Sinking fund investments in own debentures</b> |              |               |               |                  | <b>(45)</b>       | <b>(57)</b>      |
|   |              |               |               |                  | <b>9,064</b>      | <b>6,016</b>     |
| <b>Less: payments due within one year</b>               |              |               |               |                  | <b>(7)</b>        | <b>(143)</b>     |
|   |              |               |               |                  | <b>9,057</b>      | <b>5,873</b>     |

\*Sinking funds have been established for these issues.

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.

On July 14, 2017, \$150.0 million of Hydro's long-term debt, Series X, matured. Sinking fund disposals during the period in the amount of \$95.1 million were used to offset the Series X maturity.

On May 10, 2017, Muskrat Falls, Labrador Transco, the MF/LTA Funding Trust and the Collateral Agent executed a second amendment to the MF/LTA PFA. Under the terms and conditions of the second amended MF/LTA PFA, the MF/LTA Funding Trust agreed to provide an additional non-revolving credit facility in the amount of \$1.85 billion available in a series of 64 bonds with maturities every six months beginning in December 2020. On May 25, 2017, the second construction facility was fully drawn down by way of a single advance of \$1.85 billion to a restricted cash account administered by a Collateral Agent. The Company

# NALCOR ENERGY

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

draws funds from this account on a monthly basis in accordance with procedures set out in the MF/LTA PFA.

On May 10, 2017, the LIL Construction Project Trust, LIL Funding Trust, LIL Limited Partnership (LIL LP), LIL Operating Corporation (LIL Opco) and the Collateral Agent executed second amendments to the IT PFA and LIL PFA. Under the terms and conditions of the second amended IT PFA, the LIL Funding Trust agreed to provide an additional non-revolving credit facility in the amount of \$975.0 million, as well as a \$75.0 million working capital revolving facility, to the IT. These facilities, available in a series of 74 bonds with maturities every six months beginning in December 2020, were fully drawn down on May 25, 2017 by way of a single advance of \$1.05 billion to a restricted cash account administered by a Collateral Agent. LIL LP draws funds from this account on a monthly basis in accordance with procedures set out in the LIL PFA.

The financing of the MF/LTA Funding Trust and LIL Funding Trust benefits from a direct, absolute, unconditional and irrevocable guarantee from the Government of Canada, and thereby carries its full faith and credit (AAA rating or equivalent). Under the terms of the additional guarantee from the Government of Canada, Muskrat Falls, Labrador Transco and LIL LP agree to pay an annual guarantee fee starting in May 2018 equal to 0.5% of the average balance outstanding on LIL LP Tranches 1 through 74 and Labrador Transco/Muskrat Falls Tranches 1 through 64 for the prior twelve months.

As security for these debt obligations, Muskrat Falls and LIL LP have granted to the Collateral Agent first ranking liens on all present and future assets. Sinking funds are required to be set up for these debentures to be held in a sinking fund account under the control of the Collateral Agent.

### 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.

| <i>As at (millions of Canadian dollars)</i>            | <b>September 30</b> |             | December 31 |      |
|--|---------------------|-------------|-------------|------|
|  | <b>Units</b>        | <b>2017</b> | Units       | 2016 |
| Class B limited partnership units, beginning of period | 25                  | 399         | 25          | 207  |
| Contributions  | -                   | 55          | -           | 168  |
| Accrued interest                                       | -                   | 27          | -           | 24   |
| Class B limited partnership units, end of period       | 25                  | 481         | 25          | 399  |

### 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 related to Menihek lease assets for the sale of energy to Hydro-Québec.

| <i>As at September 30, 2017 (millions of Canadian dollars)</i> | Government<br>Funding | Oil and Gas<br>Over-lift | Deferred<br>Energy Sales | Deferred<br>Lease<br>Revenue | Total |
|--|-----------------------|--------------------------|--------------------------|------------------------------|-------|
| Deferred credits, beginning of period                          | 2                     | 1                        | 1,144                    | 17                           | 1,164 |
| Additions  | -                     | -                        | 435                      | 3                            | 438   |
| Amortization   | (1)                   | -                        | -                        | (2)                          | (3)   |
| Deferred credits, end of period                                | 1                     | 1                        | 1,579                    | 18                           | 1,599 |
| Less: current portion  | (1)                   | -                        | -                        | -                            | (1)   |
|  | -                     | 1                        | 1,579                    | 18                           | 1,598 |

# NALCOR ENERGY

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

### 11. OPERATING COSTS

| <i>For the period ended September 30 (millions of Canadian dollars)</i> | Three months ended |           | Nine months ended |            |
|---|--------------------|-----------|-------------------|------------|
|   | 2017               | 2016      | 2017              | 2016       |
|   |                    | (Note 20) |                   | (Note 20)  |
| Salaries and benefits   | 30                 | 30        | 101               | 101        |
| Maintenance and materials   | 11                 | 9         | 25                | 22         |
| Professional services   | 3                  | 4         | 10                | 13         |
| Travel and transportation   | 2                  | 1         | 6                 | 4          |
| Rental and royalty expense  | 1                  | -         | 3                 | 3          |
| Equipment rental  | 1                  | -         | 2                 | 3          |
| Other operating costs   | 3                  | 3         | 10                | 9          |
|   | <b>51</b>          | <b>47</b> | <b>157</b>        | <b>155</b> |

### 12. NET FINANCE EXPENSE

| <i>For the period ended September 30 (millions of Canadian dollars)</i> | Three months ended |           | Nine months ended |            |
|---|--------------------|-----------|-------------------|------------|
|   | 2017               | 2016      | 2017              | 2016       |
| Finance income  |                    |           |                   |            |
| Interest on sinking fund  | 3                  | 3         | 10                | 11         |
| Interest on reserve fund  | -                  | 1         | -                 | 1          |
| Interest on investments   | 6                  | 2         | 6                 | 8          |
| Interest on restricted cash   | 4                  | 4         | 11                | 11         |
| Other interest income   | 1                  | -         | 3                 | 1          |
|   | <b>14</b>          | <b>10</b> | <b>30</b>         | <b>32</b>  |
| Finance expense   |                    |           |                   |            |
| Interest on long-term debt  | 84                 | 68        | 229               | 206        |
| Interest on Class B limited partnership units                           | 9                  | 6         | 27                | 16         |
| Debt guarantee fee  | 6                  | 1         | 8                 | 3          |
| Accretion   | 2                  | 2         | 5                 | 6          |
| Other   | 2                  | 1         | 4                 | 2          |
|   | <b>103</b>         | <b>78</b> | <b>273</b>        | <b>233</b> |
| Interest capitalized during construction                                | (74)               | (50)      | (193)             | (145)      |
|   | <b>29</b>          | <b>28</b> | <b>80</b>         | <b>88</b>  |
| Net finance expense   | <b>15</b>          | <b>18</b> | <b>50</b>         | <b>56</b>  |

### 13. OTHER EXPENSE (INCOME)

| <i>For the period ended September 30 (millions of Canadian dollars)</i> | Three months ended |            | Nine months ended |            |
|---|--------------------|------------|-------------------|------------|
|   | 2017               | 2016       | 2017              | 2016       |
| Settlement of commodity swaps   | -                  | (9)        | -                 | (9)        |
| Mark-to-market foreign exchange forward contracts                       | (1)                | 8          | -                 | (1)        |
| Financial transmission rights income and amortization                   | (1)                | -          | (1)               | (1)        |
| Loss on disposal of property, plant and equipment                       | 2                  | -          | 8                 | 1          |
| Asset disposal costs  | 3                  | -          | 3                 | -          |
| Unrealized foreign exchange loss  | -                  | -          | 1                 | 2          |
| Realized foreign exchange loss  | 4                  | -          | 6                 | -          |
| Other   | (1)                | -          | (1)               | (1)        |
| Other expense (income)  | <b>6</b>           | <b>(1)</b> | <b>16</b>         | <b>(9)</b> |



# 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 reclassified to profit or loss:*

| <i>(millions of Canadian dollars)</i>    | 2017 | 2016 |
|--|------|------|
| Employee future benefits                 |      |      |
| Balance at January 1                     | (26) | (27) |
| Regulatory adjustment                    | -    | 1    |
| Balance at September 30                  | (26) | (26) |
| <i>(millions of Canadian dollars)</i>    | 2017 | 2016 |
| Available-for-sale financial instruments |      |      |
| Balance at January 1                     | 48   | 45   |
| Fair value (loss) gain during the period | (10) | 15   |
| Amounts reclassified to profit or loss   | (7)  | (9)  |
| Balance at September 30                  | 31   | 51   |
| <i>(millions of Canadian dollars)</i>    | 2017 | 2016 |
| Cash flow hedges                         |      |      |
| Balance at January 1                     | (15) | (6)  |
| Fair value (loss) gain during the period | (59) | 2    |
| Amounts reclassified to profit or loss   | 1    | (6)  |
| Balance at September 30                  | (73) | (10) |

### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 15.1 Fair Value

The estimated fair values of financial instruments as at September 30, 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).

# NALCOR ENERGY

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

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, Nalcor 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, 2017 and the year ended December 31, 2016.

|  | Level | Category           | Carrying Value     | Fair Value | Carrying Value    | Fair Value |
|--|-------|--------------------|--------------------|------------|-------------------|------------|
| <i>As at (millions of Canadian dollars)</i>                                |       |                    | September 30, 2017 |            | December 31, 2016 |            |
| <b>Financial assets</b>  |       |                    |                    |            |                   |            |
| Derivative assets  | 2,3   | FVTPL <sup>1</sup> | 2                  | 2          | 1                 | 1          |
| Sinking funds - investments in Hydro debt issue                            | 2     | HTM <sup>2</sup>   | 45                 | 55         | 57                | 71         |
| Sinking funds - other investments  | 2     | AFS <sup>3</sup>   | 224                | 224        | 307               | 307        |
| Long-term investments  | 1,2   | HTM                | 616                | 616        | 34                | 34         |
| Reserve fund   | 2     | AFS                | 15                 | 15         | 15                | 15         |
| Long-term receivables  | 2     | L&R <sup>4</sup>   | 53                 | 53         | 27                | 27         |
| <b>Financial liabilities</b>   |       |                    |                    |            |                   |            |
| Derivative liabilities   | 2     | FVTPL              | 1                  | 1          | 5                 | 5          |
| Long-term debt including amount due within one year (before sinking funds) | 2     | OFL <sup>5</sup>   | 9,109              | 9,803      | 6,073             | 6,965      |
| Class B limited partnership units  | 3     | OFL                | 481                | 481        | 399               | 399        |
| Long-term payables   | 2     | OFL                | 56                 | 70         | 58                | 75         |

1. Fair value through profit or loss
2. Held-to-maturity investments
3. Available-for-sale financial assets
4. Loans and receivables
5. Other financial liabilities

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 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     | (9.2)                        | 9.0                          |

### 15.2 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.

# NALCOR ENERGY

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

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### 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 flows 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.

In May 2017, Labrador Transco and Muskrat Falls entered into six bond forward contracts totaling \$1.8 billion to hedge the interest rate risk on the forecasted issue of the additional long-term debt. These contracts were designated as part of a cash flow hedging relationship and the resulting decrease in fair value of \$65.8 million was recorded in other comprehensive (loss) income with the ineffective portion of \$1.1 million recognized immediately in other expense (income). The amortization of the loss related to the effective portion of the cash flow hedge is capitalized, in line with treatment of the interest expense related to the long-term debt that it is hedging, until project commissioning. Subsequent to commissioning, amortization on the remainder of the effective portion will be recognized in profit or loss over the same period as the related debt instruments mature. The total amount amortized as at September 30, 2017 including the previous cash flow hedge initiated in December 2013 was \$1.0 million (December 31, 2016 - \$0.8 million).

### *Foreign Currency and Commodity Exposure*

As at September 30, 2017, Oil and Gas had three commodity price swaps remaining with a notional value of \$8.0 million USD, and an average fixed price of \$53.35 USD per barrel. As the contracts have been designated as hedging instruments, changes in fair value have been recorded in other comprehensive (loss) income. During 2017, \$0.3 million in realized losses (September 30, 2016 - \$6.1 million in gains) have been included in other expense (income) and \$0.6 million in unrealized losses (September 30, 2016 - \$0.1 million in gains) remain in other comprehensive (loss) income.

As at September 30, 2017, Oil and Gas had four foreign exchange forward contracts remaining, with a notional value of \$10.7 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 (loss) income. During 2017, \$0.3 million in realized gains have been included in other expense (income) and \$0.9 million in unrealized gains remain in other comprehensive (loss) income. There were no foreign exchange forward contracts held at September 30, 2016.

As at September 30, 2017, Energy Marketing had six foreign exchange forward contracts remaining, with a notional value of \$4.3 million USD, and an average rate of \$1.32 CAD per USD. As these contracts have all been designated as hedging instruments, changes in fair value have been recorded in other comprehensive (loss) income. During 2017, \$0.3 million in gains (September 30, 2016 - \$0.5 million in gains) have been included in other expense (income) related to forward contracts and \$0.3 million in unrealized gains (September 30, 2016 - \$0.2 million in gains) remain in other comprehensive (loss) income. As at September 30, 2017, the fair value of the foreign exchange forward contract asset presented on the Statement of Financial Position was \$0.3 million (December 31, 2016 - \$0.3 liability).

During 2017, Energy Marketing purchased additional annual and semi-annual financial transmission rights with notional values totaling \$0.9 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 expense (income).

# NALCOR ENERGY

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

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 September 30, 2017, \$3.9 million in realized gains (September 30, 2016 - \$4.7 million in gains) related to these fair value differences were included in energy sales.

As at September 30, 2017, Bull Arm Fabrication had five foreign exchange forward contracts remaining, with a notional value of \$6.7 million USD and an average rate of \$1.32 CAD per USD. As these contracts have all been designated as hedging instruments, changes in fair value have been recorded in other comprehensive (loss) income. For the period ended September 30, 2017, \$0.2 million in gains (September 30, 2016 - \$0.2 million in losses) have been included in other expense (income) related to the forward contracts and \$0.3 in unrealized gains (September 30, 2016 - \$0.1 million in gains) remain in other comprehensive (loss) income. As at September 30, 2017, the fair value of the derivative asset presented on the Statement of Financial Position was \$0.5 million (December 31, 2016 - \$0.3 million liability).

The components of change impacting the carrying value of derivative assets and liabilities for the periods ended September 30, 2017 and 2016 are as follows:

|   | Commodity and<br>forward contracts |          | Other derivatives |          | Total     |
|---|------------------------------------|----------|-------------------|----------|-----------|
|   | Level II                           | Level II | Level III         | Level II | Level III |
| <i>(millions of Canadian dollars)</i>         |                                    |          |                   |          |           |
| <b>Balance at January 1, 2017</b>             | (5)                                | -        | 1                 | (5)      | 1         |
| <b>Purchases</b>                              | -                                  | -        | 1                 | -        | 1         |
|   | (5)                                | -        | 2                 | (5)      | 2         |
| <b>Changes to profit</b>                      |                                    |          |                   |          |           |
| <b>Amortization</b>                           | -                                  | -        | (1)               | -        | (1)       |
| <b>Total</b>                                  | -                                  | -        | (1)               | -        | (1)       |
| <b>Changes in other comprehensive income</b>  |                                    |          |                   |          |           |
| <b>Mark-to-market</b>                         | 6                                  | -        | -                 | 6        | -         |
| <b>Settlements realized in profit or loss</b> | (1)                                | -        | -                 | (1)      | -         |
| <b>Total</b>                                  | 5                                  | -        | -                 | 5        | -         |
| <b>Balance at September 30, 2017</b>          | -                                  | -        | 1                 | -        | 1         |
| <br>  |                                    |          |                   |          |           |
| Balance at January 1, 2016                    | 2                                  | 2        | -                 | 4        | -         |
| Purchases                                     | -                                  | -        | 2                 | -        | 2         |
|   | 2                                  | 2        | 2                 | 4        | 2         |
| <b>Changes to profit</b>                      |                                    |          |                   |          |           |
| <b>Amortization</b>                           | -                                  | -        | (1)               | -        | (1)       |
| <b>Mark-to-market</b>                         | 5                                  | (2)      | -                 | 3        | -         |
| <b>Settlements</b>                            | (3)                                | -        | -                 | (3)      | -         |
| <b>Total</b>                                  | 2                                  | (2)      | (1)               | -        | (1)       |
| <b>Changes in other comprehensive income</b>  |                                    |          |                   |          |           |
| <b>Mark-to-market</b>                         | 2                                  | -        | -                 | 2        | -         |
| <b>Settlements realized in profit or loss</b> | (6)                                | -        | -                 | (6)      | -         |
| <b>Total</b>                                  | (4)                                | -        | -                 | (4)      | -         |
| <b>Balance at September 30, 2016</b>          | -                                  | -        | 1                 | -        | 1         |

# NALCOR ENERGY

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

### 16. 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% shareholder of Nalcor                                      |
| Churchill Falls  | Joint arrangement of Hydro                                      |
| Hydro-Québec   | 34.2% shareholder of Churchill Falls                            |
| Twin Falls   | Joint venture of Churchill Falls                                |
| Churchill Falls (Labrador) Corporation Trust (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.

During 2017, Nalcor's shareholder contributed capital in the amount of \$326.8 million (December 31, 2016 - \$656.1 million) in relation to Nalcor's capital expenditures.

During 2017, the Trust contributed capital in the amount of \$0.2 (December 31, 2016 - \$0.3 million).

### 17. COMMITMENTS AND CONTINGENCIES

- Nalcor and its subsidiaries have received claims instituted by various companies and individuals with respect to power delivery, construction 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 and its subsidiaries have entered into various lease agreements for which minimum lease payments cannot be reliably measured, therefore outstanding commitments related to these leases have not been disclosed.
- Outstanding commitments for capital projects, excluding those related to Oil and Gas, total approximately \$1.3 billion as at September 30, 2017 (December 31, 2016 - \$2.1 billion). LCP prefunded equity requirements associated with the additional debt issues in Muskrat Falls and LCP Transmission total approximately \$1.5 billion as at September 30, 2017 (December 31, 2016 - \$3.3 billion).

### 18. SUPPLEMENTARY CASH FLOW INFORMATION

| <i>For the period ended September 30 (millions of Canadian dollars)</i> | Three months ended |      | Nine months ended |      |
|---|--------------------|------|-------------------|------|
|   | 2017               | 2016 | 2017              | 2016 |
| Trade and other receivables   | 5                  | (61) | (4)               | 53   |
| Prepayments   | -                  | (12) | -                 | (11) |
| Inventories   | (17)               | (12) | (21)              | (11) |
| Trade and other payables  | (79)               | 122  | (217)             | 243  |
| Changes in non-cash working capital balances                            | (91)               | 37   | (242)             | 274  |
| Related to:   |                    |      |                   |      |
| Operating activities  | (12)               | (67) | (28)              | (20) |
| Investing activities  | (79)               | 104  | (214)             | 294  |
|   | (91)               | 37   | (242)             | 274  |

# NALCOR ENERGY

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

### 19. SEGMENT INFORMATION

|  | Hydro     |               | Power Development | Power Supply     |                 |       | Energy Markets |                      | Offshore Development |          | Corporate | Inter-Segment | Total  |
|--|-----------|---------------|-------------------|------------------|-----------------|-------|----------------|----------------------|----------------------|----------|-----------|---------------|--------|
|  | Regulated | Non-Regulated | Muskrat Falls     | LCP Transmission | Churchill Falls | Other | Energy Trading | Commercial and Other | Oil and Gas          | Bull Arm |           |               |        |
| <i>(millions of Canadian dollars)</i>          |           |               |                   |                  |                 |       |                |                      |                      |          |           |               |        |
| For the nine months ended September 30, 2017   |           |               |                   |                  |                 |       |                |                      |                      |          |           |               |        |
| Energy sales                                   | 356       | 30            | -                 | -                | 65              | -     | 34             | -                    | 155                  | -        | -         | (32)          | 608    |
| Other revenue                                  | 4         | -             | -                 | -                | -               | 6     | -              | -                    | 4                    | 41       | -         | 2             | 57     |
| Revenue  | 360       | 30            | -                 | -                | 65              | 6     | 34             | -                    | 159                  | 41       | -         | (30)          | 665    |
| Fuels  | 146       | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | -             | 146    |
| Power purchased                                | 47        | 29            | -                 | -                | -               | -     | 3              | -                    | -                    | -        | -         | (31)          | 48     |
| Operating costs                                | 98        | -             | -                 | 2                | 32              | 5     | 3              | 1                    | 5                    | 1        | 10        | -             | 157    |
| Production, marketing and transportation costs | -         | -             | -                 | -                | -               | -     | -              | -                    | 23                   | -        | -         | -             | 23     |
| Transmission rental and market fees            | -         | -             | -                 | -                | -               | -     | 19             | -                    | -                    | -        | -         | -             | 19     |
| Depreciation, depletion and amortization       | 56        | -             | -                 | -                | 13              | -     | -              | -                    | 52                   | -        | -         | 1             | 122    |
| Exploration and evaluation                     | -         | -             | -                 | -                | -               | -     | -              | -                    | 1                    | -        | -         | (1)           | -      |
| Net finance expense (income)                   | 50        | -             | -                 | (1)              | (1)             | -     | -              | -                    | 2                    | -        | 1         | (1)           | 50     |
| Other expense                                  | 3         | -             | 1                 | -                | -               | -     | -              | -                    | 10                   | 1        | 1         | -             | 16     |
| Preferred dividends                            | -         | -             | -                 | -                | (2)             | -     | -              | -                    | -                    | -        | -         | 2             | -      |
| Expenses                                       | 400       | 29            | 1                 | 1                | 42              | 5     | 25             | 1                    | 93                   | 2        | 12        | (30)          | 581    |
| (Loss) profit before regulatory adjustments    | (40)      | 1             | (1)               | (1)              | 23              | 1     | 9              | (1)                  | 66                   | 39       | (12)      | -             | 84     |
| Regulatory adjustments                         | (74)      | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | 1             | (73)   |
| Profit (loss) for the period                   | 34        | 1             | (1)               | (1)              | 23              | 1     | 9              | (1)                  | 66                   | 39       | (12)      | (1)           | 157    |
| Capital expenditures*                          | 237       | -             | 821               | 924              | 35              | 438   | -              | -                    | 140                  | -        | 10        | (7)           | 2,598  |
| Total assets**                                 | 2,454     | 26            | 5,360             | 5,699            | 581             | 1,619 | 14             | 190                  | 1,304                | 3        | 411       | 13            | 17,674 |
| Total debt***                                  | 1,521     | -             | 3,562             | 4,823            | -               | -     | -              | -                    | -                    | -        | -         | -             | 9,906  |

\*Capital expenditures include non-cash additions of \$435.2 million related to the Maritime Link and \$27.2 million related to Class B Limited Partnership Unit accrued interest.

\*\*Total assets include \$1,581.7 million related to the Maritime Link and \$72.0 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 of \$183.7 million, and Class B Limited Partnership Units.

# NALCOR ENERGY

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

|  | Hydro     |               | Power Development | Power Supply     |                 |       | Energy Markets |                      | Offshore Development |          | Corporate | Inter-Segment | Total  |
|--|-----------|---------------|-------------------|------------------|-----------------|-------|----------------|----------------------|----------------------|----------|-----------|---------------|--------|
|  | Regulated | Non-Regulated | Muskrat Falls     | LCP Transmission | Churchill Falls | Other | Energy Trading | Commercial and Other | Oil and Gas          | Bull Arm |           |               |        |
| <i>(millions of Canadian dollars)</i>          |           |               |                   |                  |                 |       |                |                      |                      |          |           |               |        |
| For the nine months ended September 30, 2016   |           |               |                   |                  |                 |       |                |                      |                      |          |           |               |        |
| Energy sales                                   | 381       | 29            | -                 | -                | 70              | -     | 33             | -                    | 84                   | -        | -         | (31)          | 566    |
| Other revenue                                  | 3         | -             | -                 | -                | -               | 5     | -              | -                    | 4                    | 16       | -         | 4             | 32     |
| Revenue  | 384       | 29            | -                 | -                | 70              | 5     | 33             | -                    | 88                   | 16       | -         | (27)          | 598    |
| Fuels  | 118       | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | -             | 118    |
| Power purchased                                | 46        | 29            | -                 | -                | -               | -     | 3              | -                    | -                    | -        | -         | (32)          | 46     |
| Operating costs                                | 92        | 1             | -                 | 1                | 33              | 3     | 4              | -                    | 6                    | 1        | 13        | 1             | 155    |
| Production, marketing and transportation costs | -         | -             | -                 | -                | -               | -     | -              | -                    | 18                   | -        | -         | -             | 18     |
| Transmission rental and market fees            | -         | -             | -                 | -                | -               | -     | 17             | -                    | -                    | -        | -         | -             | 17     |
| Depreciation, depletion and amortization       | 51        | -             | -                 | -                | 12              | -     | -              | -                    | 33                   | -        | -         | 1             | 97     |
| Net finance expense (income)                   | 55        | -             | -                 | (1)              | (1)             | -     | -              | -                    | 3                    | -        | -         | -             | 56     |
| Other expense (income)                         | -         | -             | 1                 | (1)              | -               | -     | (4)            | -                    | (5)                  | -        | -         | -             | (9)    |
| Preferred dividends                            | -         | -             | -                 | -                | (3)             | -     | -              | -                    | -                    | -        | -         | 3             | -      |
| Expenses                                       | 362       | 30            | 1                 | (1)              | 41              | 3     | 20             | -                    | 55                   | 1        | 13        | (27)          | 498    |
| Profit (loss) before regulatory adjustments    | 22        | (1)           | (1)               | 1                | 29              | 2     | 13             | -                    | 33                   | 15       | (13)      | -             | 100    |
| Regulatory adjustments                         | 26        | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | -             | 26     |
| (Loss) profit for the period                   | (4)       | (1)           | (1)               | 1                | 29              | 2     | 13             | -                    | 33                   | 15       | (13)      | -             | 74     |
| Capital expenditures*                          | 125       | -             | 754               | 946              | 35              | 397   | -              | 1                    | 173                  | -        | 4         | (1)           | 2,434  |
| Total assets**                                 | 2,318     | 18            | 3,571             | 4,509            | 556             | 1,087 | 5              | 185                  | 1,223                | 4        | 171       | 48            | 13,695 |
| Total debt***                                  | 1,091     | -             | 2,028             | 3,298            | -               | -     | -              | -                    | -                    | -        | -         | -             | 6,417  |

\*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 \$1,055.4 million related to the Maritime Link and \$31.5 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 of \$267.0 million, and Class B Limited Partnership Units.

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

| <i>(millions of Canadian dollars)</i>          | Hydro     |               | Power Development | Power Supply     |                 |       | Energy Markets |                      | Offshore Development |          |           | Inter-Segment | Total  |
|--|-----------|---------------|-------------------|------------------|-----------------|-------|----------------|----------------------|----------------------|----------|-----------|---------------|--------|
|  | Regulated | Non-Regulated | Muskrat Falls     | LCP Transmission | Churchill Falls | Other | Energy Trading | Commercial and Other | Oil and Gas          | Bull Arm | Corporate |               |        |
| For the three months ended September 30, 2017  |           |               |                   |                  |                 |       |                |                      |                      |          |           |               |        |
| Energy sales                                   | 71        | 10            | -                 | -                | 17              | -     | 12             | -                    | 47                   | -        | -         | (10)          | 147    |
| Other revenue                                  | 2         | -             | -                 | -                | -               | 2     | -              | -                    | 3                    | 5        | -         | -             | 12     |
| Revenue  | 73        | 10            | -                 | -                | 17              | 2     | 12             | -                    | 50                   | 5        | -         | (10)          | 159    |
| Fuels  | 21        | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | -             | 21     |
| Power purchased                                | 14        | 10            | -                 | -                | -               | -     | 1              | -                    | -                    | -        | -         | (10)          | 15     |
| Operating costs                                | 30        | -             | -                 | 1                | 11              | 2     | 1              | 1                    | 2                    | -        | 3         | -             | 51     |
| Production, marketing and transportation costs | -         | -             | -                 | -                | -               | -     | -              | -                    | 7                    | -        | -         | -             | 7      |
| Transmission rental and market fees            | -         | -             | -                 | -                | -               | -     | 6              | -                    | -                    | -        | -         | -             | 6      |
| Depreciation, depletion and amortization       | 19        | -             | -                 | -                | 4               | -     | -              | -                    | 16                   | -        | -         | -             | 39     |
| Net finance expense                            | 15        | -             | -                 | -                | (1)             | -     | -              | -                    | 1                    | -        | 1         | (1)           | 15     |
| Other expense                                  | 3         | -             | -                 | -                | -               | -     | -              | -                    | 3                    | -        | 1         | (1)           | 6      |
| Preferred dividends                            | -         | -             | -                 | -                | (1)             | -     | -              | -                    | -                    | -        | -         | 1             | -      |
| Expenses                                       | 102       | 10            | -                 | 1                | 13              | 2     | 8              | 1                    | 29                   | -        | 5         | (11)          | 160    |
| (Loss) profit before regulatory adjustments    | (29)      | -             | -                 | (1)              | 4               | -     | 4              | (1)                  | 21                   | 5        | (5)       | 1             | (1)    |
| Regulatory adjustments                         | (24)      | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | 1             | (23)   |
| (Loss) profit for the period                   | (5)       | -             | -                 | (1)              | 4               | -     | 4              | (1)                  | 21                   | 5        | (5)       | -             | 22     |
| Capital expenditures*                          | 86        | -             | 357               | 327              | 18              | 107   | -              | (2)                  | 30                   | -        | 3         | (2)           | 924    |
| Total assets**                                 | 2,454     | 26            | 5,360             | 5,699            | 581             | 1,619 | 14             | 190                  | 1,304                | 3        | 411       | 13            | 17,674 |
| Total debt***                                  | 1,521     | -             | 3,562             | 4,823            | -               | -     | -              | -                    | -                    | -        | -         | -             | 9,906  |

\*Capital expenditures include non-cash additions of \$104.0 million related to the Maritime Link and \$9.8 million related to Class B Limited Partnership Unit accrued interest.

\*\*Total assets include \$1,581.7 million related to the Maritime Link and \$72.0 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 of \$183.7 million, and Class B Limited Partnership Units.



# NALCOR ENERGY

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

| <i>(millions of Canadian dollars)</i>          | Hydro     |               | Power Development | Power Supply     |                 |       | Energy Markets |                      | Offshore Development |          | Corporate | Inter-Segment | Total  |
|--|-----------|---------------|-------------------|------------------|-----------------|-------|----------------|----------------------|----------------------|----------|-----------|---------------|--------|
|  | Regulated | Non-Regulated | Muskrat Falls     | LCP Transmission | Churchill Falls | Other | Energy Trading | Commercial and Other | Oil and Gas          | Bull Arm |           |               |        |
| For the three months ended September 30, 2016  |           |               |                   |                  |                 |       |                |                      |                      |          |           |               |        |
| Energy sales                                   | 70        | 9             | -                 | -                | 16              | -     | 17             | -                    | 39                   | -        | -         | (9)           | 142    |
| Other revenue                                  | 1         | -             | -                 | -                | -               | 2     | -              | -                    | 3                    | 5        | -         | 2             | 13     |
| Revenue  | 71        | 9             | -                 | -                | 16              | 2     | 17             | -                    | 42                   | 5        | -         | (7)           | 155    |
| Fuels  | 18        | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | -             | 18     |
| Power purchased                                | 13        | 10            | -                 | -                | -               | -     | 1              | -                    | -                    | -        | -         | (11)          | 13     |
| Operating costs                                | 30        | -             | -                 | -                | 11              | 1     | 1              | -                    | 2                    | -        | 3         | (1)           | 47     |
| Production, marketing and transportation costs | -         | -             | -                 | -                | -               | -     | -              | -                    | 6                    | -        | -         | 1             | 7      |
| Transmission rental and market fees            | -         | -             | -                 | -                | -               | -     | 6              | -                    | -                    | -        | -         | -             | 6      |
| Depreciation, depletion and amortization       | 17        | -             | -                 | -                | 4               | -     | -              | -                    | 13                   | -        | -         | 2             | 36     |
| Net finance expense                            | 18        | -             | -                 | -                | (1)             | -     | -              | -                    | 1                    | -        | -         | -             | 18     |
| Other expense                                  | -         | -             | 1                 | -                | -               | -     | -              | -                    | -                    | -        | -         | (2)           | (1)    |
| Preferred dividends                            | -         | -             | -                 | -                | (1)             | -     | -              | -                    | -                    | -        | -         | 1             | -      |
| Expenses                                       | 96        | 10            | 1                 | -                | 13              | 1     | 8              | -                    | 22                   | -        | 3         | (10)          | 144    |
| (Loss) profit before regulatory adjustments    | (25)      | (1)           | (1)               | -                | 3               | 1     | 9              | -                    | 20                   | 5        | (3)       | 3             | 11     |
| Regulatory adjustments                         | (26)      | -             | -                 | -                | -               | -     | -              | -                    | -                    | -        | -         | -             | (26)   |
| Profit (loss) for the period                   | 1         | (1)           | (1)               | -                | 3               | 1     | 9              | -                    | 20                   | 5        | (3)       | 3             | 37     |
| Capital expenditures*                          | 72        | -             | 316               | 401              | 18              | 181   | -              | (1)                  | 53                   | -        | 2         | (1)           | 1,041  |
| Total assets**                                 | 2,318     | 18            | 3,571             | 4,509            | 556             | 1,087 | 5              | 185                  | 1,223                | 4        | 171       | 48            | 13,695 |
| Total debt***                                  | 1,091     | -             | 2,028             | 3,298            | -               | -     | -              | -                    | -                    | -        | -         | -             | 6,417  |

\*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 \$1,055.4 million related to the Maritime Link and \$31.5 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 of \$267.0 million, and Class B Limited Partnership Units.

# NALCOR ENERGY

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

### 20. 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:

|   | Previously reported | Transmission rental and market fee reclass | Reclassified balance |
|---|---------------------|--|----------------------|
| <i>For the three months ended September 30 (millions of Canadian dollars)</i> |                     |  |                      |
| <b>Statement of Profit and Other Comprehensive Income</b>                     |                     |  |                      |
| Operating costs   | 53                  | (6)  | 47                   |
| Transmission rental and market fees   | -                   | 6  | 6                    |

|  | Previously reported | Transmission rental and market fee reclass | Reclassified balance |
|--|---------------------|--|----------------------|
| <i>For the nine months ended September 30 (millions of Canadian dollars)</i> |                     |  |                      |
| <b>Statement of Profit and Other Comprehensive Income</b>                    |                     |  |                      |
| Operating costs  | 172                 | (17)                                       | 155                  |
| Transmission rental and market fees  | -                   | 17   | 17                   |